Maxam Diversified Strategies Fund – Q1 2024 Commentary

Dear fellow investors,

The Maxam Diversified Strategies Fund[1] gained +5.0% in March, +10.5% in the first quarter of 2024, and +14.2% over the last 12 months.

It was a strong quarter for most risk assets as investor sentiment continued to improve off the October 2023 lows when the US Federal Reserve signaled that its campaign to cool inflation via aggressive interest rate hikes was likely coming to an end – and that we would likely see rate cuts in 2024.

Businesses and consumers have been weathering higher interest rates better than feared, and consensus has trended towards the view that a hard landing for the economy will be avoided. However, while inflation has been tapering lower, it is still higher than desired and proving more difficult to quell than anticipated. As a result, we have seen a re-setting of rate cut expectations from as many as six in 2024 to now (mid-April) as few as one.

Shifting into gear.

Despite interest rate cut expectations moving further out, we have begun to see a broadening of the equity rally beyond the narrow leadership that was a defining characteristic of the markets last year. We view this as constructive because it signals that investors are increasingly comfortable with the shifting market environment.

As investors search for value and opportunity beyond the Magnificent Seven[2], small and mid-capitalization companies have begun to show some life. Recall that while almost everything lagged the mega cap growth theme, the share prices of smaller companies suffered disproportionately from investor disinterest and capital outflows because, as a group, they are perceived to be more sensitive to the economy, inflation, and interest rates. This dynamic, as we have covered in previous commentaries, has resulted in many quality companies trading at attractive absolute and relative valuations.

We are not alone in seeing value in smaller companies and non-household names – there has been 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 are encouraged that the shift we are seeing is still in its early stages.

Exposures, activity, and positions.

Strength was broad-based across the fund's holdings in Q1. Notable positive contributors to fund performance included larger positions in VitalHub, Vecima Networks, Sylogist and Ag Growth International. Other strong performers included DRI Healthcare, Information Services Corp, Kraken Robotics, and Trisura Group.

Our investment in VitalHub is a good example of the success one can have by identifying an underfollowed company whose valuation is disconnected from its business performance. This provider of enterprise software to the health care space had already put up a series of solid quarters before its Q3 2023 results really caused investors to take notice. Operating in a large addressable market, with a strong balance sheet, solid organic growth, and a pipeline of accretive M&A opportunities, VitalHub has the characteristics of a true compounder.

For Kraken Robotics, our investment thesis was (and is) a mix of strong bottom-up fundamentals and a compelling top-down thesis lining up. Kraken is a marine technology company that designs and supplies advanced sonar and optical sensors, and robotic systems used in military and commercial applications. The company's leading-edge products are seeing very strong demand from the defense industry. We purchased our initial position in Kraken when it was relatively unknown – and it still isn't that well known today – but we expect that will change. Kraken's management team has shown confidence in their growth outlook by recently providing revenue guidance for the first time and outlining a large pipeline of opportunities.

At the end of the first quarter the fund was well diversified across all 11 sectors with the top 25 positions accounting for 55% of net assets. From a strategy perspective, fund exposures include 77% in fundamental longs, 22% in special situations, 4% in convertible debentures, 6% in arbitrage, and 2% gross exposure in short positions.

What's to come.

In our 2023 year-end commentary we discussed the notion that "*narrow markets and low expectations convey significant opportunity.*"

While we are encouraged that investor sentiment has generally improved and that markets are a little less narrow than they were a few months ago, there is still a *wall-of-worry* facing investors → stubborn inflation, uncertainty regarding interest rates, questions regarding economic growth, and geopolitical conflicts. Many of these fears continue to be reflected in securities prices today, resulting in an environment that continues to be well-suited to our company-specific and value-oriented approach.

It is prudent to expect some volatility in a shifting market environment. If there is a market pullback (and there usually is), we will be selectively taking advantage of it.

With valuations in our favour and investor attention beginning to look beneath the surface of the large caps and household names, we believe that we are in a fertile investment environment with a compelling set-up in front of us.

We are excited about the potential returns ahead.

Thank you for your trust and confidence. Please 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, Apple, Google, Meta Platforms, Microsoft, Nvidia and Tesla.

legal, accounting, tax or investment advice. Please consult an investment advisor and read the prospectus for the Maxam Diversified Strategies Fund prior to investing.

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