

# ANTARES 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.

## PATIENCE IS REWARDED

Buffett recently commented on the casino like mentality of modern day "investors". They are acting more like speculators.

Historically high prices warrant caution in our view.

Your portfolio is deliberately, and specifically, invested differently than the market index.

It is no secret that many of the world's most famous investors (with some of the best overall long term track records) are finding things pricey and are sitting on the sidelines with substantial cash hoards. Warren Buffett, hero of many an investor, is now sitting on over \$160 billion of cash invested in short-term bonds<sup>1</sup>. He recently commented on the casino like mentality of modern day "investors" acting more like speculators, and his actions are confirming his mindset; he has been selling more than he has been buying over the last few years. And his buying is concentrated in firms in which he is already a big shareholder.

We also continue to find it difficult to find bargains in the current environment. You have seen this graph before; (see figure 1 below) it certainly points to a market that is stretched in terms of price. Historically high prices warrant caution in our view. Starting from a high level there is more downside risk than there is upside opportunity; exactly the opposite of what we are looking for.

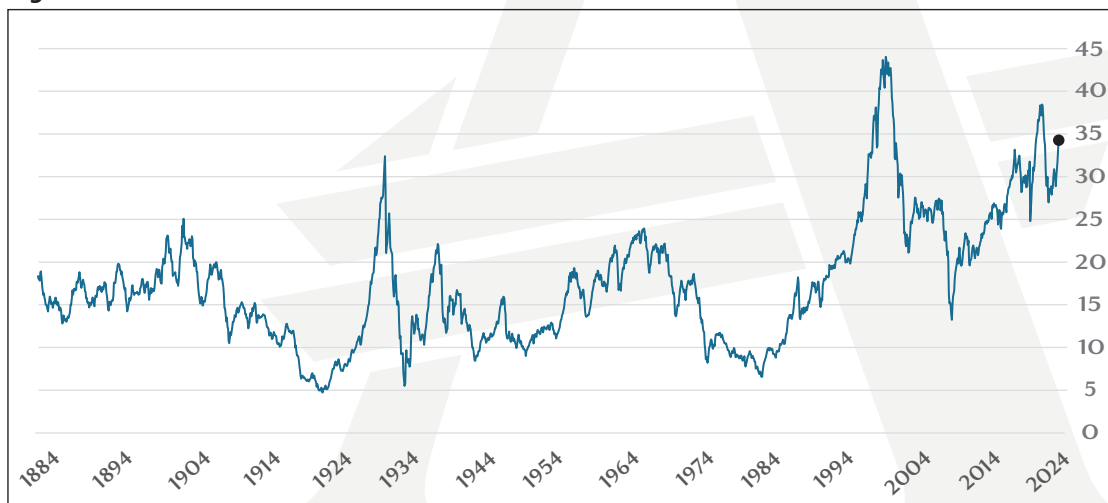
One thing that bears repeating is that your portfolio looks nothing like the market index.

As a result, market risk is not directly transferred to your portfolio. Your portfolio is deliberately, and specifically, invested differently than the market index, partly as a risk mitigation tool and partly because we did not see value in the companies that are part of the market index so opted to invest in companies that are NOT part of the market index.

So what to do in an environment such as this?

Similar to Buffett, we have sold down some of the current holdings and staked a bigger claim in the safety camp. We have reduced your position in Loblaw Companies Limited, Canada's largest grocer. Despite the media's portrayal of the company as some sort of evil villain, investors have been enamoured enough with the company to bid shares up to a level where we view it as likely that further growth in stock price will be muted. The stock price has come very close to our calculation of intrinsic value. While we expect that people will continue to buy groceries at Loblaw for a long time into the future, much of the hope and optimism of the future is already baked into the current price.

Figure 1 - Shiller CAPE ratio



Source: Robert Shiller.

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Similar to Buffett, we have sold down some of the current holdings and staked a bigger claim in the safety camp.

This fits well with our overall strategy of looking to buy companies that can protect on the downside while still providing good growth opportunities.

Decisions made several years ago are now playing out profitably. Others have started to see the value in these companies that we had calculated was there all along.

**Figure 2 - Vistra Price History**



Source: Bloomberg.

While it is more than likely that people will continue to use electricity in the future, we saw the recent run up in price of Vistra Corp. shares (see figure 2 above) as an opportunity to reduce our exposure to a company that has long-term consistent growth, but has seen exceptionally volatile stock prices recently. The volatility seems unwarranted for such a staid company. So while prices were high we wanted to lock in the gains and reduce your downside risk potential. You have done well with this investment.

We have added to your ownership of Barrick Gold Corporation primarily because the economics of the business make sense and the price is relatively attractive. Barrick is one of the world's largest gold mining companies and has a growing copper mining division. With the transition to electric that many countries are pushing for, there is growing demand for copper. On top of that, gold can act as a natural hedge against geopolitical risk. When bad things happen around the world, many people (and governments) look to buy gold. It has withstood the test of time as a store of value and the recent price increase for each ounce mined helps Barrick's bottom line. This fits well with our overall strategy of looking to buy companies that can protect on the downside while still providing good growth opportunities.

Some of you have already asked what changes we had made that resulted in the recent positive performance. The answer is...nothing different than usual.

Other than the recent activities noted above, your portfolio is relatively the same as it was the last few years. However, what has changed is that others have started to see the value in these companies that we had calculated was there all along. Decisions made several years ago are now playing out profitably. The strategy has not changed; we are still looking for good companies we can buy an ownership stake in at value prices.

We will continue to look for opportunities, but with the high prices we are seeing (see first graph), don't expect a sudden increase in the businesses you are holding in your portfolios.

Happy Spring!

**Thank you for your continued support and trust.**

**Gerry Bettig, CFA**

*1. Bloomberg and latest Berkshire Hathaway 13F Filing.*

### 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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