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 Fruits of Our Labour – Patience Pays Off

Waiting is hard, but your patience was rewarded this last quarter.

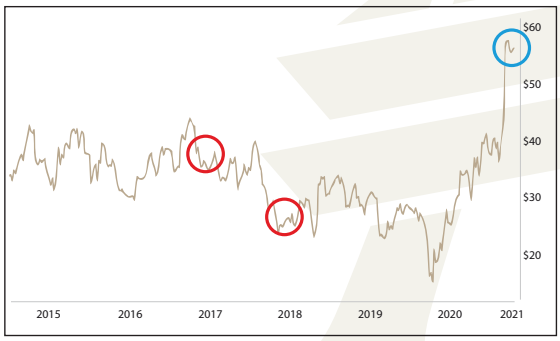
Sometimes, the hardest part about investing is the waiting. Waiting for appropriate opportunities to invest in is equally as hard as waiting for those opportunities to pay off. Your patience was rewarded this past quarter. We were able to find some appropriate opportunities to invest in and also had large price gains from shares we had invested in years ago, resulting in robust portfolio performance.

Because there is no incentive to trade, activity in your portfolio only gets undertaken to accomplish two objectives: to protect your portfolio or to grow your portfolio. This quarter we took actions that accomplished both of those things.

Our view that Cooper Tire shares were undervalued was vindicated. The shares jumped on the news that Goodyear Tire wants to buy the company.

Firstly, Goodyear Tire & Rubber Company has made an offer to buy your ownership stake in Cooper Tire & Rubber Company at a price that is even higher than our calculated intrinsic value of the firm. We are happy to accept the offer on your behalf. At first glance it might seem odd that Goodyear might pay more than what Cooper is worth. Cooper is already the more profitable of the two companies and also has less debt. If Goodyear can cut costs by integrating things like accounting functions, sales teams, and even factories, then it would be worth more to them than Cooper is worth to you and me as standalone owners. A strategic buyer like this can always afford to pay a higher price than others for the same company.

Figure 1 – Our Transactions in Cooper Tire and Rubber Company



Red circles denote purchase points.
Blue circle denotes selling point.

We sold half of your ownership stake and have held on to half in case a higher offer is tabled. We doubt that Goodyear will pay more, but another company may find Cooper to be an equally attractive addition to their own company and might be willing to pay an even higher price for it. The offer from Goodyear is set to close in the fall of this year, so we anticipate not being owners of Cooper much longer.

We purchased shares of CVS Health. The company stands to benefit from an ageing population that will require increased health services.

Secondly, we were able to buy an ownership stake in a U.S.-based Pharmacy and Healthcare company, CVS Health Corporation. The company's retail locations sell prescription drugs and everyday household items, while their walk-in clinics provide medical advice and immunization shots (flu and coronavirus for example). They also operate a health benefits manager which works to connect people with doctors, clinics, and hospitals for treatment under their health plans. No matter what happens with the economy, one thing we can say with certainty is that we are all getting older, and with age comes additional health care needs and this company is well suited to deliver on that. A final key metric is, of course, the price paid. In our analysis, this company is attractively priced given the stability of its business, the growing cash flows, and the committment to paying down debt. We look for those things in every company we look to buy an ownership stake in.

Thirdly, we purchased an ownership stake in Loblaw Companies Limited. This well known grocer is Canada's largest and operates under several banners, including Provigo, Zehr's, Fortinos, Real Canadian Superstore, T&T Markets, and No Frills. It also owns the Shoppers Drug Mart chain of drug stores and provides basic banking through their

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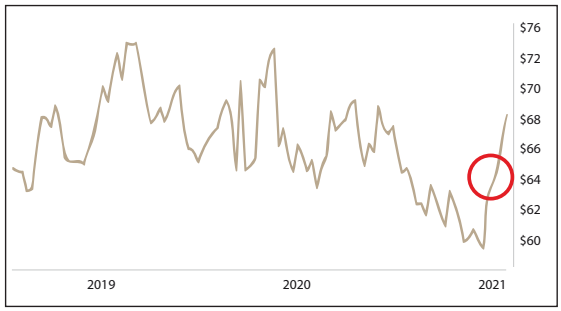
President's Choice Financial division. In the midst of uncertainty surrounding COVID-19 and the impact it will have on the economy, we can be certain that people will still need to eat and buy medicine.

We purchased shares of Loblaw, the owner of multiple grocery chains and Shoppers Drug Mart, all stable businesses.

Figure 2 – Our Purchase of Loblaw Companies



Red circle denotes purchase point.

The cold weather in Texas caused temporary disruption in the electricity market, which allowed us to add to your position in the local utility Vistra Corp.

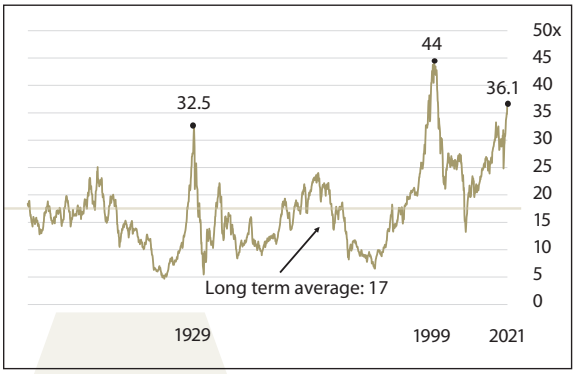
Lastly, we were also able to buy a greater ownership stake in Vistra Corp. which you are already owners of. As you may recall, Vistra operates in Texas. Because of the severity of the February storms in Texas, some investors were eager to sell their ownership stakes. This panic selling drove prices down. Since Vistra sells electricity, and because we believe electricity will be needed for decades to come, we used the lower purchase price to acquire an even larger ownership stake. Future growth is likely to come from two sources, greater usage of electricity per person and a growing population in Texas (more people with each person using more electricity).

We remain focused on protecting your capital in an equity market environment that remains historically expensive.

Safety comes at two levels with the above transactions. Firstly, the companies have stable businesses that provide everyday products and services: medical and health care, food, and electricity. Secondly, given the cash flows each company is generating presently, the purchase price is attractive. In essence we are selling a company (Cooper) that is at least partly dependent on the economic cycle and adding ownership of companies (Loblaw, CVS and Vistra) that are not dependent on economic cycles. We believe this adds to stability while protecting downside risk and providing an opportunity for future gains.

We continue to be cautious of high prices. Businesses in general are now selling for prices that are higher than what they sold for at the height of the bubble in 1929, as reflected in Figure 3 below. We are not fans of buying at a high price (no matter how futuristic sounding the company's products are) and then hoping to find someone else to buy it from us at an even higher price in the future.

Figure 3 – Shiller CAPE Ratio



Cyclically Adjusted Price/Earnings Ratio
January 1, 1881 to April 1, 2021
Source: Robert Shiller

Our approach continues to be one of applying sound math and conservative calculations to business operations and buying only when prices provide an attractive investing proposition. While this approach is not flashy, and can sometimes test resolve and patience, we believe it reduces the potential for a permanent loss of your capital and sets the stage for favourable long-term results. If the first quarter of 2021 is any indication, we anticipate this time will be no different.

Thank you for your continued trust and confidence,

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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