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

2020 – A year to remember and a year to forget

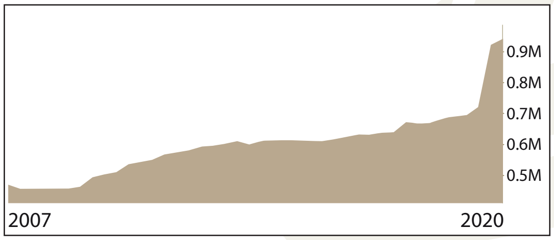
The Canadian government is borrowing at unprecedented levels. Debt could reach $1.5 trillion by 2025.

The year just finished will long be remembered as the year of Covid-19. It is hard to imagine that, less than 12 months ago, most of us had never heard of Wuhan, China, nor this latest strain of the coronavirus. In less than a year our lives were turned upside down and the impact will likely continue to be felt for years to come.

Government reaction to the economic risk was swift and strong…maybe too strong. According to Rosenberg Research, despite the early lockdowns and business shutdowns, personal disposable income actually <u>increased</u> in Canada by $160 billion last year due to money printing and various government supports. Canada has so far been the most generous in the world in its response. We are on track for a deficit of $382 billion for this fiscal year. For context, Canada's deficit was "only" $39.4 billion last year. The Fraser Institute, a research organization, estimates that based on current government spending and revenue shortfalls due to reduced economic activity, Canada could see a total debt of $1.5 trillion by 2025.

Stock prices are high and do not reflect the underlying business fundamentals, which are poor.

Canadian Federal Gov't - Accumulated Deficit



Source: Bloomberg

If interest rates stay low, all that extra debt may not create a burden. However, the risk of higher inflation increases as the money printing continues. And as inflation takes hold, interest rates will likely go up, making paying for that debt that much harder. One rating agency has already downgraded Canada's debt as a result.

A second Covid-19 wave in Canada, with the subsequent lockdowns and restrictions, is likely to have longer-term repercussions. The critical Christmas season was a washout for many small retailers and restaurants that had already been hurting. Across the ocean, a third lockdown in Britain, combined with added uncertainties from the Brexit deal, is also expected to reduce economic activity for a much longer period of time than anticipated.

Yet despite the Covid-related worldwide business shutdowns and reductions in business profits, somehow stock prices remain persistently high. There is an ongoing disconnect between the real world and the market for financial products. We entered 2020 with prices already at historically high levels. With the added uncertainty of Covid it would seem reasonable that prices would be lower to account for the added risk. However, that is not the case.

High prices have historically set the stage for low investment returns. The Japanese stock market is still underwater, 30 years after its peak.

Risk taking by investors is reminiscent of the bubble days of the late 1990s. What many investors miss is that high prices are the surest sign of low (potentially *very low*) returns in the future, whereas low prices are the surest sign of higher future returns. It is worth keeping in mind that the Japanese stock market has still not recovered from its high point in 1990, and several companies that were seen as "can't lose" have still not recovered from their 1999 technology bubble high points.

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Your portfolio holds companies that are economically resilient.

We added to existing holdings and introduced one new portfolio holding during the fourth quarter.

We continue to hold short-term bonds to protect your capital and to provide cash for company purchases as opportunities arise.

On the other hand, your portfolio is filled with companies that are built to withstand the uncertainties and be able to come out the other side of this pandemic in even stronger shape. There are a few commonalities between the companies:

1. They provide products or services that people are likely to continue to buy almost irrespective of what else is happening around the world. Companies that provide electricity, medicine, cell phone services, property insurance, and packaging for food may not be hot news stories, but their business operations are such that they can continue to sell their wares despite the Covid-related lockdowns, and they remain profitable.

2. They have lower levels of debt than most other companies in their industry. These companies have resisted the temptation to load up on debt and are actually going in the opposite direction; they are paying down debt.

3. Many of the companies have high levels of cash. While holding cash (or short-term bonds) is hugely unpopular, it provides a company with a high level of flexibility. Cash can easily be invested in additional productive assets (factories, computers, workers), or used to buy out competitors.

4. They are value priced. Companies that are out of the limelight and unpopular tend to have lower prices relative to their profits than companies that are media darlings. As stated before, high prices have led to lower future returns and low prices have tended to bring better results over time. We believe this time will be no different.

We were able to add to your ownership of existing companies and also add new holdings at very attractive prices. One company that was purchased most recently is an electricity generation company, Vistra Corp. It was added to your portfolio because it matches the criteria we are looking for. It is very likely that electricity will still be needed many decades from now, and Vistra is generating substantial profits that are enabling it to reduce its debt. Value priced companies like this have been hard to find recently.

Your portfolio continues to carry a significant amount of short-term bonds (sometimes referred to as "cash") as a safety valve. Given the risks around excessively high prices, high debt levels, and the added uncertainties around Covid, this is a move we've made out of prudence. This is also something that Warren Buffett has been doing through his company, Berkshire Hathaway, which you own in your portfolio. Berkshire has roughly $155 billion of short-term bonds ready to be used to buy something when prices are more attractive. This is the largest cash level Buffett has ever held.

There seems to be an ongoing disconnect between what is happening in the real world and the markets for stocks and bonds. On the one hand, severe lockdowns in various parts of the world, as well as a third wave and a new strain in Britain, create ongoing uncertainties. On the other hand, markets are acting like everything is even better than it was before the pandemic. While others are willing to accept the risk that comes with high prices, we are not willing to risk your hard-earned money on speculatively-priced endeavours. It is hard to be different than the crowd, but with investing the crowd is usually wrong when it comes to extremes.

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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