ANTARES INVESTMENT MANAGEMENT

# Investing in a Period of Heightened Uncertainty

For many investors, the events of this year are unprecedented. Seasoned investors, on the other hand, will recognize the recent market downturn as part of the normal cycle of investing. After a number of years of rising corporate earnings, the economy has come to an abrupt halt and stock prices have dropped rapidly. Historically speaking, phases of growth and decline have been marked by investors thinking "this will never end". It is typical in the latter stages of either phase for sentiment to be backward-focused and overly optimistic, or pessimistic, as the case may be. As we are witnessing now, cycles come to an end and new ones start.

The past few years have been marked by stock prices that, in many cases, had advanced significantly more than the underlying profits of the companies they represent. This has been accompanied by heavy use of debt by both consumers and corporations, and, in our opinion, an insufficient respect for risk. Some have believed that it is easy to make money in real estate or in the stock market. This view is changing very quickly. We are on record for communicating our concerns about the economic cycle turning down and the risk this could pose to the prices of many equities. In our view, it was only happenstance that the Covid-19 coronavirus got investors rethinking current stock prices. With or without the virus, we believe that markets were setting up for a general decline, sooner or later.

To address the risks, we took several steps well in advance of the current crisis. For example, we have let you know already about our focus on balance sheet strength of each of the businesses in your portfolio. When the economy turns south, "cash is king" while heavy debt limits one's options. In our view, well-financed companies that provide in-demand products and services will get through this downturn just fine. While share prices have declined, we are not concerned about the ability of your companies to weather the storm and emerge in good shape, particularly when compared to their indebted competitors.

More recently, we have made some pro-active changes to the bonds held in your portfolio. This has been done to protect your portfolio from the high levels of debt that many companies are carrying. While we only place money in investment-grade bonds to begin with (as opposed to higher-risk "junk bonds"), we have moved money to higher-grade bonds within that category. These include both high quality corporate bonds and government bonds, which offer added security. In some client portfolios the shift is still in the works. As a side note, junk bonds have declined significantly in the current environment, where investors are once again learning that quality matters.

While we don't want to sensationalize the current situation (we will leave that to the media), it is important that we acknowledge that no one knows how long the current situation will last, nor how deep the impact will be economically. Pundits with strong convictions are guessing and apt to be wrong. Our goal is not to predict the path of the pandemic but to prepare your portfolio for different possible scenarios. This requires thoughtful analysis and a solid framework as bulwarks against *the noise*.

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As a reminder, your portfolio is not invested in "the market". Rather, you hold ownership stakes in a select number of well-financed and profitable companies that offer valuable products or services. While it is true that these companies may experience short-term disruption in their operations due to supply chains and closed locations, we believe their long-term profit generating capabilities are unlikely to be impacted by the downturn. In the meantime, your companies have the wherewithal to work through the current situation and expand their market share. In the future, many may experience higher profits than would have been the case without the downturn. While we wait for the recovery, regular dividends are flowing into your portfolio.

In the coming months, if history is a guide, it is reasonable to anticipate that stock prices continue to be erratic. This is a natural part of the process as the emotions of fear and greed — amplified by Covid-19 — drive short-term price movement. You can expect that we will use these price fluctuations as opportunities to make changes to your portfolio. Some changes may be subtle and others larger: it will depend on the conclusions we draw from our analysis and what the market offers us. Any changes we make will be guided by the twin goals of protecting your portfolio and enhancing its growth opportunities. Please note that cash levels in your portfolio may be occasionally elevated while we are active.

We encourage you to take the long view. Volatile markets can be unpleasant, and the Covid-19 virus is a heavy burden for all of the world to bear. We will get through this and we believe this disruption will set the stage for future growth. Mathematically, larger investment returns are more probable from low price levels.

We wish you and your family strength and courage in these unusual times. We are available over email or the phone if you want to communicate directly with us.

Thank you for your continued trust,

**Your Portfolio Management Team**



ANTARES
INVESTMENT MANAGEMENT

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ANTARES INVESTMENT MANAGEMENT

# BALANCED PORTFOLIO

*The Antares Balanced Portfolio focuses on income-generating investments, including high quality companies with a proven capability of paying recurring and growing dividends, high quality bonds, and real estate. It aims to produce dependable income with potential for growth of that income and appreciation of capital.*

## MANAGER COMMENTARY

In a world turned upside-down due to the Covid-19 pandemic, we are working to maintain a sense of continuity by sticking to our investment process. Swings in equity prices have created investment opportunities, but there are risks that have come to the fore. In particular, the halt of the global economy has revealed the downside of consumer and corporate debt that have been accumulating over the years: making interest payments requires first that one has income. Debt in the system is a potential "sleeper" issue, and how it plays out may determine the answer to the $64,000 question(s) on many investors' minds: when will the worst be over, and when will growth resume? The answers are unknowable and, unfortunately, we all need to live with this uncertainty. We aim to protect your capital by favouring companies with robust balance sheets, consistent profitability, and fair valuation. In fact, five of your portfolio's holdings have more cash than debt (see table below), an enviable position as the economy enters into a recession. Companies with these characteristics are likely to be more valuable in the future; owning them, we strongly believe, tilts the odds in your favour. Patience is required.

| Name | Cash & Investments | Debt | Net Cash |
|---|---|---|---|
| **Apple** | 207.3 | 108.0 | 99.2 |
| **Microsoft** | 138.7 | 86.5 | 52.2 |
| **Cisco Systems** | 33.4 | 24.7 | 8.7 |
| **Accenture** | 6.1 | 0.0 | 6.1 |
| **Novo Nordisk** | 2.3 | 0.7 | 1.7 |

*Source: FactSet, most recently published data. Figures in $ billions.*
*"Net Cash" is equal to "Cash and Investments" less "Debt".*

We have been revisiting all investments to confirm that our reason for owning them is intact. We made several changes to the portfolio during the quarter. We shifted some bond holdings in order to upgrade the overall quality. We reduced, without exiting, some bank holdings: all have an established track record of growing shareholder value; all are exposed to an economic slowdown that has the potential to be severe. We believe that trimming is a prudent way to mitigate against this possibility, while retaining exposure in the event the economy recovers soon.

We purchased shares of Canadian company Nutrien, the name of the merged companies formerly known as Agrium and Potash Corporation of Saskatchewan. We had been eyeing the company for well over a year. They have a growth strategy to expand their network of agricultural retail stores globally. They sell seeds and fertilizers that are required for crop production. The prices of fertilizers fluctuate which affects the company's profits year to year, and which has created an attractive investment opportunity. Even at current low-cycle fertilizer prices, Nutrien generates enough cash flow to cover a rich dividend, expand their retail store base, and deploy additional capital into either debt reduction or share repurchases. When we step back and ask ourselves "what businesses are vital to the world economy?", we believe that governments will be motivated to ensure that crops are abundant. Nutrien stands to benefit, in our opinion.

The downdraft in equity prices created opportunities to add to existing long-term holdings, as the following examples illustrate. Accenture is one company we have been building in the portfolio over the past year. It acts as a highly profitable consultant to companies moving their IT infrastructure to the cloud, a phenomenon that we believe will continue for the foreseeable future. Cisco Systems provides mission critical networking infrastructure and cyber security offerings to companies around the world. Use of the company's video conferencing technology has exploded in recent weeks. Toromont Industries sells and services heavy equipment in Canada's north and from Manitoba eastward. The company is managed by a highly disciplined team that focuses on profitable growth. We see potential for increased infrastructure spending, which would be good for their sales.

Thank you for your trust,

**Your Portfolio Management Team**

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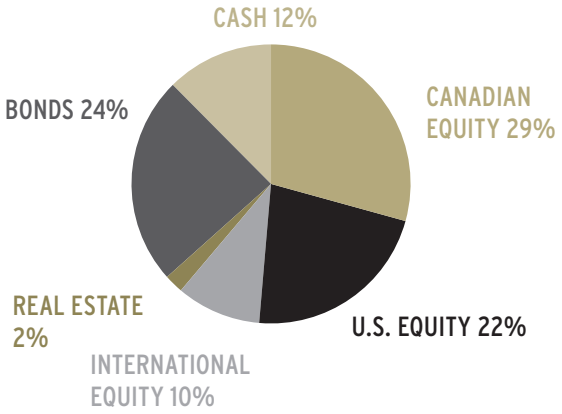
ANTARES INVESTMENT MANAGEMENT

# BALANCED PORTFOLIO

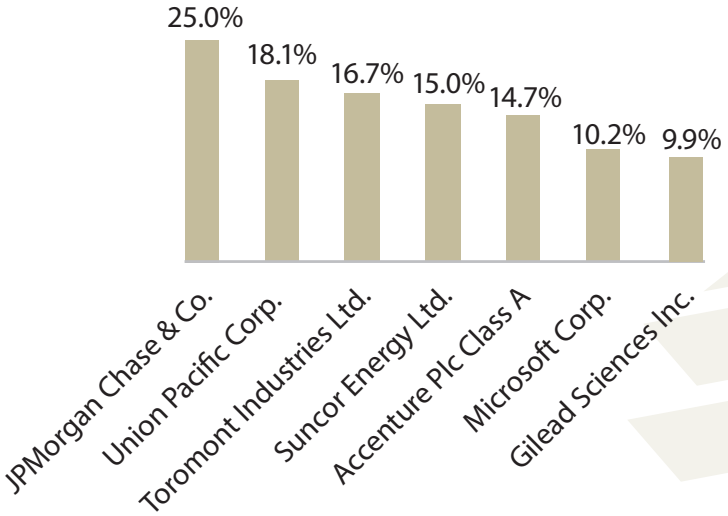
## ASSET ALLOCATION[1]




## DIVIDEND REPORT - AS AT MAR 31, 2020[1]

- 4.3% Portfolio Dividend Yield
- 23 of 25 Holdings Raised Their Dividend In Local Currency In The Last 12 Months
- 7.8% Portfolio Dividend Growth Rate Over The Last 12 Months

## NOTEWORTHY DIVIDEND INCREASES - LAST 12 MONTHS[1]




## PORTFOLIO HOLDINGS & SECTOR WEIGHTS[1]

| | | DIVIDEND YIELD | 5YR DIVIDEND GROWTH RATE |
|---|---|---|---|
| **FINANCIALS** | **12.5%** | | |
| The Bank of Nova Scotia | | 6.4% | 6.4% |
| Fairfax Financial Holdings Limited | | 3.5% | 1.7% |
| Manulife Financial Corporation | | 6.4% | 11.6% |
| Royal Bank of Canada | | 5.0% | 7.2% |
| Sun Life Financial Inc. | | 3.9% | 7.8% |
| JPMorgan Chase & Co. | | 4.2% | 16.6% |
| **HEALTHCARE** | **12.3%** | | |
| Gilead Sciences, Inc. | | 3.7% | N/A |
| Johnson & Johnson | | 3.1% | 6.3% |
| Novartis AG Sponsored ADR | | 3.9% | 3.0% |
| Novo Nordisk A/S Sponsored ADR Class B | | 2.3% | 11.0% |
| **INFORMATION TECHNOLOGY** | **11.4%** | | |
| Apple Inc. | | 1.3% | 10.4% |
| Accenture Plc Class A | | 2.0% | 10.4% |
| Cisco Systems, Inc. | | 3.7% | 12.4% |
| Microsoft Corporation | | 1.3% | 10.4% |
| **CONSUMER STAPLES** | **6.9%** | | |
| CVS Health Corporation | | 3.4% | 11.2% |
| The Coca-Cola Company | | 3.8% | 5.3% |
| Unilever PLC Sponsored ADR | | 3.8% | 4.4% |
| **INDUSTRIALS** | **6.1%** | | |
| Stantec Inc | | 1.7% | 9.1% |
| Toromont Industries Ltd. | | 2.0% | 12.6% |
| Union Pacific Corporation | | 2.8% | 13.6% |
| **ENERGY** | **5.9%** | | |
| Enbridge Inc. | | 8.0% | 14.8% |
| Suncor Energy Inc. | | 8.3% | 10.0% |
| **UTILITIES** | **3.6%** | | |
| Canadian Utilities Limited Class A | | 5.2% | 9.2% |
| **INFRASTRUCTURE** | **2.0%** | | |
| Brookfield Infrastructure Partners L.P. | | 6.0% | 12.8% |
| **MATERIALS** | **1.1%** | | |
| Nutrien Ltd. | | 5.4% | N/A |
| **REAL ESTATE** | **2.2%** | | |
| **FIXED INCOME & CASH** | **36.0%** | | |

## PORTFOLIO CHANGES[1]

- ▲ Nutrien Ltd.
- ▲ Accenture Plc Class A
- ▲ Suncor Energy Inc.
- ▼ Bank of Nova Scotia
- ▼ Royal Bank of Canada
- ▼ Fairfax Financial Holdings Limited

*1. Sources: Bloomberg for dividend data, NDEX for portfolio data*



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