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

2021 was an anxious year for many, but demand for products and services remained intact.

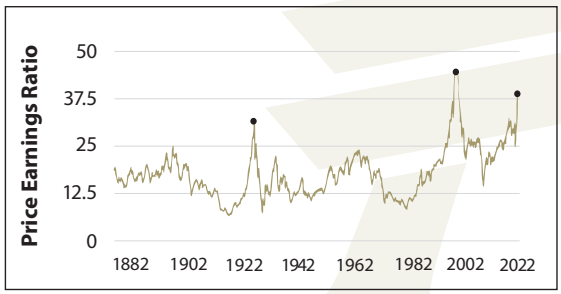
2021 certainly was an emotional roller coaster on many levels. The surging waves of Covid cases and the constantly changing mandates and protocols were enough to make your head spin. Add to that, the growing political divide that caused rifts in long held relationships, political wrangling by Russia, a possible real estate bubble collapse in China, and the irrational nature of the stock markets in general and you have a recipe for increased anxiety on many levels.

And yet, in the middle of all that, the companies you own continued to sell their products and services to people just like you and me. While we have all fretted about the impact that Covid might have, we have all continued to purchase groceries, use electricity, use our cell phones, buy medicine, and purchase insurance for a house, a car, or both, despite the challenges of the prior year. As owners of businesses that provide these things, you have benefitted.

Warren Buffett of Berkshire Hathaway is buying back shares of his own company rather than overpay for acquisitions.

Of course, deciding what sort of business you want to own of is one thing, deciding on the price to pay is quite another. Overpaying, even for a well-run business, often results in more tears than cheers. And that is where the discipline to purchase prudently comes into play. When prices are low it makes sense to purchase as much as you can, but when prices are high it is usually wiser to sit and wait.

Figure 1 - Shiller CAPE Ratio - Monthly



Source: Robert Shiller

From the chart you can see that U.S. equity prices in general are at extreme levels. History suggests that from such high levels there is more downside risk than there is upside potential.

Since 2015, net profits have increased by 8.9%per year and cash flows have increased by 4.2% per year (source: Bloomberg). It would stand to reason that share prices would also rise by some measure between these two figures. Instead, share prices have increased by over 15% per year. The disconnect between company value and the share price some are willing to pay has widened to historically high levels. That much is clear from the chart above.

Those who have the best long term track records, such as Buffett himself, have been curiously reserved with buying despite Berkshire Hathaway (his holding company) sitting on the largest cash hoard he has ever had, $150 billion. His track record of looking for bargains speaks for itself, and his caution suggests that he is not seeing tremendous value at present prices. The odd purchase has been made when the price seems suitable, but not even close to the level he normally would purchase at. The one exception to his general hesitation to make purchases is that Buffett has been buying shares of Berkshire itself, a clear sign he sees better value with his (and your) firm than almost anything else.

Prem Watsa of Fairfax Financial is also buying back shares of his own company – at below book value in his case.

In Canada, it is much the same with Prem Watsa, CEO of Fairfax Financial. Fairfax sold a stake in an insurance subsidiary for 1.7 times book value and used that money to repurchase its own stock at a 10% discount to book value. This is a classic case of simultaneously buying low and selling high. Further, Watsa has announced that, as long as shares are cheap for Fairfax, and with relatively little worth investing in elsewhere, they would continue to repurchase up to 8.7% of their own shares.

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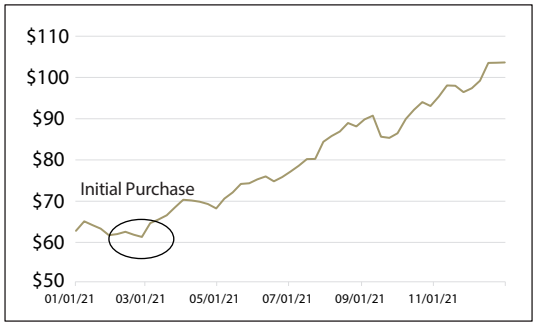
We have followed the same successful investing approach as these two legendary investors to be opportunistic in adding three companies to your portfolio in 2021.

We bought shares of Loblaw in 2021, where profit growth was solid and the shares appeared inexpensive

Loblaw Companies sells groceries which we anticipate will **not** drop off in demand anytime soon. For those of you who remember when you owned Loblaw in the past, the present ownership stake was purchased for only a slightly higher price than the level we sold at over seven years ago. Since then, Loblaw has increased profits by over 8% per year, and cash flows have increased by over 10% per year (source: Bloomberg). With expected rising inflation, we anticipate that sales, profits, and cash flows will continue to grow over the coming years.

Figure 2 - Loblaw Share Price in 2021

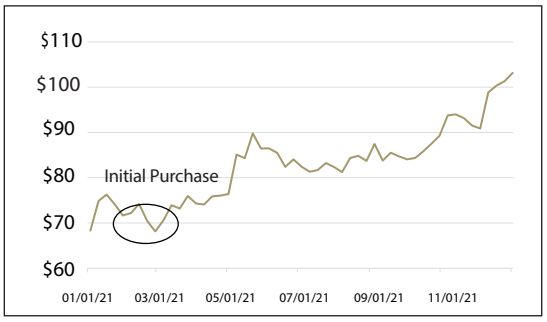


Source: FactSet

New holding in 2021, CVS Health, has reduced its debt burden, making it an attractive purchase in our opinion.

An ownership stake in CVS Health was also purchased earlier in 2021 after several years of contemplating the high debt levels of the firm. In 2017 they acquired Aetna, a health care company, but took on a large amount of debt to do so. Of course, a concern with highly indebted companies is that they have less flexibility when times get tough. Since then, they have paid back about half of what they borrowed for the acquisition, putting the company on a much safer footing. As health care needs (and costs) are likely to continue to increase in the coming years, we believe it is safe to say that CVS has some tailwinds to its business. For owners, this bodes well for the future.

Figure 3 - CVS Share Price in 2021



Source: FactSet

In our analysis, Barrick Gold is cash rich, highly profitable, and inexpensive, which led to our purchase late in the year.

Barrick Gold was added to your holdings of businesses late last year. Again, it was after a few years of watching the company and waiting for an attractive offer from someone willing to sell. With enough cash to pay off its entire debt right now, but no debt actually needing to be paid for another nine years, the company has a solid financial base from which to operate. They are one of the largest gold mining companies in the world and given their disciplined approach to managing costs they are currently extremely profitable. Our view is that there is plenty of protection as gold prices could almost be cut in half before the company starts to lose money.

So, while equity prices are generally high, we continue to search out opportunities to add to your ownership of well-run businesses but only if they can be purchased at attractive prices. And when the opportunity presents itself, we are ready to buy. Each of your portfolios currently has money invested in short term bonds that provide the "dry powder" to buy when it makes sense. While we cannot know what will happen to stock prices in general, in our experience good things come to those who wait.

Best wishes for a happy and prosperous new year.

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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