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

As your portfolio manager, we aim to invest in companies that are likely – based on our research and judgement – to compound in value. We intentionally minimize discussions on the economy, politics, or "the market" for the reason that the future is unknowable and often surprising. Market observers hold widely divergent views that cannot all be right. We bring this up because current opinions from pundits, and signals from markets, can be confusing to investors. Some see storm clouds; others see silver linings. On the one hand, the health pandemic is unresolved, and vast swathes of the economy are suffering, to name a few: travel, restaurants and shopping malls, office buildings, energy producers. On the other hand, a handful of businesses are thriving. In an economy where growth is scarce, the shares of technology companies have seen significant price increases thanks to accelerated profit growth related to the pandemic. Within equity markets, the divergence of the haves and the have nots is much wider than normal. For example, the S&P 500 was up by 5.6% (including dividends) for the first nine months of 2020, but hidden behind the headline is the fact that the majority of stocks (281) were down. This dynamic is reflected in your portfolio so far in 2020. The perceived "high earnings visibility" of tech holdings such as Apple, Microsoft, and Accenture pushed up their stock prices, while the lack of near-term earnings visibility of holdings such as Suncor Energy and Manulife Financial had the opposite effect.

Majority of stocks are down in first nine months of 2020

	U.S.	Canada
Negative YTD	281	125
Positive YTD	222	97
% Negative	56%	56%

Source: Bloomberg, data from Jan 1, 2020 to Sept 30, 2020
U.S. represented by S&P 500 Total Return Index
Canada represented by S&P/TSX Total Return Index

In short, there is no consensus among market watchers. We are living in a historical moment of unusually high uncertainty. Within equity markets, elevated optimism or pessimism has pushed valuations to levels that are higher or lower, respectively, than warranted – this is our opinion based on experience. So we are being careful. The portfolio's technology holdings are a case in point. While Microsoft and Apple are no longer inexpensive, it can be argued that they are not grossly overvalued, either. Consider that they generate a free cash flow yield of approximately 3%, which is low compared to the past decade, but not so low when compared to a U.S. 10-Year Treasury bond's yield of 0.68% (data from Bloomberg as at September 30, 2020). Consider further that the tech companies' free cash flow is likely to grow over the next decade, whereas the bond coupon is contractually not growing. Which would you rather own? Our view: it is not a foregone conclusion that the tech companies are overvalued. That said, we trimmed positions of both Microsoft and Apple for portfolio risk management after the shares ran up sharply.

The question then becomes "where to invest new money?" Our research into candidates for the portfolio is leading us to companies whose valuations are inexpensive compared to their history. As an example, we added U.S. bank Wells Fargo to the portfolio during the quarter. Wells is an ugly duckling that we believe has "emerging swan" potential. A few years ago, the bank created a high-pressure sales environment that led staff to open up accounts without customer consent. This led to investigations, hefty fines, elevated legal fees, and a restriction on growth imposed by the regulator. None of this is good news, but the problems strike us as being fixable and we believe the bank is moving toward closure. A new CEO has installed a management team that is tasked with cleaning up past practices and making peace with the regulator. We anticipate this will result in a tapering off of legal fees, higher profit margins, and renewed regulatory license to grow. The stock trades at 40% below its book value (0.6x vs 5-year average of 1.4x), which tells us that the bad news is already priced in. In our emerging swan scenario, a gradual improvement in the business fundamentals will lead to an upward revaluation of the shares. Our view is different from prevailing consensus, and you can be sure that this decision was made after careful research and a lot of internal debate out of which our own out-of-consensus view emerged. It will take some patience; we like the odds.

Thank you for your continued trust,
Your Portfolio Management Team

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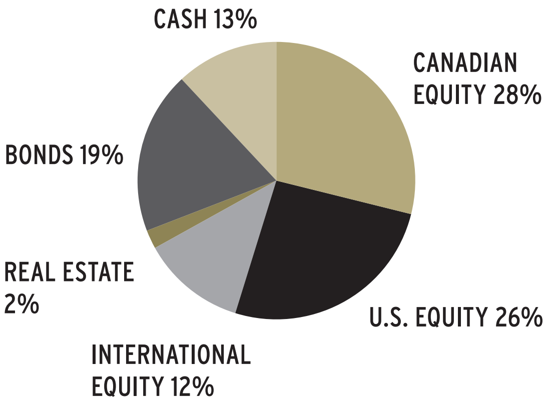
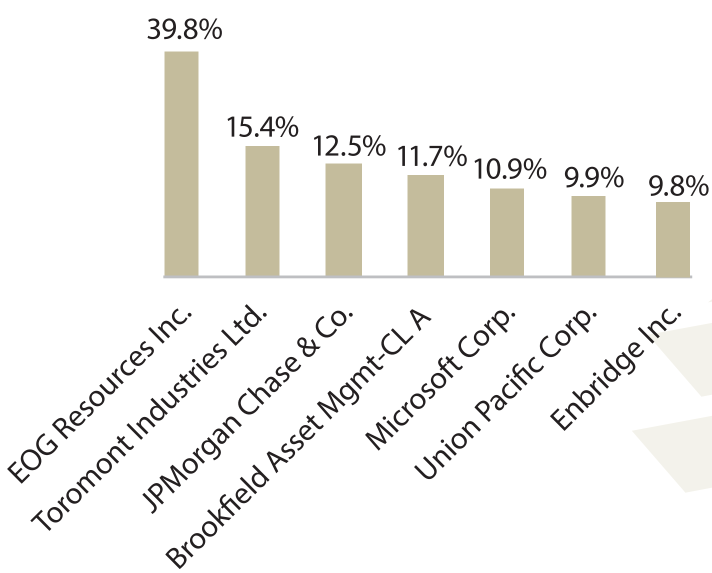
ASSET ALLOCATION[1]



DIVIDEND REPORT - AS AT SEPT 30, 2020[1]

- 3.7% Portfolio Dividend Yield
- 25 of 29 Holdings Raised Their Dividend In Local Currency In The Last 12 Months
- 5.6% 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
HEALTHCARE	**11.6%**		
Gilead Sciences, Inc.		4.2%	25.4%
Johnson & Johnson		2.7%	6.2%
Novartis AG Sponsored ADR		3.7%	3.0%
Novo Nordisk A/S Sponsored ADR Class B		2.0%	12.2%
FINANCIALS	**11.4%**		
Bank Of Nova Scotia		6.5%	6.1%
Manulife Financial Corp.		6.0%	10.9%
Royal Bank Of Canada		4.6%	7.0%
Sun Life Financial Inc.		3.7%	8.3%
JPMorgan Chase & Co		3.7%	17.0%
Brookfield Asset Management		1.4%	10.5%
Wells Fargo & Co.		1.6%	2.5%
INFORMATION TECHNOLOGY	**9.5%**		
Apple Inc.		0.8%	9.9%
Accenture Plc-Cl A		1.5%	9.4%
Cisco Systems Inc.		3.7%	12.2%
Microsoft Corp.		1.0%	10.5%
INDUSTRIALS	**8.0%**		
Stantec Inc.		1.5%	8.4%
Toromont Industries Ltd.		1.6%	12.7%
Union Pacific Corp.		2.0%	12.5%
Otis Worldwide Corp.		1.3%	N/A
CONSUMER STAPLES	**6.7%**		
CVS Health Corp		3.4%	8.6%
Coca-Cola Co/The		3.3%	4.7%
Unilever Plc-Sponsored Adr		2.9%	6.3%
ENERGY	**6.3%**		
Enbridge Inc.		8.3%	12.7%
Suncor Energy Inc.		6.5%	1.4%
Eog Resources Inc.		4.1%	14.6%
INFRASTRUCTURE	**3.7%**		
Brookfield Infrastructure Partners L.P.		4.1%	9.5%
TELECOMMUNICATIONS	**3.2%**		
Verizon Communications Inc.		4.2%	2.3%
UTILITIES	**3.2%**		
Canadian Utilities Ltd-A		5.5%	8.4%
MATERIALS	**1.9%**		
Nutrien Ltd.		4.6%	N/A
REAL ESTATE	**2.1%**		
FIXED INCOME & CASH	**32.4%**		

PORTFOLIO CHANGES[1]

- ▲ Verizon Communications Inc.
- ▲ Wells Fargo & Co.
- ▲ Nutrien Ltd.
- ▼ Fairfax Financial Hldgs Ltd.
- ▼ Microsoft Corp.
- ▼ Apple Inc.

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

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