



# POLARIS

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For current global equity performance commentary, [please click here](#)

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## INTERNATIONAL EQUITY COMPOSITE REPORT

	2011		Annualized as of March 31, 2011							Since 6/30/1984
	YTD	Q1	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs		
<i>Polaris Capital International Equity Composite gross</i>	4.66%	4.66%	20.85%	-0.32%	3.23%	12.83%	10.64%	11.11%	12.79%	
<i>Polaris Capital International Equity Composite net</i>	4.48%	4.48%	20.04%	-1.01%	2.54%	11.97%	9.78%	10.27%	11.87%	
MSCI EAFE Index, gross dividends reinvested	3.45%	3.45%	10.90%	-2.53%	1.78%	5.83%	5.12%	6.02%	10.17%	

Q1 2011 composite returns are preliminary pending the third-party audit. Past performance is not indicative of future results.

The Polaris International Equity Composite exceeded the MSCI EAFE Index benchmark for the quarter ended March 31, 2011. Volatility generated bouts of market strength and weakness in the first quarter, and in response, we sold four portfolio companies that reached target valuation levels. As negative news in the Middle East and Japan depressed worldwide markets, we were able to purchase fundamentally-strong companies at good valuations with available cash. We added one new holding and boosted weightings in several others, all of which contributed to positive performance that surpassed the composite's benchmark by quarter end.

### PERFORMANCE ANALYSIS

The materials sector was a top contributor to performance highlighted by corrugated box manufacturer Smurfit Kappa that was up, backed by European and Latin American demand. Metorex Ltd., a South African producer of metals and coal, improved its copper and cobalt production during the first quarter; the company is well positioned to capitalize on the supply-demand issues (stemming from emerging countries) that resulted in higher copper prices. At the end of March, Metorex stock rose to the highest price in more than two years after management stated that the company was in talks that could influence its share price. CRH continued its recovery, announcing positive earnings and growth projections for building materials in Eastern Europe.

Within industrials, German engine maker Tognum AG was a top contributor due to a potential takeover subject to a joint bid from Rolls-Royce Group Plc and Daimler AG. Polaris, as well as other shareholders, believe that the proposed bid materially undervalues Tognum. YIT OYJ, a Finnish company, benefitted from growth in the Russian and Finnish housing markets, maintenance services and lower interest expense. The international portfolios' Japanese industrials showed divergent returns: Nippon Yusen Kabushiki dropped after the earthquake/tsunami on concerns of slowing Japanese car production. Only 3 of the company's 200 ships were damaged, and they were fully insured. We expect to see a recovery of Nippon Yusen in the short term, as it also transports liquefied natural gas. In contrast, Iino Kaiun produced positive double digit returns for the quarter, as its business model includes shipments of gas and chemicals from the Middle East to Japan. Such products will be in greater demand as Japan supplements nuclear energy generation with natural gas.

One of the best performing sub-industries in the quarter was British homebuilders, which bolstered consumer discretionary returns. Taylor Wimpey has a number of bidders for its U.S. division, potentially securing a premium price that will help alleviate the company's outstanding debt. Three of the four British homebuilder holdings in the international portfolios posted double-digit returns, capitalizing on stability in the British housing market and the move from production of apartment-style complexes to townhouses and single-family developments.

The international portfolios' holdings in the financial sector were strong with Investor AB, DNB NOR ASA, Svenska Handelsbanken and KBC Groep NV contributing healthy returns. A holding company for a collection of Swedish companies, Investor AB was trading at a large discount to its true value. However, the discount closed a bit this quarter. KBC advanced strongly, after demonstrating steady progress in selling assets to shore up capital.

Detractors to better performance were utilities and consumer staples. Although Japan's Kansai Electric Power plants were not directly affected by the earthquake, the stock suffered along with the overall Japanese economy.

Consumer staples were negatively impacted due to the international portfolios' Japanese holdings, none of which were materially affected but rather dropped in line with the overall crisis. We believe that the majority of the portfolios' Japanese holdings have good long-term stability and growth prospects that will weather the recent disaster. We bolstered our investments in several of these undervalued holdings at quarter end.

#### CURRENT ASSET ALLOCATION

The international portfolios sold four stocks as company valuations reached respective target sell prices. Each of the companies had strong fundamentals and was sold at a profit. The portfolios utilized the cash proceeds to purchase one new consumer discretionary stock and to increase weightings in other current holdings. We continue to buy opportunistically, purchasing stocks in down markets and selling positions at a profit in market advances. This strategy was deployed actively in 2010, and continues to remain relevant in today's volatile markets.

The following table shows the asset allocation for a representative international portfolio as of March 31, 2011.

Representative International Portfolio Asset Allocation

	Portfolio Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Info. Tech.	Telecom Services	Cash
N. America	2.37%	0.00%	0.00%	2.37%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Japan	13.01%	0.00%	1.70%	2.14%	3.29%	0.00%	4.06%	0.00%	0.00%	0.00%	1.83%	0.00%
Other Asia	14.24%	4.14%	0.00%	2.24%	0.00%	0.00%	0.00%	0.00%	2.25%	3.88%	1.73%	0.00%
Europe	41.85%	0.00%	0.00%	11.71%	7.03%	10.60%	1.80%	2.25%	6.08%	2.39%	0.00%	0.00%
Scandinavia	18.09%	0.00%	0.00%	0.00%	7.05%	2.96%	0.00%	0.00%	8.08%	0.00%	0.00%	0.00%
Africa & S. America	3.52%	2.47%	0.00%	1.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	6.91%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	6.91%
<b>Industry Totals</b>	<b>100.00%</b>	<b>6.61%</b>	<b>1.70%</b>	<b>19.51%</b>	<b>17.37%</b>	<b>13.56%</b>	<b>5.86%</b>	<b>2.25%</b>	<b>16.41%</b>	<b>6.27%</b>	<b>3.55%</b>	<b>6.91%</b>

Table may not cross foot due to rounding.

#### INVESTMENT ENVIRONMENT AND STRATEGY

While we continue to believe that economic recovery will be slow, steady and mixed, the latest discussions with companies suggest further economic expansion. There remains a large discrepancy between growth in emerging and developed markets and we expect this growth gap to persist in the near term. To minimize the tremendous instability that characterized emerging stock markets last year, we participated via holdings in developed markets that have strong exposure to emerging countries. Some of the international portfolios' best performing stocks in the quarter, and for the majority of last year, were companies with good corporate governance, strong accounting and control systems and high quality management that benefitted from strong growth in emerging countries. At year-end 2010, management discussed efforts to de-risk the portfolio; this strategy was implemented in the first quarter and helped achieve positive results in March. Consistent with the international portfolios' philosophy/strategy, we will continue to strive for above market returns with lower than benchmark risk.

We are very pleased to report that the proprietary Polaris research screens currently show nearly 1700 attractive companies compared with normal levels of 400-500 companies. This presents us with an unusually large number of very good research candidates and possibly buying opportunities in the months ahead. We are quite busy researching these opportunities and hope to report further progress at the end of the second quarter.

As always, we welcome your questions and comments.

#### 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 World and EAFE Indexes, gross dividends reinvested, measure the performance of a diverse range of global stock markets in the United States, Canada, Europe, Australia, New Zealand and the Far East. The MSCI World and EAFE Indexes measure the performance of stock markets in these geographic areas including reinvestment of gross dividends. The S&P 500 Index is a broad-based, unmanaged measurement of changes in stock market conditions based on the average of 500 widely held common stocks.*