Maxam Diversified Strategies Fund – Q4 2023 Commentary

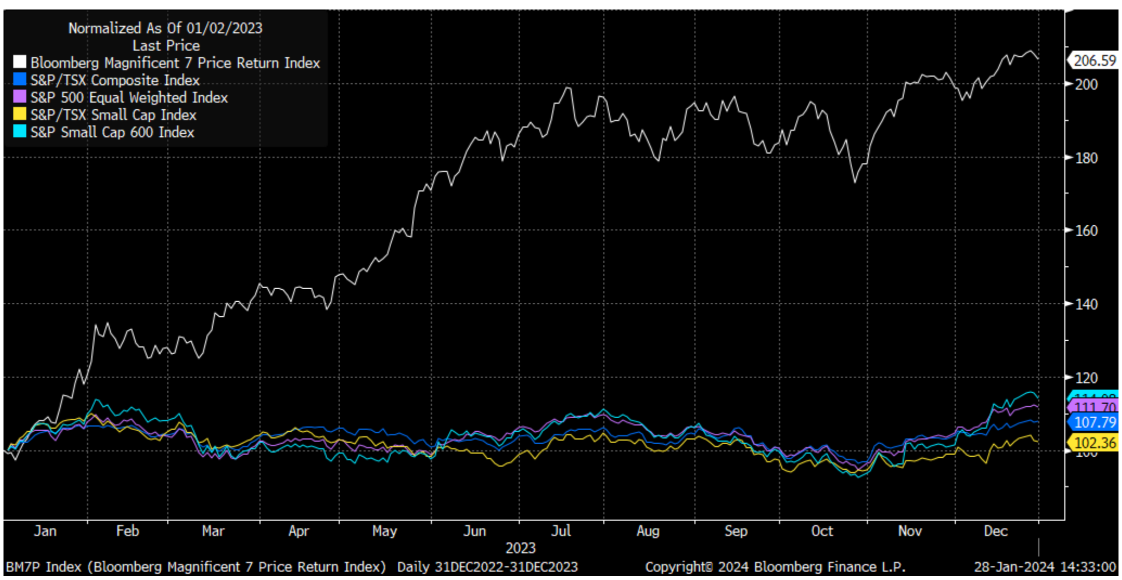
Dear fellow investors,

The Maxam Diversified Strategies Fund[1] gained +6.6% in the fourth quarter of 2023.

Over the last few quarters, we have opined on the steep wall of worry that investors have faced – surging inflation, rising interest rates, recession fears, geopolitical conflicts – and on the narrow breadth that was a characteristic of the equity markets in 2023.

Facing the wall of worry, savers could invest in GICs and T-bills with little risk and, thanks to higher interest rates, earn a reasonable return. And, as you can see in the chart below, the Magnificent Seven[2] left other segments of the markets far behind in 2023, most noticeably ramping higher post the U.S. regional banking crisis in March. Investors flocked to these mega cap technology stocks where growth, fueled by the artificial intelligence theme, was most readily assumed.

2023 was a strong bull market for mega cap tech stocks, and a relatively mediocre year for most other markets.



Narrow markets and low expectations convey significant opportunity.

While almost everything has lagged mega cap tech, the wall of worry has arguably impacted small and mid-capitalization companies the most. Smaller companies are generally perceived to be more sensitive to the economy, inflation, and interest rates – the devil is in the details of course, and that is part of the opportunity.

In addition, investor disinterest and outflows have resulted in small/mid-caps trading at material discounts to large caps. This valuation discount is in contrast to smaller companies historically trading at premium multiples, as can be seen in the chart below.

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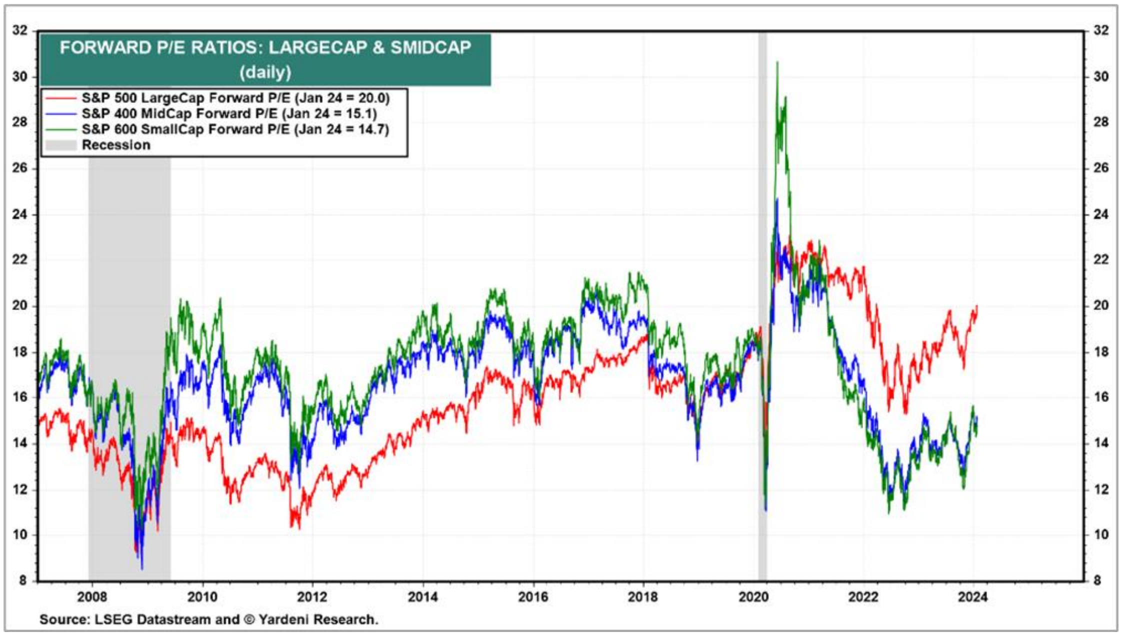

Positively, we observed an improvement in market breadth towards the end of the year. In our view, this may mark the beginning of a trend where companies beneath the surface of the mega caps start to re-rate higher. This is a segment of the market where we see significant value and opportunity.

Exposures

At the end of the fourth quarter the fund was well diversified across all 11 sectors with the top 25 positions accounting for 54% of net assets. From a strategy perspective, fund exposures include 69% in fundamental longs, 28% in special situations, 4% in convertible debentures, 8% in arbitrage, and 1% gross exposure in short positions.

Many holdings contributed to performance in Q4, but notable positive contributors included H2O Innovation (we discussed H2O's takeout in our Q3 commentary), Vitalhub, DRI Healthcare, Pollard Banknote, Kraken Robotics, Rogers Communications and Westaim. Some notable detractors from performance in the quarter included Hamilton Thorne, Vecima Networks and Ag Growth International.

Many of our holdings are not your typical household names – and we believe that is often where compelling opportunity can be found. Maxam Diversified Strategies Fund can provide investors with unique exposure to under-followed and mispriced companies.

We recently added to our position in Ag Growth International at prices that we believe reflect compelling value. Ag Growth is a global leader in providing equipment and infrastructure solutions to the agriculture industry. The company is trading at a near decade low multiple despite appearing to be poised for long-term growth driven by a multi-year ag infrastructure investment theme, with particular strength coming from international markets.

With so much negative macroeconomic news and low expectations already reflected in the security prices of many of our portfolio companies, we expect that – in addition to strong business results – moderating inflation and stabilizing (or declining) interest rates will increasingly support favourable valuation re-ratings.

Taking advantage of the opportunity set.

It is not just small and mid-cap companies where we see compelling opportunity, but the prolonged malaise and bear market that these companies have suffered through has resulted in some very attractive valuations.

As we detailed in the 'Redux' section of our [Q3 commentary](), aspects of the current market environment remind us of the set-ups we saw in 2000 and 2009, periods which resulted in multi-year outperformance for small caps.

Of note, we have already begun to see an uptick in small and mid-cap M&A as opportunistic acquirers take advantage of valuation dichotomies present in the marketplace. We expect this activity will continue.

We believe that we are in a very fertile investment environment – one that is particularly well-suited for our flexible approach and value-oriented style. We are excited about the potential returns ahead.

Thank you for your trust, patience, 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 Diversified Strategies Fund, Series F, net of fees and expenses. Please contact us regarding other classes of fund units or visit our website www.maxamcm.com.

[2] The *Magnificent Seven* stocks include Amazon.com (AMZN), Apple (AAPL), Google parent Alphabet (GOOGL), Meta Platforms (META), Microsoft (MSFT), Nvidia (NVDA) and Tesla (TSLA)

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