MAXAM
CAPITAL MANAGEMENT

Maxam Arbitrage Fund – Q4 2023 Commentary

Dear fellow investors,

The Maxam Arbitrage Fund[1] gained +1.4% in the fourth quarter and +5.2% for the 2023 calendar year.

Positive fund performance for the fourth quarter was driven by 30 successful M&A deal closures and our SPAC holdings continuing to benefit from liquidations, extensions, and the ongoing growth of cash held in-trust due to higher interest rates.

Regulators and recessions and bears, oh my!

Despite some expecting a slowdown in M&A transactions due to more frequent regulatory challenges, higher interest rates, rising geopolitical tensions and a softening economy, new deal activity was solid in Q4 – and throughout 2023 for that matter. Companies engage in M&A for a variety of reasons, and they do so in bull, bear and range bound markets.

While cumulative M&A deal value was lower in 2023 than it was in 2022, we added a greater number of deals to our database than we did in the previous year. Notably, we are seeing an uptick in small and mid-capitalization deal activity. In the fourth quarter alone, 50 of the 72 new deals that we reviewed were under $1 billion in market cap.

We expect to continue to see healthy deal activity beneath the surface of the large caps as opportunistic acquirors capitalize on some bargain valuations. This is an attractive opportunity set for us to take advantage of because small/mid-cap transactions often face less regulatory scrutiny than large deals and they typically close more quickly. Additionally, smaller deals can sometimes trade at higher gross spreads due to larger pools of capital not being able to allocate efficiently to them.

Merger arbitrage spreads continue to be attractive with annualized yields at approximately 10% on average – albeit with some dispersion around that figure. The fund invested in 28 new or existing deals during the quarter, had 30 successful deal closures and experienced one deal break.

Some notable owned deals that successfully closed during the quarter included: Dialogue Health Technologies, Activision Blizzard, Circor International, Terra Firma Capital, ABC Technologies, Alpha Lithium, Tabula Rasa HealthCare, NextGen Healthcare, Essential Energy Services, Argo Group International, Avantax, Greenhill & Co, Nova Royalty, Spark Power, Abcam, H20 Innovation, Opsens, Seagen, PCTEL, Midwest Holding and Patriot Transportation. Our lone deal break during the quarter was Flowserve's intended acquisition of Velan which failed to receive regulatory clearance from France.

At the end of the quarter the fund held 26 merger arbitrage positions.

It ain't over!

The final month of the year was a busy one for SPACs as some sponsors rushed to close deals or wind up prior to the turn of the calendar. There were 15 liquidations in December and a similar amount of de-SPACs, comparable figures to the prior two months combined. In all, Q4 saw the number of listed SPACs shrink from 330 to 270, and this includes nine new IPOs during the quarter. Encouragingly, this was the highest number of SPAC IPOs since Q1 this year.

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Overall, the number of publicly listed SPACs in 2023 declined by roughly half. Despite this, the market size remains actionable and attractive for our nimble fund with remaining SPACs holding approximately US$18 billion of capital in trust accounts – a figure that is spread relatively evenly across those still searching for deals and those with announced transactions.

We view the current SPAC arbitrage environment as particularly favourable for our systematic and discretionary approach. Many sponsors are electing to extend their deal timelines by adding more capital to trust accounts – a corporate action that requires rigorous tracking and attention to detail. We're doing the work, and we're being rewarded. Another benefit of these extensions is that the much anticipated 2H23 "SPAC cliff" turned out to be more of a *Blue square* than a *Black diamond*[2] – leaving us with a healthy opportunity set to start 2024.

At year end the fund's SPAC holdings were well diversified across 72 positions and we continue to find strong risk-adjusted returns with over half the space trading at IRRs >6%.

Looking ahead.

Maxam Arbitrage Fund has demonstrated its unique value over the last few years – during equity market volatility and the rapid rise in interest rates – providing investors with an alternative to diversify and enhance their portfolios. As arbitrageurs, we expect the strategy to generate a positive return regardless of the market environment.

Utilizing our data-centric and disciplined investment and risk management process, we have an attractive opportunity set to deploy capital into today. Looking forward, we expect to deliver the same diversification benefits and, as suggested by current arbitrage spreads, attractive absolute performance.

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] Black diamond ski runs are often known for their steepness, and sometimes cliffs. Blue square ski runs are typically characterized by more gentle slopes.