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

The point of investing is not so much to make accurate predictions about an unknowable future as it is to manage risk.

Stock markets have been rife with speculation, with shares treated like casino chips rather than an ownership stake in a real business.

Having cash and short-term bonds on hand provides protection from downturns and liquidity to buy shares when they reach attractive levels.

With a more than 20% decline in the S&P 500 stock index, and a 29.5% decline in the NASDAQ stock index, this has been the worst first six months of the year for the U.S. stock market since 1962. Canada is relatively tame, with only an 11% decline so far. I am so glad you are not participating in that! But then, this is what we have been anticipating for a number of years already, and we have planned for it.

Proper investing is not just about looking at the growth part of the equation; it is also keeping a keen eye on the risk side of things. We have been acutely aware of rising risks as profits and cash flows were not keeping pace with rising share prices. The disconnect had been growing for many years and it was, in our opinion, only a matter of time before prices came back down. What remains to be seen is how long and how dramatic the "reset" will be.

It is at times like these that it makes sense to review some basic tenets of investing. The Berkshire Hathaway Annual General Meeting (AGM) was again taken in via the internet, and as always, there was an immense amount of investing wisdom from Warren Buffett (age 91) and his business partner Charlie Munger (age 98). They have done a remarkable job of not only growing, but preserving Berkshire's value over the years. As we have done in prior years, here are the top things learned from these masters at this year's AGM.

1. Buffett commented that he cannot predict the economy, interest rates, or stock prices. All they are interested in is having a decent investing result while also having people feel safe about them investing their money. They do not want to lose other people's money.

This is also our goal...to invest your money in such a way that you are less likely to suffer harm, can sleep at night, and achieve a decent result. This ties in with several of the following points.

2. "The stock markets have been a casino the last few years, and stocks were poker chips." - Buffett

Rampant speculation (gambling) has driven stock prices up to unsustainable levels. As the disconnect widens between stock prices and underlying earnings, the risk level goes up. In effect, this stacks the chips against the investor. At times like that, it is best to walk away from the table. That is what we have done and it has helped tremendously in preserving your portfolio.

3. Buffett will hold short-term cash and equivalents and U.S. Treasury Bills until such time as he finds something he prefers to own. When he finds something of interest (that is, a cheap enough price) he will deploy the cash to buy company shares. Your portfolio mirrors this.

4. Buffett depends on mispriced securities. Mispricing happens when people are either too optimistic or too pessimistic. That happens regularly though not on a set schedule.

5. Buffett admitted that his timing for purchasing stocks is often not good, but his ability to recognize value (and act on it) has been reasonably good over the years. He mentioned that he often hopes that a stock will decline in price after he starts buying so that he can buy more at lower prices.

When the value of a company is greater than the current stock price it is time to purchase. If the value is less than the current price it makes no sense to buy. A couple of key caveats here: you need to know the value before attempting to make a purchase, and you need to have the discipline not to buy just because everyone else is doing so. Buffett has often stated that it takes internal fortitude not to get swept up with the crowd and that is where most investors go wrong.

814-1661 Portage Ave
Winnipeg, MB R3J 3T7
Canada

P (204) 975 5131
TF (866) 975 3888
F (204) 925 5960

info@antaresinvestment.ca
www.antaresinvestment.ca

The current market environment has the characteristics of investment bubbles of the past. What was true 70 years ago when *The Intelligent Investor* was published is true today.

Cryptocurrencies should not be confused with legitimate money or productive assets. They are speculative instruments, not investments.

Inflation is having an impact on corporate profits. The best way to counteract that is to own shares of companies that can raise their prices.

6. Reading chapter 8 of the seminal book *The Intelligent Investor* was the lightbulb moment for Buffett. This chapter, titled 'The Investor and Market Fluctuations' talks about the futility of trying to predict stock prices (speculating), and how true investing instead focuses on acquiring ownership stakes in businesses at attractive prices. That ought to sound very familiar to you as it is the basis under which your portfolio is managed.

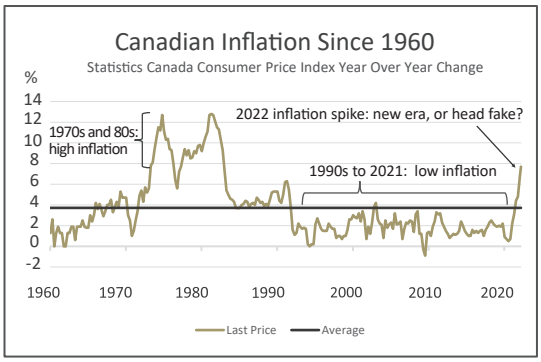
The chapter also talks about the characteristics of prior stock market bubbles: historically high price levels, high Price/Earnings ratios, low dividend yields vs bond yields, much speculation using margin, and many IPOs (Initial Public Offerings) of questionable quality. It seems that human nature has not changed much in the 70 years since the book was first published. Those are mostly the same attributes we have witnessed in the stock market over the last number of years.

7. Bitcoin and other cryptocurrencies need to be converted into something that is acceptable, by the government, to pay debts and obligations in order for it to be considered money. Further, they are not productive assets as they themselves do not provide any cash flows, and there are high costs associated with trading them. As can be guessed, Buffett and Munger are not in favour of buying cryptocurrency of any kind.

8. Inflation will affect all companies by way of higher production costs. All companies are likely to suffer from higher labour costs, but businesses that have high levels of property, plant, and equipment will suffer more as higher inflation will also require more money to be used in maintaining and upgrading those assets.

9. Inflation can be an even bigger "tax" than tax itself. Inflation has a way of whittling down the value of money over time so that even with more dollars earned, overall they buy less and less.

We don't know what level of inflation we will see in the coming years, but companies that can raise prices have the best chance of overcoming the "taxing" effect of inflation. Buying those companies at bargain prices increases the odds even more.



Source: Bloomberg, CACPIYOY Index, quarterly datapoints from Dec 31, 1959 - May 31, 2022

Like Buffett, our goal is to provide a reasonable return without putting your money at risk. Our focus continues to be that of protecting what has already been saved, and continuing to invest for future growth...when prices, and the odds of success, are clearly in your favour.

Thank you for your continued trust,

Gerry Bettig, CFA

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: Bloomberg, NDEX, and Antares calculations. Unless otherwise stated, all data are as at quarter end.

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