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.

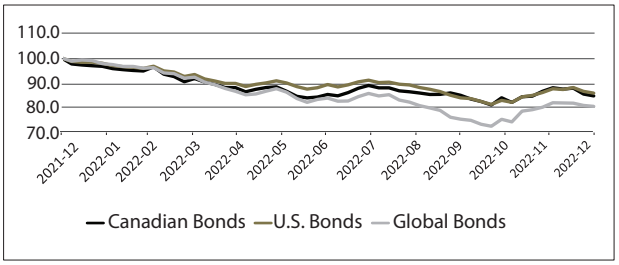
MANAGER COMMENTARY

Looking back

The decline in equity markets in 2022 came as no surprise to us. Prices were historically high going into the new year.

The start of 2022 was marked by extremely high stock market prices, particularly in the U.S. So much so that on most metrics the U.S. market was the second most expensive in the last 140 years[1]. That alone was a sign that markets were unlikely to continue to rise. It was simply unsustainable and the expectations were building that a serious decline was only a matter of time.

Figure 2 - Canadian, U.S. & Global Bonds

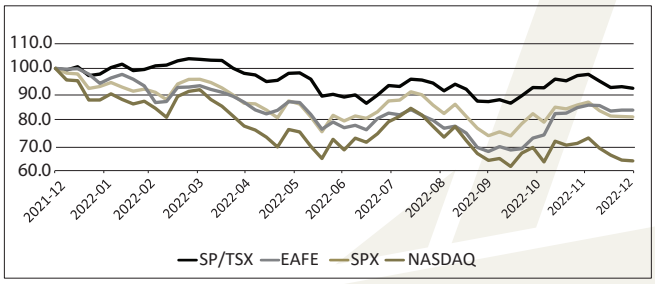


Source: Bloomberg

Bond markets were also down significantly, an unusual occurrence when equities are down.

And that is what happened. Even accounting for dividends, the main U.S. stock market index (the S&P 500) declined 18.1%, while the EAFE (Europe, Australasia, Far East) index declined 13.9%. The NASDAQ (technology heavy U.S. index) was down 32.5%. In Canada, the main stock market index (the S&P/TSX Composite) "only" declined 5.8%[2]. Despite these declines, markets in general are still at elevated levels and we expect further declines.

Figure 1 - SPTSX, EAFE, S&P500 and NASDAQ



Source: Bloomberg

Your portfolio looks very different than the markets.

For the first time in many decades, 2022 also saw bond prices fall at the same time as stock prices, with a 13.1% decline in Canada, a 12.1% decline in the U.S., and a 16.3% decline Internationally[3].

Much of the decline in stock and bond prices can be attributed to rising interest rates and prior unsustainable "loose money" policies by central banks. Those two factors, that had pushed prices to record levels in the past, are now acting in concert to force prices back down.

This would be a good time to remind you that your portfolio looks nothing like any index and is unlikely to perform as one. We had already seen the excesses building and had taken steps to protect your portfolio from serious decline.

1. There is plenty of money on the sidelines. Due to the high prices mentioned above we were reluctant to spend your money on high priced businesses.

2. Companies in your portfolio are already trading at low valuations. That is why they are in the portfolio.

3. Many of the companies you own have more cash in the bank than debt. The saying that "Cash is King" is very applicable in this environment.

1. Shiller CAPE Ratio
2. Bloomberg
3. Bloomberg

Unit 1-220 Newmarket Blvd
Winnipeg, MB R3T 6G7
Canada

P (204) 975 5131
TF (866) 975 3888
F (204) 284 2584

info@antaresinvestment.ca
www.antaresinvestment.ca

Looking ahead

Consumers are likely to feel continued pressure from cost and debt inflation in 2023.

Many of the issues that plagued investors and markets worldwide in 2022 are still playing out as we head into 2023. The war in Ukraine, high energy prices, high food prices, and extremely high debt levels will continue to affect most people in a negative way . And, we believe the steep rise in interest rates in Canada and the U.S. has only begun to work its way through the system. The impact of these higher rates may not be fully felt until later this year.

Behind the negative news headlines lurk potential investment opportunities for those with a long-term mindset.

People that piled on debt at low rates have a day of reckoning coming. Payments for car loans, consumer loans, and loans for toys (motorcycles, snowmobiles, quads, RV's, trailers, etc.) will all be higher in the future. That the ratio for Canadian debt to discretionary income is the highest on record also suggests pain ahead for many Canadians. On top of that, mortgages being renewed now are being reset at the highest rates we have seen in 20 years. On a $550,000 mortgage, payments are now an additional $700 per month according to TD Bank.[4]

You might be inclined to think that all of this is bad news and hiding away would be the best course of action. Far from it!!

We believe the current environment will allow us to deploy some of your capital that we have parked in short-term bonds.

I am excited for the coming months and the next few years in a way I have not been for a long time. It is precisely because of the issues mentioned that we are likely to see some tremendous investing opportunities, possibly better than we saw in the 2009-2014 period . That was the last time companies were cheap, in general.

With the plethora of seemingly bad news, we expect that we will see many compelling opportunities to (finally) deploy much of the money we have been sitting with. It is precisely for these opportunities that we have been holding money in short-term bonds as we wait. So be encouraged as we head into a new year. When you hear bad news in the media, know that it may be good news for your portfolio.

Thank you for your continued trust and support,

Gerry Bettig, CFA

4. Financial Post article December 20, 2022

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.

Unit 1-220 Newmarket Blvd
Winnipeg, MB R3T 6G7
Canada

P (204) 975 5131
TF (866) 975 3888
F (204) 284 2584

info@antaresinvestment.ca
www.antaresinvestment.ca