Maxam Diversified Strategies Fund – Q1 2021 Commentary

Dear fellow investors,

The Maxam Diversified Strategies Fund[1] gained +9.7% during the first quarter of 2021 and +67.3% over the last 12 months.

As at March 31, 2021	1 Month	3 Months	6 Months	1 Year	Since Inception*	
					Annualized	Cumulative
Maxam Diversified Strategies Fund[1]	0.4%	9.7%	34.6%	67.3%	10.1%	119.0%
S&P/TSX Composite	3.5%	7.3%	16.0%	39.8%	4.9%	47.4%
S&P/TSX Total Return Index	3.9%	8.1%	17.7%	44.2%	8.1%	89.0%

The market environment.

The first quarter of 2021 played out in a similar fashion to how 2020 ended, with equity markets broadly moving higher. However, it appears we are seeing some changes beneath the surface of the companies that led the equity markets higher in the first several months following the coronavirus-induced crash.

Initially it was the largest capitalization companies – especially those seen benefiting from ecommerce and the acceleration of *all things digital* – that led equity markets off their March 2020 lows. Of late we are seeing a shift towards companies that are expected to benefit from a re-opening of the economy. And, it should be noted, that we are also seeing signs of speculative risk taking in some assets and segments of the markets.

We won't go full-on dogmatic regarding value[2] here, however our bias is certainly towards companies that we believe are trading at attractive valuations, while we are increasingly wary of companies that appear to be priced to perfection.

This is the way.

While some uncertainties have diminished, others have taken their place.

In our Q3 2020 commentary we wrote that *uncertain times can make for incredibly attractive investment environments, especially for strategies focused on individual stock-selection*.

Liquidity injections, various stimulus measures and more recently vaccine rollouts have further engendered investor optimism and caused equity markets to rise. However, we are also seeing COVID-19 *third waves* in certain regions, and dramatic increases in debts and deficits will be a factor for markets and economies to contend with.

One constant I have always loved about the investment business is that there is always something to do.

We continue to see compelling opportunities and unique special situations in the current market environment – they just aren't necessarily in the companies that have led the market indices higher.

Fund exposure.

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On a gross exposure basis, the fund ended the first quarter with approximately 23% in arbitrage and 3% in shorts. The balance of our exposure is in long positions comprised of companies where we believe we have identified both value and a catalyst, and special situations where we believe we are exposed to asymmetric reward-to-risk profiles.

Areas of notable strength for the fund in Q1 included the Health Care, Industrials, Technology and Materials sectors. Strong individual holdings of note during the quarter included Hamilton Thorne (+27%), H2O Innovations (+27%), Sylogist (+25%) and Superior Plus (+17%).

While mergers and acquisitions activity ground to a halt in the second quarter of 2020 due to the uncertainty brought on by the coronavirus pandemic, we did see activity pick up through the balance of the year. Thus far in 2021 we have seen an even more robust M&A environment, and it looks poised to continue.

Factors fueling the M&A boom include increasing confidence in a post-covid recovery, continued low interest rates, pent up demand and significant amounts of private equity capital seeking targets. In this *risk-on* market environment we are also seeing companies be rewarded for making accretive acquisitions. And there are some wide disparities in relative valuations for acquirers to take advantage of.

We will continue to take advantage of a healthy M&A environment with merger arbitrage. We believe we have existing holdings in the fund that will be active on the acquisition front themselves, and others that may be targeted by acquirers.

Although our short exposure is not significant today, we believe that we will begin to see more opportunity to profit from short positions as this market cycle extends. Our attention in this regard is focused on pockets of speculation, special situations and highly valued mania or momentum stocks – companies that have experienced dramatic stock price appreciation and, in our view, where valuations are well beyond even the most bullish of cases. Discipline and timing are a key focus for us here.

There is always something to do.

We are mindful that equity markets have had a heck of a run over the last several months. In our view there are certain segments of the market that are overheated and even in bubble territory – segments and companies that we are seeking to avoid.

The Maxam Diversified Strategies Fund is not a static portfolio of holdings. Our company-specific and value-with-catalyst approach typically results in our portfolio looking nothing like the bellwether equity indices.

We have been active throughout the first quarter and into April – taking profits in names that we believe are fully valued, exiting positions after our thesis has played out (and sometimes when our thesis hasn't worked out), managing exposure levels, and investing in new opportunities.

As always, we will endeavour to utilize any forthcoming market volatility to opportunistically take advantage of the situations we are close to and knowledgeable of. This is increasingly an environment that I believe our investment approach and style is particularly well suited for.

We'll leave you with, perhaps unsurprisingly, one of my favourite investing quotes:

"There is always something to do.
You just need to look harder, be creative and a little flexible."
– Irving Kahn (1905-2015)

My colleagues and I are grateful for the trust you have placed in us to manage a portion of your hard-earned capital. Thank you. Please don't hesitate to call or email anytime.

Sincerely,

Travis Dowle, CFA
President & Fund Manager
Maxam Capital Management Ltd.

[1] Maxam Diversified Strategies Fund, Series F, net of fees and expenses.
[2] The value vs growth debate continues to rage on, but we're not dogmatic about either investment approach. This quote sums up our views on the topic: "The choice isn't really between value and growth, but between value today and value tomorrow." - Howard Marks