ANTARES VALUE PORTFOLIO

Q3 2023

BCV Asset Management Inc.

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.

VALUE COMMENTARY

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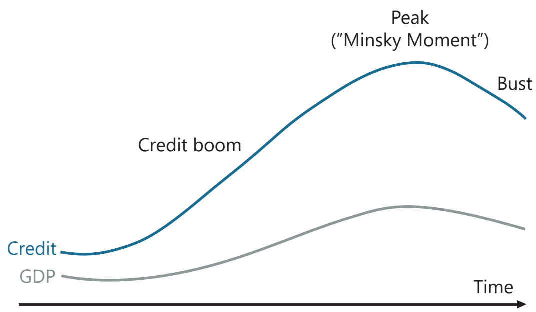
A Minsky Moment (named after economist Hyman Minsky) is defined as the tipping point when a market collapses because of reckless speculative activity that is unsustainable. It is the moment the disconnect between economic growth and market prices start to break down, and markets start to come back in line with underlying economic growth.



Credit: R.J. Slater

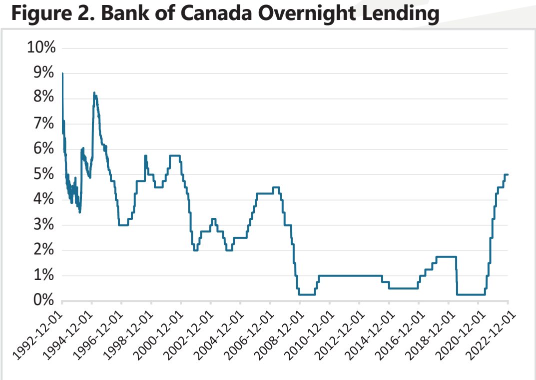
Canadians took on more and more debt as interest rates declined over the past few decades.

I believe we could be at risk of a Minsky Moment and also believe your portfolio is properly protected from that event, if it happens. Let me explain.

We have seen declining interest rates for decades and credit boomed as a result. Canadians took on more and more debt with nary a slowdown despite the financial crisis in 2008. At that time, central banks around the world jointly cooperated to force interest rates down to historically low levels. The result was the lowest interest rates we have ever seen in Canada, which persisted until the sudden upward surge last year.

People borrowed heavily to acquire investments on credit, including stocks, bonds, and real estate.

Figure 2. Bank of Canada Overnight Lending



As Canadians, we are used to adapting to our surroundings, and we collectively adapted to the low interest rates by doing two things: 1) borrowing more than we had ever borrowed, and 2) shifting into riskier investments. Lower interest costs had the effect of pushing up asset prices as people borrowed heavily to acquire investments on credit, including stocks, bonds, and real estate. At the same time, lower interest rates also made bonds relatively unattractive in comparison to the stock market. The stock market therefore benefitted from the combined effect of more money being borrowed and the shift from bonds to stocks. This can be seen in Figure 3 on reverse page. Despite the 2022 stock market declines, stock prices are still at exceptionally high levels compared to underlying earnings when seen through the lens of time.

Now interest rates are going up and it is quite possible that there will be an unravelling of what has transpired since the last financial crisis. It seems to take 18 to 24 months for a change of rates to work their way through an economy. People will not change plans immediately as down payments, deposits, and travel arrangements already put into place are unlikely to get cancelled. However, with the passage of time, plans start to take into account the now-higher rates. With interest rates starting to be increased in March 2022, we are right at the 18 month time frame now.

We are already seeing the impact of higher rates on mortgages. According to Canada Mortgage and Housing Corp., mortgage payments on existing mortgages are up 22% since before the Covid years, and mortgage payments on newly taken mortgages are up 40% since before Covid.

It stands to reason that those higher mortgage payments, combined with elevated food, energy, travel and goods costs will at some point pinch consumers. Wages simply have not kept pace with the higher cost of living. That helps explain why we are seeing a resurgence in labour strike actions.

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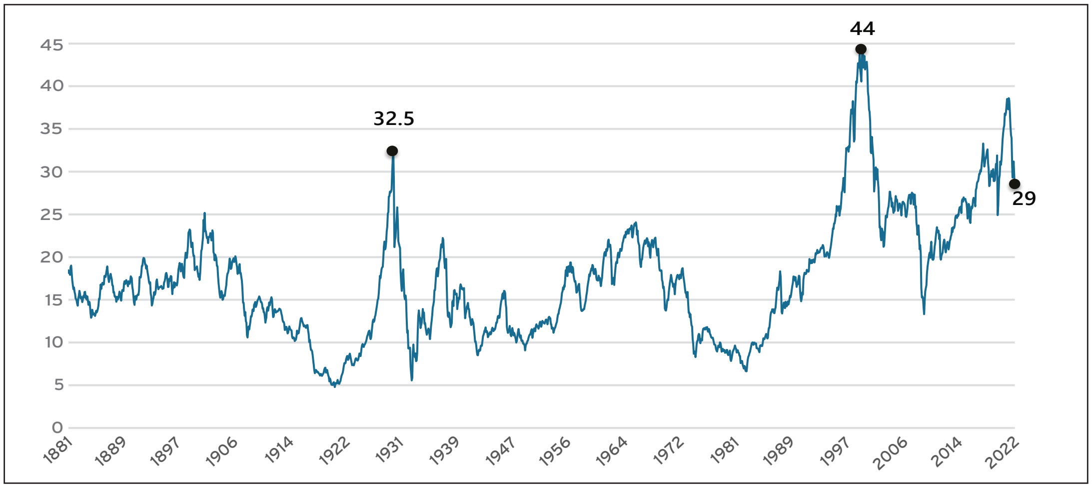
It seems to take 18 to 24 months for a change of rates to work their way through an economy. We are at month 18 now.

Figure 3 - The Cyclically Adjusted Price Earnings (CAPE) Ratio



I believe all these factors make the markets very susceptible to a Minsky Moment.

I believe all these factors make the markets very susceptible to a Minsky Moment. However, your portfolio looks nothing like the market, and as has already been seen over the last number of years, is unlikely to perform like the market. The combination of companies you own and the cash (short term bonds) held in reserve should provide good protection when compared to the rest of the market.

You own companies that provide many essential goods and services. I believe that these companies will not see much of a negative impact to their profitability and may actually benefit from inflation as they pass on higher operating costs (labour, costs of acquiring goods, etc.) in the form of higher selling prices. With stable underlying financial metrics I believe their stock price will not be impacted nearly as much as the rest of the market.

As well, many companies you own hold tremendous amounts of cash (short term bonds). This provides each of them with a cushion and also provides them with "dry powder", funds they can deploy when prices make sense; that is, when we see a downturn in stock prices.

Your portfolio looks nothing like the market and we have already taken steps to protect your portfolio from the potential rough seas ahead.

Battening down the hatches describes measures taken aboard ships to keep water out of any hatches or openings when riding rough seas. While it would be nearly impossible to keep ALL water out, sailors wanted to do as much as possible to keep the majority of any water out. In the same vein, we have already taken steps to protect your portfolio from the potential rough seas ahead.

So while the rest of the investing world is likely to see rough seas for the coming year (and may find themselves underwater as a result), I hope you feel secure knowing steps have already been taken to "batten down the hatches" on your portfolio. I anticipate these actions will allow you to sail high in the water, get safely through the rough seas, and find safety in your port(folio).

Thank you for your continued support and 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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