MAXAM
CAPITAL MANAGEMENT

Maxam Arbitrage Fund – Q4 2024 Commentary

Dear fellow investors,

The Maxam Arbitrage Fund[1] gained +1.53% in the fourth quarter of 2024.

Performance in the fourth quarter was driven by 26 successful deal closures and some spreads narrowing to our benefit as deals advanced towards completion. In addition, our SPAC positions benefitted from liquidations, extensions, and the growth of cash held in-trust.

Our positive outlook for arbitrage in 2025 is supported by several strategy specific tailwinds and attractive yields across our opportunity set.

Looking back.

New M&A announcements continued with good momentum through to year–end. In Q4 we added 69 new definitive deals to our database and 10 additional non-definitive or hostile situations.

Looking back at the full year, we added 272 new deals to our database, which is approximately 10% more than we added in 2023. Over 62% of deals targeted companies with market capitalizations under $1 billion, signifying healthy activity in a market segment that we like to take advantage of – and one that we suspect may be even busier in 2025.

2024 was generally considered to be a challenging year for merger arbitrageurs because of the aggressive and novel approach that antitrust regulators took towards deals under the Biden administration. And the fourth quarter was not without some drama. The FTC won lawsuits to block Tapestry's takeover of Capri (*accessible luxury* handbags), and Kroger's merger with Albertsons (groceries). And, while technically not in Q4, outgoing President Biden blocked the proposed acquisition of U.S. Steel by Japan's Nippon Steel on January 3, 2025, citing national securities concerns. Looking forward, there is reason for optimism on the regulatory front – more on that below.

There was some *excitement* in early December for one of our positions. The Canadian Western Bank-National Bank of Canada arbitrage deal spread spiked wider on December 6th after Canadian Western Bank ("CWB") announced that it was delaying the release of its quarterly earnings until "mid-December". It is uncommon for a Canadian bank to delay reporting on the day of the expected release, especially without providing any rationale – this led the market to speculate that there may be an issue with the pending merger. CWB calmed those fears with a subsequent and rare Saturday press release, stating that the reporting delay was unrelated to the pending acquisition by National Bank.

We took advantage of the wider spread in the subsequent days, opportunistically adding to our position at an attractive yield. Then we received an early Christmas present on December 20th when National Bank announced that the Minister of Finance had granted final approval for their acquisition of CWB and that the deal was expected to close in early February 2025 – several months earlier than originally expected.

During the fourth quarter we initiated 22 new merger arbitrage positions, had 26 successful deal closures and experienced one deal break.

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Some notable deals that we owned which successfully closed during the quarter included: PowerSchool Holdings, Sleep Country Canada, Crew Energy, PetIQ, Osisko Mining, OneSoft Solutions, Stelco, Nuvei, Hamilton Thorne, Altius Renewable Royalties, Catalent, Consolidated Communications, and FLYHT Aerospace Solutions.

At the end of the fourth quarter the fund was well diversified across 29 merger arbitrage positions.

Looking forward… tailwinds are here for M&A.

We see an increasingly attractive environment for mergers and acquisitions, which is a positive set-up for merger arbitrage in 2025.

Most notably the regulatory landscape is set to change under President Trump, with his appointment of Gail Slater to lead the Department of Justice's antitrust division and Andrew Ferguson as Chair of the Federal Trade Commission. In a memo circulated by Ferguson outlining his priorities he said he would "stop Lina Khan's war on mergers."

In addition to a more predictable regulatory environment, increasing optimism surrounding the economy, solid corporate balance sheets, growing profits, and higher stock prices provide executives with the confidence to make acquisitions.

In September 2024 the U.S. Federal Reserve reduced the fed funds rate for the first time in four years, and markets continue to expect further cuts – albeit at a more moderate pace than expected a few months ago. Stable and accommodative monetary policy further supports new deal activity – in particular from levered buyers such as private equity funds that are sitting on record amounts of undeployed capital.

As highlighted above, new deal activity in the small and mid-capitalization segments of the market was strong last year and we expect that this will continue. In our Q2 2024 commentary we wrote about the pick-up in takeover activity in Canada, particularly with smaller companies. We believe that strategic and financial buyers continue to have their sights set on some of Canada's quality companies, many of which trade at attractive valuations – and the depreciated Canadian dollar may provide extra incentive for U.S. based acquirers to pull the trigger.

The ingredients are in place for a strong period of M&A activity, and therefore for merger arbitrage.

SPAC to the future![2]

The SPAC IPO market continued its healthy stream of new issuance in the fourth quarter with 23 SPACs going public, up from 18 in the prior quarter. One would have to jump in a DeLorean and travel back to the first quarter of 2022 to find more SPAC IPOs! In total, Q4 capital raised amounted to US$3.7 billion, almost equivalent to 2023's entire new issuance. Overall, there were 57 new SPACs IPOs in 2024, raising proceeds of US$9.6 billion – an encouraging sign that this investment vehicle isn't going away anytime soon.

At year-end there were 196 listed SPACs consisting of 104 searching for deals and 92 with announced deals working toward completion. Total trust values were nearly US$15 billion, however the universe has become increasingly bifurcated as of late with many older SPACs (>2 years since IPO) holding small trust accounts due to redemptions from extension votes – whereas recent IPOs still hold large trust balances. This newer dynamic is one that our active and nimble approach can take advantage of – exploiting smaller trust redemption opportunities at quite favourable IRRs.

In Q4 there were 12 SPAC deal completions, aka de-SPACs, and 16 liquidations, bringing the 2024 totals to 73 and 58 respectively. While these far outweigh the 2024 IPOs mentioned above, we are cautiously optimistic that the size of the SPAC market is starting to find a healthy floor after the steep declines following the bubble-y new issuance period of 2020-21.

Much like the shifting regulatory environment for M&A, it appears there may be positive developments ahead for SPACs as well. During the Biden administration SPAC issuers frequently had to deal with uncertainty – buyback excise tax, warrant accounting changes, etc. – which no doubt weighed on new issuance and ended up driving many sponsors to domicile in the Cayman Islands instead of Delaware (or other states). It also drove up the fees paid to accountants and lawyers, digging into the economics for SPAC sponsors.

President Trump's nominee for Commerce Secretary, Howard Lutnick, is not only a serial SPAC sponsor, having been CEO of numerous SPACs over the past few years, but he is also the CEO of Cantor Fitzgerald, a leading SPAC IPO underwriter which had 12 IPOs in 2024. And let's not forget that Trump himself brought Trump Media & Technology Group (DJT) public via a SPAC.

It seems likely that a more supportive environment for SPACs is on the horizon.

Our SPAC exposure was diversified across 61 positions at year-end. While the median IRR for the SPAC universe decreased a little bit over the few months to approximately 5%, the aforementioned bifurcation of the SPAC market has created numerous opportunities above this level that we are actively taking advantage of, keeping us constructive on this low-risk opportunity set to start the year.

Turning the page.

As we leave behind a challenging period for deal makers, we are as optimistic as we have been in years about the prospects for arbitrage. Our optimism is supported by key regulatory changes, an environment rich with tailwinds for increasing M&A activity, and attractive deal yields.

An increase in deal activity provides us with more opportunities to choose from, increasing return potential while also supporting our risk management framework.

The Maxam Arbitrage Fund has demonstrated its unique value over the last few years – generating positive returns during both equity and bond market volatility. We continue to have confidence in our strategy's ability to generate positive returns regardless of the market environment.

With the recent interest rate moves and action in the bond market, a strategy like arbitrage makes a lot of sense to have in the mix.

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] SPAC data and statistics shared below is from www.spacinsider.com and the Maxam Capital database. And yes, the section heading is a reference to the 1980's classic, *Back to the Future*.