ANTARES INVESTMENT MANAGEMENT

VALUE PORTFOLIO

The Antares Value Portfolio focuses on companies that, in our analysis, are underpriced in the stock market relative to their underlying worth as businesses. Our strategy aims first to protect investors' capital by not overpaying for a given company - holding fixed income or cash when bargains cannot be found - and second, to grow that capital through share price appreciation as the company's value gets properly recognized within the equity market.

MANAGER COMMENTARY

We believe that U.S. stock prices are generally high relative to their intrinsic values.

We are excited about inexpensive valuation of your portfolio's companies.

Berkshire Hathaway's shares are compelling, which led us to purchase them on your behalf during the quarter.

The overall goal for your portfolio continues to be preserving the capital you already have and growing that capital over the coming years. Of those two objectives, preservation comes first. With stock markets in the U.S. at elevated levels and over ten years of continuous growth in prices there is a growing risk of a stock market decline. Stock prices simply cannot grow at a faster rate than underlying earnings for long periods of time. And the longer that imbalance between price and intrinsic business value goes on, the greater the risk. That point seems to be lost on most investors nowadays. People seem to have forgotten that stock prices sometimes go down and they can go down significantly when there is a large disparity between price and value.

On the other hand, we are excited about the future growth prospects of your portfolio because the exact opposite is being reflected in your portfolio; in our view, stock prices are much lower than the intrinsic value of the underlying businesses. In fact, the disconnect between price and value in your portfolio is at a level not seen in almost five years. This gap between value and price provides substantial downside protection while also providing the base from which future growth can come. So even in a heated market, it can make sense to invest when the price is attractive.

This is well illustrated by the recent addition of Berkshire Hathaway to your portfolio. While many of you might be thinking "it's about time", we want to remind you of the discipline taken in coming to this decision. It is no secret that we are big fans of Warren Buffett and the investing track record he has generated while at the helm of Berkshire. Our investing approach is modeled after his, including the decision to hold large sums of cash when the opportunities for prudent deployment are simply not there. Recently the price became attractive enough to warrant a purchase.

Buffett has said that he has calculated that Berkshire is worth considerably more than 1.3 times book value and if the price ever got below that level he would purchase shares of his own company; essentially buy back shares from other willing sellers. The share price is currently at that level. Having Buffett indicate a willingness to purchase shares anytime they go below the present price puts a floor under the share price which, we believe, provides substantial downside protection. His words would not carry as much weight if it were not for the $122 billion of cash Berkshire Hathaway is currently holding. That cash backstop provides plenty of purchasing power if share prices decline.

There is also a second benefit of all that cash. It provides plenty of "dry powder" with which he can buy shares of any company. Of course he will only do that if the price paid is attractive enough to make it a worthwhile investment.

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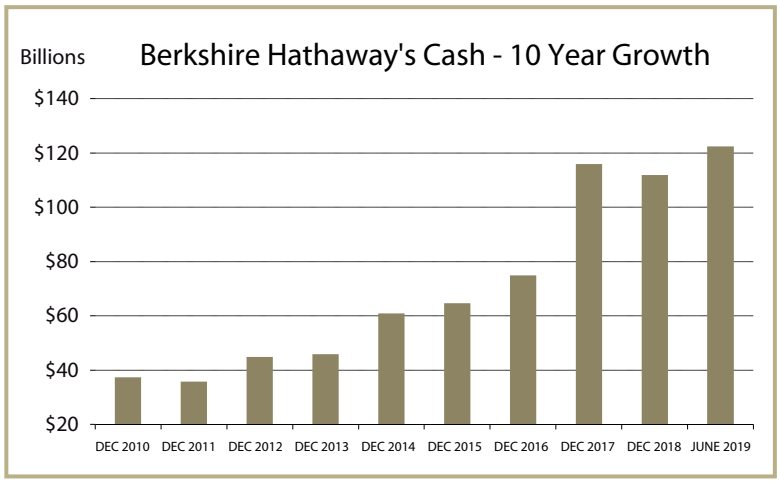
Berkshire holds $122 billion in cash, which gives the company options.

Your portfolio holds cash too. This preserves capital and provides "dry powder" to take advantage of opportunities when they arise.



Source: Capital IQ

This leads to a question: how did he accumulate so much cash and why is he holding it? The cash hoard is the result of not finding anything worth buying over many years and simply saving money that has come in from Berkshire's operating companies. That is comparable to someone making contributions to an RSP without ever investing the money. The reason to continue to hold that cash is that prices are not attractive enough to make an investment. But that will change. And Buffett has shown himself to be a shrewd investor, willing to hold money when no one else wants to and willing to make purchases when nobody else is willing, or able, to.

That approach to investing should sound very familiar. Your portfolio also has a large amount of money in short-term bonds awaiting something worth buying.

There is what we call "leveraged protection" in your portfolio. The first layer of protection comes from holding stakes in businesses that are cheaply priced as well as the short-term bonds. The second layer comes from the cash held inside the various companies in your portfolio, Berkshire being one example among many. All that money NOT invested helps to protect the downside but also provides ample resources to make purchases at attractive prices in the future. The leverage comes from having both cash in your portfolio AND owning businesses with substantial cash holdings themselves. Not only does that allow direct purchases but it also means that the businesses you own are able to profitably invest the money for even greater potential payback.

So while the average stock market investor may be apprehensive about the future, we believe the future looks bright for your portfolio and that your patience may soon be rewarded.

Sincerely,

Your Portfolio Management Team

VALUE PORTFOLIO

The Antares Value Portfolio is available to investors within a Separately Managed Account ("SMA") that holds securities directly, and through the Antares Value Pool ("Pool") which is held in the accounts of multiple investors. Data presented refer to the Pool. SMAs are customized and therefore their holdings and weights may diverge from those within the Pool. Sources for the data include: Capital IQ, Bloomberg, NDEX, and Antares calculations. Unless otherwise stated, all data are as at quarter end.

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