

Maxam Arbitrage Fund – Q3 2025 Commentary

Dear fellow investors,

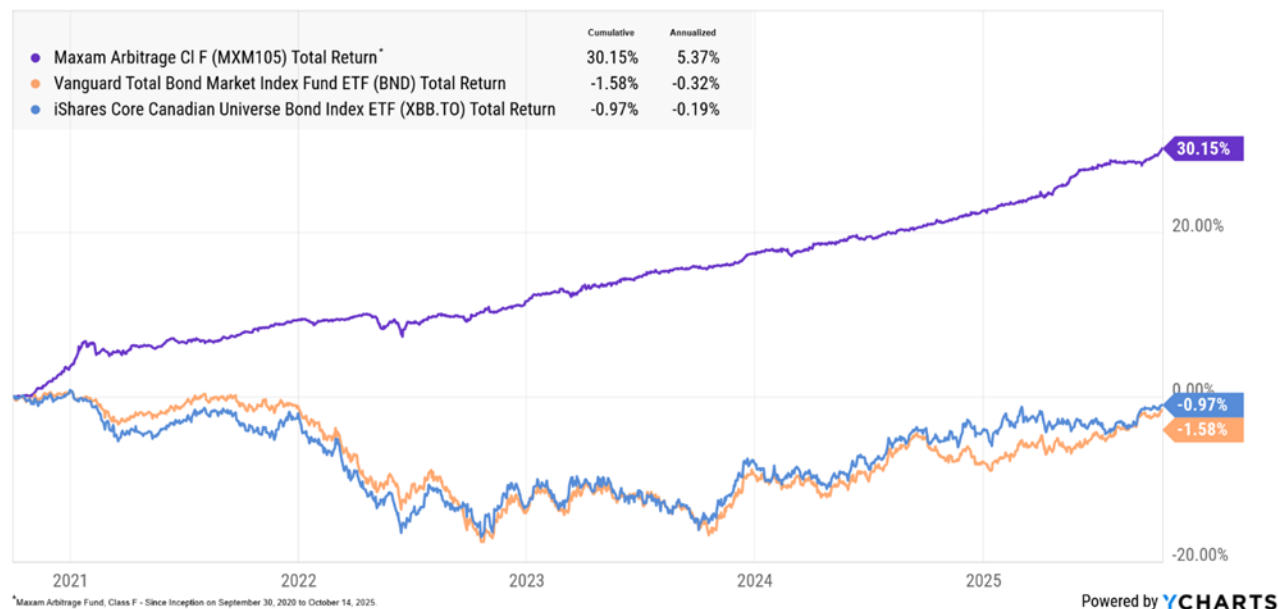
Maxam Arbitrage Fund¹ gained +1.04% in the third quarter to finish the first nine months of 2025 up +5.33%. Fund performance for the trailing 12 months was +6.94%.

5 years in!

We are pleased to highlight that the Maxam Arbitrage Fund achieved its **5-year track record milestone** on September 30th.

Over the Fund's first five years we have delivered steady returns with low correlation to traditional equities and bonds, along with a very low volatility profile.

30-Sep-25	YTD	1 Year	Annualized Since Inception	Cumulative Since Inception	Standard Deviation	Sharpe Ratio	% Positive Months	Maximum Drawdown	Beta to TSX	Correlation to TSX	Correlation to Bonds
Maxam Arbitrage Fund (F)	5.3%	6.9%	5.2%	29.1%	1.8%	1.31	83%	-2.5%	0.04	0.30	0.21
iShares Core CAD Universe Bond	3.0%	3.0%	-0.2%	-1.1%	6.2%	-0.45	50%	-17.7%	0.28	0.57	1.00



Reviewing Q3.

Performance in the third quarter was driven by 27 successful deal completions, including one price bump, and no deal breaks. Our SPAC positions also benefitted from increased activity and interest in the space, in addition to the usual growth of cash held in-trust.

The market environment continues to be highly conducive to new deal formation. We added 94 new definitive transactions to our database in the third quarter, 27% more than in Q2.

A more friendly regulatory environment, solid corporate balance sheets, growing profits, and higher stock prices are providing executives with the confidence to make acquisitions. And small-cap company valuations are compelling relative to large and mega caps, providing an attractive opportunity set for accretive M&A. Over half of the new deals announced in the third quarter targeted companies under \$1 billion in market capitalization – a segment of the market we continue to be active in.

During the quarter we initiated 26 new merger arbitrage positions in the Fund and, as mentioned above, had 27 successful deal completions and zero breaks.

We won't list them all, but here are a few of the deals that we owned which successfully closed during the quarter: Enstar Group, Servotronics, Juniper Networks, Wesdome Gold Mines, Ceres Global Ag, Radius Recycling, Chevron, Innergex Renewable Energy, SigmaTron International, Sierra Metals, Synex Renewable Energy, CI Financial, Keg Royalties, and DallasNews.

At the end of the third quarter the fund was diversified across 35 merger arbitrage positions.

Barbarians at the Gate.

It was always going to be tough to match the four deal-price bumps that we benefited from in the second quarter, but we did have one takeover battle in the third quarter that is worth mentioning.

In early July, Hearst Communications announced that they had reached an agreement to acquire DallasNews for cash consideration of \$14.00 per share. We added a position in DallasNews shortly after the announcement, at an attractive arbitrage spread, in what we thought would be a straightforward deal.

Approximately two weeks after announcing the deal to sell to Hearst, DallasNews received a competing acquisition proposal from MNG Enterprises/Alden Global ("MNG"), who owned 9.9% of the company, for \$16.50 per share.

In response to the higher offer, the ex-Chairman of DallasNews – who notably controlled enough of the company's Class B voting shares to block the deal – made his position clear, stating: "There is no circumstance under which I will change my mind [and sell to MNG], now or in the future."

Talk about undermining the DallasNews board's negotiating leverage!

Hearst did, begrudgingly we assume, agree to amend their purchase price from \$14.00 to \$15.00. *And then it got more interesting.*

MNG continued to raise the stakes, upping their offer to \$17.50, and then to \$18.50, and then finally to \$20.00 per share. Nevertheless, DallasNews' ex-Chairman continued to support the financially inferior bid, believing that Hearst would be a better steward of the company than his great-grandfather founded.

Hearst, sensing that even with the ex-chairman's voting support that they may not win the minority shareholder vote required to complete the acquisition, amended their offer to a 'final' price of \$16.50. In the end, minority shareholders voted to accept the certainty of Hearst's deal over a potentially scuttled transaction.

Overall, we were happy to have our position in DallasNews conclude better than we'd first expected, but certainly a little disappointed that there was more money on offer. Reach out if you'd like to hear more about this deal and how we managed our risk exposure.

Looking way up at the other end of the market cap spectrum, two U.S. private equity firms – Silver Lake Management and Affinity Partners – teamed up with Saudi Arabia's Public Investment Fund to purchase gaming giant Electronic Arts ("EA") for \$210 cash per share, or about \$55 billion.

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JPMorgan Chase & Co is leading a consortium of lenders who have agreed to provide \$20 billion of debt financing for the EA transaction, making it the largest leveraged buyout on record – surpassing other mega-deals such as TXU, HCA Healthcare, Heinz, Equity Office Properties, and the late 1980s buyout of RJR Nabisco by KKR.

The leveraged buyout of RJR Nabisco, a rapid-fire bidding war that began with a management-led offer at \$75 per share and ended with KKR's successful bid at \$109 per share, became emblematic of the 1980s junk-bond fueled LBO wave.

There are some key differences between these two mega-deals. The RJR Nabisco deal structure was much more heavily levered with over \$22 billion of debt vs \$7.4 billion of equity, a 3:1 ratio. EA on the other hand is more equity heavy with \$55 billion of equity to \$20 billion of debt, a 0.4:1 ratio. And today's debt markets for financing deals are generally deeper and more robust with risk typically shared amongst multiple lenders.

The RJR Nabisco deal had its fair share of drama with multiple bids and unique personalities involved – which were well-chronicled in the book and HBO film *Barbarians at the Gate*². We don't expect the same drama to ensue with the EA deal, although Donald Trump's son-in-law Jared Kushner is the founder of buyout consortium member Affinity Partners.

From an arbitrageur's perspective, we are pleased to see everything from small-cap deals like DallasNews to mega-cap deals like Electronic Arts – expanding our opportunity set and enabling us to construct an attractive and well-diversified portfolio.

SPACs – steady as she goes³.

SPAC IPOs kept sailing forward at a steady clip in the third quarter. While not quite as robust as the \$10 billion raised in Q2, the third quarter still brought a very healthy \$8 billion in new issuance to the market across 35 IPOs.

With one quarter still to go in the year total issuance has already doubled the amount set in all of 2024. The recent revival of SPAC IPOs is a welcome development for arbitrageurs as it should provide a solid opportunity set to deploy capital into over the next few years.

Similar to the prior quarter, IPOs again outpaced deal completions and liquidations, lifting the total universe to 246 listed SPACs – up 20 in the quarter. Total capital sitting in SPAC trust accounts – and growing via accruing interest – rose by \$6 billion to approximately \$31 billion. That's more than double the amount held in trusts at the beginning of 2025.

The number of SPACs searching for a qualifying transaction totaled 152 at quarter end, while 94 have already announced deals and are working toward completion. On the latter, new deal announcements saw an uptick to 35 in Q3, versus 16 in Q2, and 12 in Q1 respectively. Of note, there seems to be more excitement – or speculative capital shall we say – around certain announced deals, more so than we've witnessed in several years.

The core focus of our SPAC arbitrage strategy is to protect and grow capital through detailed modelling of estimated trust values and opportunistic trading when volatility creates dislocations. That said, the embedded call option in SPACs can periodically deliver additional upside.

Case in point: in Q3 the Fund held a few positions that benefited from positively received deal announcements, pushing those SPACs to trade above their cash held in-trust. Two notable positions included Spring Valley Acquisition Corp. II's proposed merger with uranium miner Eagle Energy Metals, and Willow Lane Acquisition Corp.'s combination with digital-infrastructure firm Boost Run.

Setting aside potential optionality, the median IRR across the SPAC universe was just over 4%, roughly in line with Q2 – and we are finding opportunities at higher IRRs.

The Fund held 89 SPACs at the end of the third quarter – more diversified than usual – which we view as appropriate considering the burgeoning positive sentiment towards new deal announcements. It is difficult to gauge which particular SPACs might catch a gust of excitement, so we think it is sensible to cast the net a bit wider.

Resiliency through periods of uncertainty.

We are pleased to have delivered on the Fund's objective over its first five years – generating consistent returns regardless of the direction of the market by investing in announced specific and definitive events and transactions.

Uniquely, arbitrage returns are not driven by valuations, earnings beats or misses, credit rating changes, management guidance, or investor emotions. In a market environment that can seemingly shift on a headline, Maxam Arbitrage Fund seems like a good strategy to have in the mix.

While we've always had ample deal flow to construct a well-diversified arbitrage portfolio, the current opportunity set of transactions is deep, and prevailing market conditions are supportive of new deal formation.

We look forward to applying our disciplined risk framework to the arbitrage opportunity set over the next five years and beyond.

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 Barbarians at the Gate. Worth a read and/or a watch: https://en.wikipedia.org/wiki/Barbarians_at_the_Gate.

³ SPAC data and statistics are sourced from spacinsider.com and the Maxam Capital database.

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