**POLARIS CAPITAL MANAGEMENT, LLC**
**125 Summer Street, 14th Floor – Boston, MA 02110**
**617-951-1365 or info@polariscapital.com**

**Information presented is supplemental to the annual disclosure presentation.**
**For composite performance and a fully compliant presentation, visit: www.polariscapital.com/performance.asp**

# INTERNATIONAL EQUITY COMPOSITE REPORT

| | 2011 | | | | | Annualized as of December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | YTD | QIV | QIII | QII | QI | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | 15 Yrs | 20 Yrs | Since 6/30/1984 |
| *Polaris Capital International Equity Composite gross* | -15.12% | 1.69% | -20.92% | 0.84% | 4.66% | -15.12% | 16.75% | -4.30% | 10.29% | 8.05% | 9.73% | 11.56% |
| *Polaris Capital International Equity Composite net* | -15.69% | 1.53% | -21.06% | 0.68% | 4.48% | -15.69% | 15.98% | -4.95% | 9.47% | 7.23% | 8.89% | 10.66% |
| ***International Equity Benchmarks*** | | | | | | | | | | | | |
| MSCI EAFE Index, gross dividends reinvested | -11.73% | 3.38% | -18.95% | 1.83% | 3.45% | -11.73% | 8.16% | -4.26% | 5.12% | 3.79% | 4.94% | 9.24% |

*Q4 2011 composite returns are preliminary pending the third-party audit. Past performance is not indicative of future results.*

We entered 2011 prepared for a mixed and volatile economic environment and with these expectations in mind, we positioned the portfolio to be more defensive. During the quarter, we were rewarded by positive gains in energy, materials, consumer discretionary, healthcare and information technology sectors. The international portfolios had positive fourth quarter results but lagged the MSCI EAFE Index.

Volatility affected full-year results, as first, second and fourth quarter gains were offset by the underperforming third quarter. Results for the year were mainly impacted by weakness in financial, industrial and information technology sectors.

Fourth Quarter in Summary:

- The portfolio held some short-term strong performers and companies that were among the best values, but at the same time appeared to be underachievers. By holding onto substantially undervalued and fundamentally-sound companies during negative periods, we were the beneficiaries of an early and fast rebound.
- Merger and acquisition activity was a strong catalyst for our companies during the year, with Demag Cranes, Tognum AG and Metorex as examples. Our investment philosophy is proficient at identifying takeover targets (undervalued companies with strong free cash flow and low debt levels). We have also seen some sector M&A activity (i.e. takeover of a competitor in the industry) in the fourth quarter and this helped to boost CRH's valuation as two of its biggest competitors merged.
- Company-specific deterioration led to some sell decisions. However, most stocks retained their business strengths, but were punished by third quarter deterioration in macro-economic conditions and country- or sector-specific events. While we remain focused on the fundamentals and resist the emotional content of volatile markets, we are mindful of broader trends that might have a detrimental effect on future cash flows of some companies.

## PERFORMANCE ANALYSIS

A confluence of events boosted fourth quarter returns of Irish building materials group, CRH. First, the company reported strong third quarter sales; second, strong index fund buying increased the stock price when the company was included in the London FTSE Index; and third, the stock gained on news of Martin Marietta's hostile takeover bid for the larger gravel, sand and stone supplier Vulcan Materials. The bid of $4.74 billion in stock was an unexpectedly high valuation on cash flow, making CRH's valuation look attractive.

Reversing a trend from last quarter, German perfume oils and food flavorings producer Symrise AG had positive double-digit returns as consumer spending rose, and raw material inflation stabilized, albeit at a high level. Symrise's decision to raise prices early in the year was well timed.

British homebuilders continued a modest upward trend after reporting better than expected third quarter results. In particular, Barratt stock rose on news of a 25% increase in confirmed order books for 2012. This followed on the sub-industry's strong performance in the first half of 2011, as Taylor Wimpey, Bellway, Barratt and Persimmon capitalized on U.K. new home price stability due to increased production of single-family residences coupled with low interest rates. These stocks remain undervalued, at 60-70% below their 2007 peaks. As cash flow generation picks up and earnings improve, investors will regain confidence in this sector and we expect to see a recovery in stock prices.

Although the portfolio transitioned to an underweight position in European financials over the past few years, KBC Groep, State Bank of India and Lloyds TSB had a negative impact on performance. The silver lining in the European bank crisis was Scandinavian banks, which experienced strong liquidity inflows from U.S. money market funds as a result of their strong financial standing.

In industrials, shipping companies were negatively impacted by news of subdued economic growth and the possibility of recession in some countries. Shipping and trading volumes usually grow at a factor above GDP growth; when GDP growth dropped (or looked to turn negative) due to the European debt crisis, expectations were lowered for shipping rates. Additionally, China announced new ship builds, adding a glut of supply to an already weak sector. As a result, we sold Japanese shipping company Nippon Yusen during the quarter.

Italy’s foundation and drilling services company Trevi Finanziaria produced good results but its stock price suffered as reports circulated that a competitor might win the Mosul Dam project in Iraq. Trevi was quick to point out that the contract had yet to be officially awarded, but the stock reacted nonetheless. Exacerbating the situation, two of Trevi's competitors announced profit warnings for the fourth quarter. Investors have not taken into consideration Trevi’s differentiating business model that includes an oil service division operating at full capacity and delivering as many rigs and services as it can manufacture. Additionally, Trevi had been awarded more than $28 million in new Middle East contracts and another $38.5 million in works in Africa, Asia-Pacific, Argentina, Puerto Rico and Iraq during the fourth quarter.

## CURRENT ASSET ALLOCATION

We sold Kansai Electric Power (KEPCO), Japan's second largest electric utility, after completing a study balancing greater use of fossil fuel against cheaper nuclear fuel. KEPCO had the highest ratio amongst its peers of electric power sourced from inexpensive nuclear energy. The political and public outcry since the tsunami changed the operating environment, with the Japanese government preventing the restart of nuclear plants after shutdown for scheduled maintenance, pending further safety studies. KEPCO’s profitability will be disproportionately impacted if it must shift from a high proportion of low-cost nuclear power to more expensive fossil fuels.

We sold SK Telecom, Korea’s largest wireless phone operator, after their decision to buy a 21% stake in Hynix Semiconductor. We believed the acquisition was a poor use of cash flow, as questions remained about Hynix's commodity semiconductor products, worsening conditions in its prime dynamic random-access memory applications and potential stumbling blocks in the post-acquisition integration.

While we did not add new positions this quarter, we increased our positions in some promising holdings, most notably Infosys, an Indian global technology services company. As big business ramps up capital expenditures in 2012, modernization of IT infrastructure is expected to be a big ticket spend. Infosys is a prime player in this market, and may capitalize on this trend. The weak Indian Rupee should boost its cost position.

Our research pipeline has identified a significant number of international companies trading at attractive valuations. We are very optimistic about the companies currently appearing in our screens, and continue to conduct extensive on-the-ground research of stock candidates. We expect to add new positions in 2012, attempting to carefully time our entry into markets to capture upside potential.

The following table reflects the December 31, 2011 sector and country allocation for the portfolio.

| Representative International Portfolio | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *MSCI EAFE Weight* | Portfolio Weight | Energy | Utilities | Materials | Industrials | Consumer Discretionary | Consumer Staples | Health Care | Financials | Information Technology | Telecom. Services | Cash |
| N. America | *0.00%* | *2.86%* | *0.00%* | *0.00%* | *2.85%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| Japan | *21.59%* | *15.19%* | *0.00%* | *0.00%* | *2.77%* | *1.52%* | *0.00%* | *8.45%* | *0.00%* | *0.00%* | *0.00%* | *2.44%* | *0.00%* |
| Other Asia | *13.18%* | *11.10%* | *1.71%* | *1.03%* | *1.96%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *1.33%* | *5.07%* | *0.00%* | *0.00%* |
| Europe & Middle East | *59.32%* | *42.65%* | *1.69%* | *0.00%* | *11.94%* | *1.54%* | *11.91%* | *1.66%* | *5.14%* | *5.27%* | *1.46%* | *2.02%* | *0.00%* |
| Scandinavia | *5.90%* | *15.46%* | *0.00%* | *0.00%* | *0.00%* | *7.24%* | *2.23%* | *0.00%* | *0.00%* | *5.99%* | *0.00%* | *0.00%* | *0.00%* |
| Africa & South America | *0.00%* | *4.58%* | *2.77%* | *0.00%* | *1.81%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| Cash | *0.00%* | *8.17%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *8.17%* |
| Portfolio Totals | | 100.00% | 6.17% | 1.03% | 21.35% | 10.30% | 14.14% | 10.12% | 5.14% | 12.58% | 6.54% | 4.47% | 8.17% |

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

Although we tire of reiterating the same message, we remain convinced of our "mixed" global economic outlook. This is not an economy where all sectors and all countries are growing simultaneously. We see no reason to change our outlook in the face of concerns about sovereign debt and financing problems experienced worldwide. These problems took years to accumulate, and we believe that they will not be resolved over a short period of time.

However, there is an underlying base of solid demand and economic growth in emerging countries and the U.S. Nearly 40% of the world's equity capital comes from the U.S., with strong GDP growth from BRIC countries. We expect that strength in the U.S. will provide the impetus to recovery in developed foreign markets.

In meetings with hundreds of companies during the past year, we witnessed pessimistic attitudes evolved into slightly positive projections, based on resumption of modest demand and growth in emerging countries and the U.S. When people receive their paychecks, most of that money will be spent on mortgage/rent, food, utilities and discretionary items such as cell phone bills and clothing. That base of demand won't go away, and in fact, we believe that retail demand is marginally growing in the U.S., with stronger growth in emerging countries.

Demand is also evident on the commercial side, with big businesses renewing capital expenditures on product raw materials, research/development and sales/marketing. In fact, capital expenditure spending may go higher, as corporations are reinvesting their cash flows to further develop their businesses.

However, negative news at the macro level will continue to permeate many markets, particularly in the first half of 2012, producing mispriced stocks and buying opportunities. We have recently increased our cash position in order to buy into this longer-term economic story at lower valuations.

Our investment outlook is that equity and bond markets will not see smooth sailing in the short term. Rather than be surprised and react emotionally to bad news, we encourage investors to capitalize on market declines, using these periods to dollar cost average and rebalance existing portfolios or add new funds.

## *FOOTNOTES*

*The information presented is supplemental. It should not be considered as a recommendation to purchase or sell a particular security mentioned, may change at any time and may not represent current or future investments. References to individual securities throughout this document are intended to illustrate contributors to recent performance or market trends and to provide examples of thematic or security-specific catalysts identified by the investment team as part of its investment process. References to specific securities should not be viewed as representative of an entire portfolio, nor should the performance of any particular security be viewed as representative of the performance experienced by any other security or portfolio. Please refer to the annual disclosure presentation. Past performance is not indicative of future results. The MSCI EAFE Index, gross dividends reinvested measures the performance of a diverse range of non-U.S. stock markets in Europe, Australia, New Zealand and the Far East. The MSCI EAFE Index measures the performance of stock markets in these geographic areas including reinvestment of gross dividends.*