MAXAM
CAPITAL MANAGEMENT

Maxam Arbitrage Fund – Q1 2022 Commentary

Dear fellow investors,

The Maxam Arbitrage Fund[1] gained +0.3% in the first quarter of 2022 and the fund's annualized return since inception is +6.4%.

Geopolitical tensions, high inflation and rising interest rates dominated the market environment in the first quarter of 2022.

Equities were volatile and broadly lower – the MSCI World, S&P 500, and NASDAQ declined -4.9%, -4.7% and -9.4% respectively. Canada's relatively heavy weighting in the Energy and Materials sectors enabled the TSX to buck the trend with a +3.7% gain.

Faced with increasingly hawkish central banks, notably the U.S. Federal Reserve, bonds did not fare much better in the quarter. The U.S. focused Vanguard Total Bond Market ETF and the iShares Core Canadian Universe Bond Index ETF declined -5.9% and -7.3% respectively.

The Maxam Arbitrage Fund's goal is to profit regardless of the behaviour of the stock market.

M&A activity continues to be healthy.

It was an active and robust period for arbitrage in Q1 despite global M&A deal value slowing somewhat from record levels in 2021. Deal value surpassed US $1 trillion which is still very healthy compared to pre-pandemic levels.

As is sometimes the case in a more volatile market environment, M&A arbitrage spreads trended a little wider and were somewhat more volatile themselves than in previous quarters.

The M&A landscape in the U.S., specifically for larger deals and companies in industries deemed more sensitive to competition issues, continues to be characterized by longer timelines and wider spreads due to increased scrutiny from regulators. These more sensitive transactions provide both opportunity and risk.

We enjoy the flexibility and advantage of investing across the capitalization spectrum. And while every deal is different, we look favourably on mid and smaller capitalization transactions in the current environment because regulatory and anti-trust risks remain much lower in this segment. Regardless of deal size, we are always focused on transactions that we believe will reach successful completion.

While it is difficult to predict future deal activity, we may see rising interest rates, inflation, and equity market volatility cool things down from what we've experienced in recent quarters. However, experience and history dictates that even slower periods of deal activity provide ample opportunity for arbitrageurs. Plus, a significant amount of private equity capital seeking targets may temper any slowdown.

The fund participated in 51 deals and experienced no deal breaks during the quarter. As of March 31, the fund held 28 merger arbitrage positions, diversified across market cap, deal type and industry.

Notable owned deals successfully closing during the quarter included[2]: Athene Holding Ltd; Apollo Healthcare; Rifco Inc; RR Donnelley & Sons Co; Cominar REIT; McAfee Corp; Nuance Communications Inc; Arena Pharmaceuticals Inc; CyrusOne Inc; and Forterra Inc.

New positions initiated during the first quarter included[2]: Exterran Corp; Citrix Systems Inc; SOC Telemed Inc; Macro Enterprises Inc; Moneygram International Inc; Meritor Inc; Intertape Polymer Group Inc; Anaplan Inc; Nielsen Holdings Plc; and Questex Gold and Copper Ltd.

Low-risk and attractive SPAC yields.

In contrast to the almost 300 SPACs that went public in the first quarter of 2021, less than 60 came to market in the first quarter of 2022[3]. Despite the slower new issuance, the SPAC market is still very well supplied with over 600 SPACs currently seeking acquisitions.

While SPACs have been around for decades, the massive increase in SPAC IPOs over the last two years has prompted market regulators charged with protecting investors to take note and now action. The United States' Securities and Exchange Commission (SEC) released a statement[4] on March 30, 2022, proposing new rules for SPACs that will minimize some of the advantages that SPACs have over traditional IPOs. This may temper new issuance further and make it more difficult for existing SPACs to find a target.

These developments warrant our attention, however they do not cause us immediate concern because our core approach with SPACs is to purchase them at attractive discounts to trust value – thereby ensuring a positive return. We're still exposed to the potentially material upside of a positive deal announcement, but we don't rely on it. In contrast, investors who bank merely on upside from deal announcements, or who speculate on SPAC warrants, may want to take note. Finally, we will note that these changes may be a long-term positive for the future health and stability of the SPAC market.

An abundance of SPACs seeking targets, combined with geopolitical tensions, increased market volatility, higher interest rates and regulatory uncertainty has led to a broad widening of the discount to trust values that SPACs are trading at. This is a welcome development for us because we can deploy and cycle capital into SPACs with more attractive yields, and without incremental risk.

It is also worth noting that almost 90% of listed SPACs are due to liquidate within the next ~11 months, presenting us with an attractive set-up for our systematic and quantitative approach to harvesting SPAC yields.

As of March 31, the fund was well-diversified across 216 SPACs with a gross yield to redemption value of 2.9% (unlevered) and we are currently deploying capital at higher yields.

Looking ahead.

Geopolitical tensions, rising interest rates and high inflation made for a challenging investment climate in the first quarter, and we expect these factors will continue to shape markets in the near-term.

Arbitrage is an attractive strategy for the long-term, <u>and</u> its unique characteristics make it a particularly attractive strategy in the current environment. Rising interest rates are a clear negative for bonds, however they can act as a tailwind for arbitrage because of the low duration nature of the strategy – deals typically complete in just a few months.

In addition to providing a compelling alternative to bonds as interest rates rise, arbitrage strategies also provide excellent diversification to traditional equity market exposure because returns are generated from the successful completion of specific and definitive corporate events. An arbitrageur expects to profit regardless of the behaviour and direction of the stock market.

Risk management is central to our disciplined investment process as we deploy capital into a robust and attractive opportunity set.

Maxam Capital Management Ltd.
330 – 609 Granville Street Vancouver, BC, Canada V7Y 1A1 T 604 685 0201 F 604 685 9970

Thank you for your trust and confidence. Please don't hesitate to reach out with any questions.

Sincerely,

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

[1] Maxam Arbitrage Fund, Class F, net of fees and expenses. Inception date October 1, 2020. Please contact us regarding other series of fund units or visit our website www.maxamcm.com

[2] Notable owned deals successfully closing during the quarter is not an exhaustive list. New positions initiated during the first quarter is not an exhaustive list.

[3] SPAC statistics sourced from: Maxam internal database; https://www.boardroomalpha.com/spac-market-review-march-2022/; https://www.jdsupra.com/legalnews/spac-2021-year-end-review-and-2022-6792705/

[4] SEC Statement on the SPACs Proposal https://www.sec.gov/news/statement/crenshaw-spac-20220330