MAXAM
CAPITAL MANAGEMENT

Maxam Diversified Strategies Fund – Q3 2021 Commentary

The Maxam Diversified Strategies Fund[1] gained +0.5% during the third quarter, +18.5% through the first nine months of 2021 and +46.6% over the last year.

As at September 30, 2021	1 Month	3 Months	YTD	1 Year	2 Years*	3 Years*	10 Years*	Since Inception[1] Annualized	Since Inception[1] Cumulative
Maxam Diversified Strategies Fund[1]	1.7%	0.5%	18.5%	46.6%	19.5%	8.9%	10.8%	10.4%	236.0%
S&P/TSX Composite	-2.5%	-0.5%	15.1%	24.5%	9.8%	7.7%	5.6%	5.5%	93.4%
S&P/TSX Total Return Index	-2.2%	0.2%	17.5%	28.0%	13.1%	11.1%	8.8%	8.7%	177.8%

Over the last 20 months the broader market picture has been dominated by the ongoing duel between Covid-19 and economic recovery. More recently the market narrative has been joined by inflation concerns (*transitory or persistent*) and debate regarding how quickly central banks will begin to taper their stimulative activities. These factors are of course interwoven.

Duration is a term that has been co-opted from the world of fixed income into the equity market of late. Long-duration equities, companies whose earnings are expected to be generated in the more distant future (as opposed to short-duration equities who are expected to deliver in the short-term), are more sensitive to changes in interest rates.

As central banks reduced interest rates to near-zero levels and flooded the markets with liquidity in response to the Covid-19 pandemic, long-duration growth stocks outperformed by a wide margin. And more recently, as interest rate expectations have changed in response to higher inflation and bond yields have risen, short-duration and value stocks have outperformed.

Market volatility increased during the last month of the third quarter due to some of the above-mentioned factors. The technology-heavy S&P 500 declined -4.8% in September and Canada's TSX fell -2.5% – our domestic index faring relatively better because of its heavier weight in energy companies.

As we wrote in our Q2 commentary, we view market volatility as a chance to selectively take advantage of investment opportunities in companies or situations where we see value.

We consider ourselves to be value investors, however we also believe that value is in the eye of the beholder. This is a quote that has always resonated with us:

"The choice isn't really between value and growth,
but between value today and value tomorrow."
- Howard Marks

Rather than being dogmatic with respect to value or growth, we enjoy the flexibility to invest where we see compelling opportunities – again, where we see value. We believe this continues to be an attractive environment for our style and strategy and we are looking forward to some specific events for our holdings through the balance of 2021.

Where does the time go?

We find it hard to believe that we are already through the first three quarters of 2021. "*Time flies when you are having fun"* comes to mind, although that doesn't necessarily feel like the right sentiment given the challenges of these unique times.

After a small decline through the dog days of summer, the fund had a strong month in September pulling performance into positive territory for the third quarter. A meaningful contributor to performance in September was one of our holdings agreeing to be acquired at a material premium.

Space: the final frontier[2].

In mid-September exactEarth Ltd. announced that it had agreed to be acquired by Spire Global Inc. – a global provider of space-based data, analytics, and services – for $2.50 in cash plus 0.1 Spire shares. Just the cash portion of the consideration was a 72% premium to exactEarth's last traded price prior to the announcement.

We would characterize our investment in exactEarth, a provider of real-time location-based maritime vessel tracking information utilizing patented satellite detection technology, as a special situation investment.

We first became aware of exactEarth in 2015 through our then ownership of COM DEV International Ltd – a Canadian-based provider of space hardware and services that we had started initiating a position in during the volatile third quarter of 2015. COM DEV was the majority shareholder of exactEarth with a 73% stake, with Spanish satellite communications company Hisdesat owning the other 27%.

In June 2015 COM DEV and Hisdesat had announced plans to spin out exactEarth via an IPO process only to postpone those plans in late July due to "current challenging conditions in the capital markets". Investor interest was lukewarm for exactEarth at the value the owners wanted.

A few short months later, in November 2015, COM DEV announced that it had agreed to be acquired by Honeywell International at an enterprise value of $455 million. Concurrent with the acquisition, exactEarth would be spun out as a separate publicly traded company with COM DEV shareholders receiving their pro-rata interest.

As shareholders of COM DEV we were pleased to be receiving an attractive price for our shares. However, while we liked some aspects of the exactEarth business we had some concerns about owning it as a stand-alone company at its deemed valuation, especially given the unenthusiastic reception it received from investors only a few months earlier. In early 2016 we tendered our COM DEV shares to the Honeywell bid and promptly exited the exactEarth shares we received on the spin out.

Spinco's and busted IPOs can both be very attractive hunting grounds for opportunities. With spinco's there is often some forced selling that occurs by shareholders not interested in owning the new entity that they find in their accounts, potentially driving share prices down to non-sensical levels. Busted, or failed, IPOs are those that have fallen substantially below their IPO prices and are being neglected by investors. With exactEarth we had both.

Following the company's trading debut, we watched exactEarth's share price decline by more than 90% over the next three years. The value investor in us was certainly intrigued and we bought a small position when we believed there was attractive value and a potential asymmetric return situation. We continued to increase our position through open market purchases and through a private placement financing in late 2018.

As exactEarth turned around, improved its balance sheet, won additional contracts and improved its financial performance, it began to garner some attention from investors, and with that a rising share price. And now with the recent acquisition announcement by Spire Global, it looks like a very profitable conclusion is on the horizon.

Our investment in exactEarth is a great example of the unique opportunities that can be available beneath the surface of the largest companies and the household names. We believe we have a few more companies that fit this profile in the fund today.

Fund exposure.

On a gross basis, the fund ended the third quarter with approximately 21% in arbitrage and minimal short exposure. The balance of the fund's 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 unique reward-to-risk profiles. Exposure continues to be well-diversified across individual holdings and sectors. The fund's top 10 holdings accounted for 30% of assets at the end of the quarter.

Speaking of arbitrage.

The fund's arbitrage exposure was a positive contributor to fund performance during the quarter. Arbitrage continues to be a stable and attractive source of risk-adjusted returns for the fund.

Merger and acquisitions activity, the primary fuel for arbitrage strategies, continues to be robust. Factors fueling M&A activity include significant amounts of private equity capital seeking targets, low interest rates, executive confidence in a post-pandemic recovery and some wide disparities in relative valuations for acquirers to take advantage of on accretive terms.

And *by the way* – the Maxam Arbitrage Fund just completed its first year of operations at the end of Q3. We're pleased to offer this unique strategy with its consistent return and low-risk profile as a stand-alone fund. As our long-term investors know, this isn't just another fund strategy that we decided to try our hand at – we've been utilizing arbitrage strategies within the Maxam Diversified Strategies Fund for over 12 years.

Onwards 2021.

We believe that global economic performance, while positive, will be inconsistent and that markets will remain volatile and increasingly reactive to macroeconomic news and events. Headlines will continue to highlight the uneven recovery from Covid-19, record amounts of debt in the financial system and the possibility that inflation may prove to be not-so-transitory.

This environment favours our active, opportunistic, and flexible approach – when investors are reacting to the macro headlines, we find there are often compelling bottom-up, company-specific opportunities available. As always, we will endeavour to use volatility to our advantage.

We expect some specific catalysts and events for a few of our holdings through the balance of 2021 and we look forward to formally reporting to you again after year-end. In the meantime, please don't hesitate to call or email if you have any questions or would like an update.

Sincerely,

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

[1] Maxam Diversified Strategies Fund, Series A, net of fees and expenses. Inception date June 30, 2009. Please contact us regarding other series of fund units or visit our website www.maxamcm.com
[2] Shout out to my bro who is a *Trekkie* – a big Star Trek fan. I'll credit my interest in space to him – and that's probably kept my mind open to at least a few interesting investment opportunities over the years.