Maxam Arbitrage Fund – Q2 2025 Commentary

Dear fellow investors,

The Maxam Arbitrage Fund[1] gained +2.79% in the second quarter to finish the first half of 2025 up +4.25%. Fund performance for the trailing 12 months was +7.04%.

Performance in the second quarter was driven by 15 successful deal completions and four deal price increase announcements. Plus, our SPAC positions benefitted from some increased excitement and activity in the space, in addition to the usual growth of cash held in-trust.

Looking back at Q2.

New deal activity rebounded materially throughout the second quarter following the slow pace set in Q1 and early April when deal makers stepped back to assess U.S. President Trump's new policies and aggressive tariff announcements. We added 74 new definitive deals to our database in Q2, over 50% more than in the first quarter. We also observed 16 new hostile takeover announcements, compared to seven in Q1. Hostile takeover attempts are often a precursor to definitive deals.

Equity markets were quite volatile early in the second quarter, and this was reflected in some merger arbitrage deal spreads. We actively capitalized on wider spreads in deals where we held a high degree of conviction – benefiting as the spreads tightened through the balance of the quarter.

The Fund also profited from four deal price bump announcements during the quarter – highlighting some of the upside optionality in the strategy.

First it was H.I.G. Capital increasing its offer for Converge Technology Solutions from $5.50 to $6.00 per share after learning that Converge had received a superior offer from a third party. Then it was Carlyle Group increasing cash terms for bluebird bio from $3.00 to $5.00 per share in response to shareholders who wanted greater cash certainty versus the original cash plus contingent value right terms.

Next up it was MDA Space announcing that they were increasing their purchase price for Satixfy Communications by 43%, from $2.10 per share to $3.00, after the target received a competing bid from a third party. Finally, TransDigm Group raised their purchase price for Servotronics by 22%, from $38.50 per share to $47.00, also after being notified that their target had received a competing bid.

Not only do these bumps highlight the positive optionality that exists in merger arbitrage, but they may be indicative of attractive value in certain pockets of the market – especially in small/mid cap companies where we expect we will continue to see deal activity pick up as opportunistic buyers step in.

During the quarter we initiated 29 new merger arbitrage positions in the Fund, and had 15 successful deal closures with zero deal breaks.

Deals that we owned which successfully closed during Q2 included: Intevac, Nevro, Logility Supply Chain Solutions, Accolade, Air Transport Services, Chimerix, Converge Technology Solutions, Melcor REIT, Beacon Roofing Supply, 2seventy bio, Despegar.com, Sierra Metals, Surgery Partners, bluebird bio, and PHX Minerals.

At the end of the second quarter the fund was diversified across 36 merger arbitrage positions.

Deal guy in the Oval Office.

While the total number of new deals increased in the second quarter, the total *value* of new deals declined due to fewer large transactions being announced. Larger deals are typically more complex and difficult to put together than smaller transactions are – thus the policy uncertainty from President Trump's administration to begin the year has likely delayed some big deals.

On top of the policy uncertainty, despite leadership at the antitrust agencies (the FTC and DOJ) being replaced by *self-professed* more deal-friendly regimes, dealmakers were likely disappointed with the regulatory environment through the first few months of the year.

However, and notably, some large and high-profile deals reached successful completion during the second quarter. First it was Capital One's acquisition by Discover Financial Services gaining regulatory approval. Next it was Nippon Steel's acquisition of U.S. Steel getting approval from Trump after both he and Biden had said they wouldn't approve the takeover of the storied U.S. company. And then it was Hewlett Packard's deal for Juniper Networks getting approval after reaching a settlement with the DOJ.

These recent approvals suggest that perhaps the much-awaited more deal-friendly environment is finally upon us. Maybe having a *deal guy* in the Oval Office is a good thing for dealmakers, and for merger arbitrage.

A resurgence in SPAC IPOs

In recent quarterly commentaries we've been highlighting the improving capital raising environment for SPAC IPOs – and the flood gates opened wider in the second quarter. Almost US$10 billion was raised in Q2, over triple the amount raised the prior quarter – and for context, the total tradeable SPAC market universe at the start of the year was only US$15 billion. In total 44 new issues started trading, marking the most active quarter in four years.

The IPO resurgence drove combined trust values for all SPACs to north of US$25 billion, up from approximately U$17 billion last quarter as IPOs far outweighed liquidations and deal completions. Total listed SPACs at quarter end stood at 226, consisting of 86 SPACs with announced deals and 140 still searching for a transaction[2].

While we view the recent growth in the opportunity set for SPACs as a strong positive for the longer-term sustainability of this strategy within our arbitrage portfolio – we'd be remiss not to mention that the median IRR across the SPAC universe did compress during the quarter from approximately 5% towards 4%.

But a median is merely an average – and we are still finding ample opportunities to deploy capital into attractive risk-adjusted return situations as we actively work to high grade our SPAC exposure.

In addition to the recent increase of activity in the SPAC market, fresh comments from the Securities and Exchange Commission Chairman, Paul Atkins, suggest that regulators may look to ease some of the SPAC rules – potentially adding more opportunity for dealmakers and arbitrageurs.

The Fund's SPAC exposure was well diversified across 75 positions at quarter end, providing the fund with a very low risk base of stability.

Steady through uncertainty.

Maxam Arbitrage Fund has provided investors with an attractive and consistent return, with low correlation to traditional equities and bonds, through a particularly volatile market for equities and bonds in the first half of 2025.

Despite ongoing market volatility and policy uncertainty, we were encouraged to see deal activity accelerate in the second quarter, especially in small and mid-cap transactions – a segment of the opportunity set where we are quite active and which we find especially compelling.

We are also seeing signs of a regulatory thaw, with several larger and complex deals recently securing approval after negotiated remedies, perhaps paving the way for a recovery in large transactions.

Bolstered by these positive developments and the underlying factors that support deal formation, we anticipate continued momentum in M&A activity. In the meantime, the opportunity set of current transactions and SPACs allows us to construct an attractive and diversified portfolio while applying our disciplined risk management framework.

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 spacinsider.com and the Maxam Capital database.