Maxam Diversified Strategies Fund – Q2 2022 Commentary

Dear fellow investors,

The market environment continues to be dominated by high inflation, rising interest rates, fears of a recession and geopolitical tensions. Equity bellwether S&P 500 index just posted its worst six month start to a calendar year since the 1970s, and broad bond indices are down double digits.

June alone was a particularly cruel month for equity investors. North American equity indices declined between -9% and -15% during the month as additional high inflation readings led to more hawkishness from central banks and increased bearish sentiment. Correlations moved to 'one' across companies, sectors, and geographies – there was '*nowhere to hide*', so to speak.

We believe that the significant market correction in 2022 is presenting us with compelling investment opportunities – fear-driven selling, growth companies at value prices, wide arbitrage spreads – and we are taking advantage, selectively.

The Maxam Diversified Strategies Fund[1] declined -7.8% in June and -9.1% through the first six months of the year. Here is the tale of the tape for June and year-to-date:

	June 2022	YTD 2022
Maxam Diversified Strategies Fund[1]	-7.7%	-9.1%
S&P/TSX Composite	-9.0%	-11.1%
S&P/TSX Small Cap	-13.6%	-15.0%
S&P 500	-8.4%	-20.6%
NASDAQ	-8.7%	-29.5%
MSCI World	-7.9%	-19.0%
Ishares Core CAD Universe Bond Index ETF	-2.2%	-12.4%
Vanguard Total Bond Market ETF	-1.7%	-10.3%

Source: Maxam, Bloomberg.

What's priced-in?

You'd be hard pressed to watch the news or check a stock quote today without seeing a headline that included: *inflation*, *higher interest rates, recession,* or *bear market*.

Bank of America's *Bull & Bear* indicator, compiled from their regular survey of global fund managers, closed out June at "maximum bearish" for a third consecutive week[2]. The survey also noted that allocations to equities hit their lowest level since October 2008 and uninvested cash was the highest in more than two decades[3]. *Investor sentiment is awful.*

Glass half-full view: when EVERYONE is talking about all of the bad news and the challenges for the economy and markets, some of it is certainly already reflected in securities prices. While it is admittedly difficult to know how much bad news is already priced-in, we are seeing compelling investment opportunities in select companies that we are taking advantage of.

Exposures.

The fund remains well-diversified across sectors, strategies, and individual securities. As at the end of the quarter, the fund was invested across 10 industry sectors with no sector weight larger than 14% of net exposure (excluding arbitrage), and the top 10 holdings accounted for 25% of assets. The fund's net allocation to arbitrage was ~25% on June 30, a high mark for the year. In addition to providing a stable return profile that is uncorrelated with the general market, the fund's arbitrage allocation is also highly liquid and can be used to opportunistically take advantage of *value + catalyst* situations that become available in a volatile market.

Through the first five months of the year, the fund held in very well relative to the broad markets and our peers, down approximately -1.5%[1]. The fund's arbitrage holdings held their value, and our shorter-duration, value-oriented names outperformed the more speculative growth companies that have been hardest hit in this sell-off (we discussed short vs long duration equities in our Q1 commentary). And then in June, as mentioned above, we saw correlations move to 'one' as investors indiscriminately sold securities, regardless of fundamentals or outlook in many cases.

So, we have very poor investor sentiment, equity markets that are already down – some in bear market territory – signs of capitulation and non-fundamentals-based selling. On top of that, some market prognosticators are saying the four most dangerous words in investing: *"this time it's different."*[4]

The Covid pandemic was something different, or at least more extreme that what investors have seen over the last 100 years or so. However, economies, companies and investors have dealt with recessions, inflation, higher interest rates and geopolitical turmoil many times before.

What we think *is not different this time*, is taking advantage of opportunities, selectively.

We've recently added to our position in H20 Innovation Inc., a water infrastructure and technology company whose shares were down -32% through the first six months of this year. We like this founder led business that has highly recurring revenues and is delivering strong organic and acquisitive growth.

Another existing holding that we've been opportunistically adding to is VitalHub Inc. – an enterprise software company providing solutions to the health care industry. VitalHub's share price is about 20% lower than where it started the year, despite a strong balance sheet, healthy growth, and completing an accretive acquisition.

We have also begun initiating new positions in some companies that we've been following for years (including some that we used to own) that are now trading at prices we believe represent excellent reward-to-risk levels. We'll plan to highlight some of these new positions in future commentaries.

Opportunity knocks.

To be clear, I am not calling a bottom for the equity markets (that's realistically unknowable), but we are currently seeing security prices that we believe reflect compelling value and opportunity.

We're taking action, selectively – not with an eye on where we will be next week or next month, but with a view on where values will be as the issues the market is grappling with begin to subside and as our holdings perform.

Instead of trotting out Warren Buffett's famous "*be greedy when others are fearful*" quote, we'll cite another that we think is equally wise today, from legendary investor, Shelby Davis:

'You make most of your money in a bear market, you just don't realize it at the time'.

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

Sincerely,

Travis Dowle, CFA
President & Fund Manager

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[1] Maxam Diversified Strategies Fund, Series F, net of fees and expenses. Inception date June 30, 2009. Please contact us regarding other classes of fund units or visit our website www.maxamcm.com

[2] https://ca.investing.com/news/stock-market-news/bofas-bull-and-bear-indicator-is-at-maximum-bearish-for-a-third-week-in-a-row-432SI-2713789

[3] https://www.reuters.com/markets/europe/funds-full-capitulation-they-slash-stock-allocation-bofa-poll-2022-07-19/

[4] According to famous investor Sir John Templeton, "The four most dangerous words in investing are, it's different this time."

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