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For current global equity performance, **please click here**

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FIRST QUARTER 2009 - INTERNATIONAL PORTFOLIOS

Faced with a global recession, investors have experienced unpalatable returns throughout the market, regardless of industry or country. As significant shareholders in our funds, we were disappointed by recent results. However, many of Polaris' tenets may offer reason for optimism:

- Value Trumps Growth: Over the course of many economic and market cycles, value investing has generated the highest return with the lowest risk among large/small and international companies. 2008 Societe Generale research found that the cheapest 20% of all stocks - regardless of industry or geographical location - delivered an average return of 18% a year over the period from 1985 to 2007. The most expensive stocks over the same period generated an average return of less than 3% a year. (Chen[1]) Research dating back to 1998 (Fama/French[2]) and replicated in 2004 (Chan[3]) all comes to the same conclusion: value trumps growth.
- For value investors, the best stock valuations often arise in markets displaying distress, as high volatility translates into opportunity.
- We continue to be focused on identifying high quality companies with the most undervalued streams of sustainable cash flow, which may be able to weather the current macro-economic conditions and gain a competitive advantage upon a market recovery. In late 2008-early 2009, the investment team pinpointed bargains around the world including Europe, where we have added to our positions of Italy-based Trevi Group, one of the leaders in the foundation engineering field and in the design and construction of advanced systems in geotechnical and hydrocarbons' drilling sectors.

We are taking proactive steps to bolster portfolios and we appreciate the support of our clients, who have allowed us to continue our commitment to the sound investment strategy and philosophy – an approach that has proven generally successful over the past 19 years. Moreover, the valuations of individual stocks in the portfolio are as compelling as they have been since the early 1980s after extremely difficult months in the late 1970s.

Footnotes: (1) Chen, Gabriel, "Going For Value Stocks Pays Off In Long Run," Straits Times, February 15, 2009; (2)Fama, Eugene and French, Kenneth, "Value Versus Growth: The International Evidence," The Journal of Finance, December 1998; (3) Chan, Louis and Lakonishok, Josef, "Value and Growth Investing: Review and Update," Financial Analysts Journal, January 2004.

FIRST QUARTER 2009 PERFORMANCE ANALYSIS:

Contributing to the relatively strong returns were consumer discretionary (namely U.K. homebuilders) stocks and Scandinavian and Austrian industrial holdings. U.K. homebuilders rebounded strongly, showing double-digit returns for the quarter in a down market. Based on cash generating business models, these homebuilders continued to be proactive in their stabilizing efforts, by renegotiating their debts and seeking cash generating opportunities. First calendar quarter sales volumes and home prices were better than expected.

Backed by flexible business models with a base level of service business, Scandinavian and Austrian industrial holdings also benefited during the quarter. Historically, such industrial sector businesses have provided strong margins and sustainable cash flow even in the worst of economic conditions.

The portfolios' energy holdings have also been outperforming, due mainly to investments in engineering and project management companies catering to the oil and gas industry. Finite oil production continues to spur development projects for new oil fields; the portfolio's investments benefit from this trend. We have increased our commitment to current energy holdings during the quarter, as we believe these portfolio stocks are undervalued

Discussions about bank nationalization and constricted credit contributed to declines in all bank stocks, regardless of fundamentals. Early in the quarter, we aggressively cut back on European financials due to dilution that may be Fir accompanied by additional capital injections by governments. In fact, we decreased the financials weighting to nearly 10% of the portfolio, below the MSCI EAFE weighting of 21%.

The portfolios' industrial holdings saw a substantial divergence in stock performance this quarter; some companies found a market bottom and began to see steady cash flows. Buybacks ensued. Yet other industrial holdings, uncertain about future product demand and mispriced due to pessimistic market perception, continued to suffer. While many of industrial holdings had weak performance, meetings with some suggested that fundamentals still remained strong. In fact, a number of these weaker performers more recently reported strong results.

Stocks in the materials sector remained soft worldwide, trading in-line with macro-economic conditions. To counterbalance general sector weakness, the portfolios held materials companies that are low cost producers. These select companies continued to generate cash, while competitors are losing money and/or closing operations – laying the foundation for a possible rebound when the economy recovers. A few examples included methanol producer Methanex that is continuing to produce profitably while other competitors have been shuttered, and building materials company CRH, which continues to hold a very strong balance sheet and has begun raising more capital to acquire distressed assets in the second half of the year. While CRH's fund raising was responsible for a near-term decline in performance, such actions will likely bolster the company's market position during and following the recession.

Japanese domestic-oriented holdings, top performers in prior quarters, were trimmed down in the fourth quarter of 2008 and into the first quarter of 2009. Having concerns about a pending economic slowdown in the country, we sold off some of the companies and took profits. This action proved prescient as the Japanese economy subsequently slowed – affecting even defensive holdings in the utilities and telecommunications sectors.

FIRST QUARTER 2009 ASSET ALLOCATION:

We have aggressively raised cash in three ways: i) selling companies whose cash flow and financial strength would take an extended time to recover, ii) selling Japanese and other companies that performed well in 2008 and were vulnerable to correction, and iii) selling banks that may suffer from deterioration in the general economy. These actions raised a comfortable buffer of cash. By executing sells, we were able to improve the valuation of the portfolio and reduce exposure in some sectors that may experience further weakness. Preservation of capital remains a top priority in the current strategy.

The following table shows the asset allocation at March 31, 2009.

Representative International Portfolio Asset Allocation

	EAFE Weighting	Portfolio Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Other	Cash
N. America	*0.00%*	2.35%	0.00%	0.00%	2.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Japan	*24.33%*	16.61%	0.00%	3.96%	2.93%	3.32%	0.89%	3.76%	0.00%	0.00%	0.00%	1.77%	0.00%	0.00%
Other Asia	*10.43%*	12.33%	2.02%	0.00%	3.17%	0.00%	0.00%	0.00%	0.00%	0.00%	4.13%	3.00%	0.00%	0.00%
Europe	*60.13%*	47.82%	2.78%	0.00%	12.16%	8.44%	15.03%	1.87%	0.00%	7.52%	0.00%	0.00%	0.00%	0.00%
Scandinavia	*5.10%*	16.15%	0.00%	0.00%	0.00%	9.54%	3.13%	0.00%	0.00%	3.48%	0.00%	0.00%	0.00%	0.00%
Africa & S. America	*0.00%*	3.26%	2.91%	0.00%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	*0.00%*	1.48%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.48%
Industry Totals		100.00%	7.72%	3.96%	20.96%	21.31%	19.04%	5.63%	0.00%	11.00%	4.13%	4.77%	0.00%	1.48%
Market Weighting	*100.00%*		*9.25%*	*7.01%*	*8.62%*	*9.55%*	*10.11%*	*10.47%*	*11.33%*	*21.51%*	*5.37%*	*6.77%*	*0.00%*	*0.00%*

INVESTMENT ENVIRONMENT AND STRATEGY:

The investment team remains vigilant in their research effort, as ever-changing market dynamics point to continued volatility. There are early indications that the economy is flattening out in certain sectors, yet the overall economy is not going to recover until unemployment figures begin to level off or improve.

We are being conservative in the portfolio strategy, carefully scrutinizing new buying opportunities and deploying cash during periods of extreme market weakness, when quality companies can be bought at low valuations.

We remain confident that the firm's investment philosophy, discipline and current strategy results in investments that should be fundamentally sound in the current economic crisis. Growing evidence indicates that portfolio companies with healthy cash flows and manageable debt levels may gain strength as the credit crisis persists and competitors struggle or fail. When the markets normalize, the portfolio should be well situated with admirably performing companies.

As always, we welcome your questions and comments.