MAXAM
CAPITAL MANAGEMENT

Maxam Diversified Strategies Fund – Q4 2024 Commentary

Dear fellow investors,

The Maxam Diversified Strategies Fund[1] gained +5.8% in the fourth quarter to finish the 2024 calendar year up +27.7%.

Great year. On to the next.

Equity markets were positive in the fourth quarter, capping off a strong year despite concerns regarding economic growth, ongoing geopolitical conflicts, and a fiercely contested U.S. presidential election.

Market breadth did improve in 2024, however the artificial intelligence theme and the largest cap technology companies – most notably the Magnificent 7[2] – continued to significantly influence the direction of equity markets. While gains have been uneven and top-heavy, resulting in valuations being more expensive than they were a year ago, the current environment is supportive of equities.

Looking ahead, economic and earnings growth are expected to continue, but risks like inflation, rate volatility, and fiscal uncertainty are present. Equity market volatility is *always* to be expected – and can be actively taken advantage of.

President Trump's re-election has boosted investor sentiment with expectations of tax cuts and deregulation, and there is attractive value in select companies and certain segments of the market. Small and mid-capitalization companies continue to trade at discounts to their larger peers, and Canadian equities are broadly cheaper than U.S. equities.

Positions and activity recap.

Performance was generally positive across the portfolio during the quarter, with notable positive contributions from Dexterra Group, Kraken Robotics, Maxim Power, MDA Space, VitalHub and Westaim.

Westaim is a company that we have owned in the fund for a few years now – one that we've considered to be a special situation owing to the hidden value we saw and the catalyst driven nature of our thesis. Our initial view was that Westaim's share price did not accurately reflect the value of the two financial services businesses that it owned significant stakes in, and that growth and catalysts would unlock said value.

After a bit of waiting – *"are we in a value trap?"* – Westaim monetized a significant portion of one of its assets, Skyward Specialty Insurance, crystallizing value onto its balance sheet. While its share price had appreciated, Westaim continued to trade at a discount to its sum-of-the-parts value. With significant cash on hand (we like the option value of capital in the hands of shrewd management), Westaim had options to further enhance shareholder value via buybacks, a substantial issuer bid, or another accretive use of capital.

In early October, Westaim announced that it had entered into a transformative transaction that would see it depart from its holding company structure and evolve into an integrated life insurance and asset management company with significant growth potential. Westaim shares reacted very favourably to the news.

Maxim Power, an independent power producer based in Alberta, is another investment that we classify as a special situation. Familiar with the company from a previous investment, we opportunistically purchased the majority of our current position from October to December 2022 following a fire at their core electricity generating asset – at what we believed was a very attractive valuation. Our thesis was that once the repairs from the fire were completed (paid for by insurance), and the plant got up and running, the valuation would begin to re-rate based on the results of the operations.

The thesis was generally playing out as expected, and our confidence in value was bolstered by Maxim Power's regular share buyback activity and insider buying. Notably, two insiders owned approximately 70% of the company's outstanding shares.

Maxim Power's share price moved sharply higher in early November when, along with its third quarter results, it announced that – after a year of successful operations (post restart after fire related repairs) – its cash position significantly outweighed its debt obligations and that it would use the surplus cash to reduce debt and reward shareholders with a $0.50 per share special dividend. *Additionally*, the two significant insiders also elected to convert their outstanding loan to Maxim Power into more shares. Following the debt conversion the two insiders collectively own over 76% of outstanding shares. What's next for this free cash flow generating, tightly held company?

Dexterra Group, a market leader in workforce accommodations and facilities management, is a newer name to our portfolio having accumulated a position throughout the second half of 2024. We were initially drawn to the company's low trading valuation and recent news releases announcing some divestitures – only to find many other positive attributes under the hood. In 2023 Mark Becker was promoted to CEO from COO and has been busy streamlining the business into a more capital-light model with a strong focus on free cash flow and prudent capital allocation. Also, unfavourable contracts entered into prior to 2022's inflation spike were being rolled to more favorable terms, helping lift margins. While the share price has started to reflect these recent catalysts, we see further upside and believe management has many more levers to pull to unlock value. Stay tuned.

Marine focused technology company, Kraken Robotics' market cap has gone from under $100 million 18 months ago when we first discovered it, to over $700 million today. Kraken's business has ramped with demand for its technology and services, which range from surveillance of underwater infrastructure to specialized batteries and sensors for unmanned autonomous underwater drones. After the sharp rise in its share price over the last couple of years we expect it may consolidate near current levels before further gains – but the story remains catalyst rich.

MDA Space, provider of robotics, satellite systems, and technology to the space industry, was again a stellar performer for the fund this past quarter. Demand has been ramping, and MDA's backlog has been building, as the new space race is on.

Sylogist, a provider of mission-critical software to the public sector, declined approximately 22% in Q4 after reporting results that didn't wow investors – it was the fund's largest detractor to performance during the quarter. We took advantage of the share price weakness, opportunistically adding to our position in this quality business.

Overall, we were quite active during the fourth quarter, both adding to and trimming some existing positions – as well as initiating some new holdings. And we have continued to be active into the first quarter of 2025.

M&A on the rise.

M&A activity in the small and mid-capitalization segments of the market was strong last year – notably, a couple of our core holdings were acquired: Hamilton Thorne and Heroux-Devtek. And on the first trading day of 2025 another one of our positions (albeit a small one), Quisitive Technology Solutions, announced it was being acquired by private equity firm H.I.G. Capital.

Through our management of the Maxam Arbitrage Fund we keep very close tabs on the M&A environment – analyzing everything from who's buying who to understanding what is driving activity. In that regard, we see an increasingly attractive outlook for mergers and acquisitions in 2025[3].

In our last commentary we discussed that M&A activity is highlighting where the value is – and the activity in Canada has been noteworthy. Strategic and financial buyers appear 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 sooner than later – we just hope some of our favourite holdings don't get taken from us too early.

May you invest in interesting times.

2024 was a strong year of performance for the fund – and we are excited about the prospects and catalysts ahead for the fund's current holdings.

It is prudent to expect some volatility in a shifting market environment where concerns regarding inflation, rate volatility, and fiscal uncertainty are present – not to mention a new U.S. President that is shaking things up.

One of the great truths about market volatility and pullbacks, is that they both create and unveil compelling investment opportunities. If there is a market pullback (and as we've said before, there usually is), we will be selectively taking advantage of it.

Some of our past successful investments – special situations like Westaim and Maxim Power, and early identified hidden gems like Kraken Robotics and VitalHub – were found during periods of market volatility.

Valuation dichotomies continue to exist across the market capitalization spectrum – a set-up that we believe is well-suited to our flexible approach and value-oriented style.

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 7* stocks include Amazon.com, Apple, Google, Meta Platforms, Microsoft, Nvidia and Tesla.

[3] Read about our outlook for M&A in 2025 and how the Maxam Arbitrage Fund is taking advantage here.