



# POLARIS

## CAPITAL MANAGEMENT, LLC

Information presented is supplemental to the annual disclosure presentation.  
For composite performance and a fully compliant presentation, visit: [www.polariscapital.com/international-equity/](http://www.polariscapital.com/international-equity/)

### INTERNATIONAL EQUITY COMPOSITE REPORT

	2015		Annualized as of March 31, 2015						Since 6/30/1984
	YTD	Q1	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	30 Yrs	
<b>Polaris Capital International Equity Composite gross</b>	<b>6.06%</b>	<b>6.06%</b>	<b>-1.10%</b>	<b>15.70%</b>	<b>12.22%</b>	<b>8.26%</b>	<b>11.23%</b>	<b>12.30%</b>	<b>12.44%</b>
<b>Polaris Capital International Equity Composite net</b>	<b>5.94%</b>	<b>5.94%</b>	<b>-1.62%</b>	<b>14.98%</b>	<b>11.51%</b>	<b>7.55%</b>	<b>10.39%</b>	<b>11.42%</b>	<b>11.55%</b>
MSCI EAFE Index, gross dividends reinvested	5.00%	5.00%	-0.48%	9.52%	6.64%	5.43%	5.58%	9.26%	9.56%

*Q1 2015 composite returns are preliminary. Past performance is not indicative of future results.*

### PERFORMANCE ANALYSIS

The Polaris International Equity Composite (gross of fees), outperformed the MSCI EAFE Index in the quarter, up 6.06% while the Index advanced 5.00%. Overall, we were pleased with the performance, as the majority of our portfolio holdings achieved gains. These results reaffirm our commitment to fundamental stock picking, identifying companies across country, sector and market capitalization that prove resilient in volatile markets, and rebound in healthier macro-economic conditions.

A rebound in the material sector drove performance, with six sector holdings posting double-digit returns. Closely following were financials, consumer staples and telecom sectors. In fact, nine of 10 sectors were in absolute positive territory for the quarter.

Most of the material sector stocks had positive returns this quarter, a turnaround from the end of 2014. Although declining oil prices resulted in lower methanol demand for energy applications, Methanex Corp.'s competitive cost structure enabled the company to maintain its leading market position. The stock price of U.K. beverage can maker Rexam rose as it entered talks regarding a possible sale to U.S. competitor Ball Corp. Multiple tailwinds aided Norwegian fertilizer company Yara International. The company maintained good product pricing across its business lines, while benefitting from lower gas prices. Additionally, Yara's South American expansion is going as planned.

In the financial sector, Germany reinsurers Hannover Re and Munich Re had notable returns, attributable to increased premiums and investment income in combination with fewer claims in a benign storm season. Healthy cash generation resulted, and both companies have dedicated reinvestment strategies that include dividends and share buybacks. A new CEO was announced at Standard Chartered. The bank reported modest positive results and stabilized credit quality across its books. This news offset negative sentiment surrounding the New York Department of Financial Services investigation and potential further credit weakness in its slower growth markets.

Meiji Holdings led the consumer staples sector, announcing price hikes for some of its dairy products to help offset higher raw material costs. Investors were most excited not by the dairy/confection business, but by Meiji's advances in the drug business. Meiji entered into a licensing agreement with Roche and Fedora for the development and commercialization of a beta-lactamase inhibitor that fights antibiotic resistant bacteria. Greencore Group continued to execute well on its convenience foods business in the U.S. and England; the company reported good quarterly results and provided upbeat guidance.

All of the international portfolio's telecom holdings posted solid returns, led by Deutsche Telekom. The company announced good earnings and highlighted increased subscribers in its U.S. T-Mobile division,

although profitability remained challenging. Consolidation in the German telecom market has moved in favor of incumbent providers like Deutsche Telekom.

As referenced in the fourth quarter 2014 report, we purchased French tire manufacturer Michelin. We anticipated greater replacement tire demand, as lower gas prices encouraged more driving. This premise held true, as Michelin reported inventory restocking and higher demand in passenger car, light truck and truck segments in North America and China. U.K. homebuilders, Barratt Developments, Persimmon and Taylor Wimpey, also boosted the consumer discretionary sector. U.K. home prices rose 10% in 2014 on the back of affordable mortgages and a shortage of homes under construction in the country. The ongoing recovery of the U.K. economy, employment and wage growth and reform of the stamp duty on property purchases will continue to provide a supportive backdrop to the homebuilders. Christian Dior benefitted from the Hermes spin-off completed last quarter. As a shareholder of Christian Dior, the international portfolio received shares of Hermes, which proved to be a richly-valued stock that we subsequently sold. At the other end of the spectrum, Duni AB, Bellway PLC and GTECH SPA had modest declines. GTECH was in the final stages of a merger with International Game Technology, making it the world's largest end-to-end lottery and gaming company.

In the industrial sector, Caverion Corp. appeared to be in the early stages of a turnaround, as the new CEO has focused on margin improvement based on disciplined project bids and project management. In recent publications, Konecranes OYJ highlighted growing order books for both the equipment and services businesses. Konecranes is confident in its 2015 guidance, expecting better revenues and profitability than in prior years. Trevi Finanzia and BBA Aviation were among the few negative performers in the sector. Trevi has deployed working capital to fulfill oil rig orders it has received. However, since the oil price decline, customers have tried to delay payment for the delivery of these rigs. The rough New England winter likely increased BBA's commercial plane de-icing services; conversely, those same weather conditions grounded or delayed many planes, thereby reducing BBA's jet fuel sales.

In the energy sector, Thai Oil recovered while non-oil refining counterparts in the energy sector did not fare as well, with Maurel et Prom and Tullow Oil among the underperformers.

The following table reflects the sector and regional allocation for a representative international equity composite portfolio as of March 31, 2015.

	MSCI EAFE Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Cash
N. America	0.0%	2.3%	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Japan	22.2%	9.9%	0.0%	0.0%	1.7%	0.0%	0.0%	5.8%	0.0%	0.0%	0.0%	2.4%	0.0%
Other Asia	12.1%	9.2%	2.2%	1.5%	1.0%	0.0%	0.4%	0.0%	0.0%	0.0%	4.2%	0.0%	0.0%
Europe & Middle East	59.5%	56.5%	0.7%	0.0%	16.5%	2.1%	18.8%	2.5%	4.1%	5.6%	1.9%	4.1%	0.0%
Scandinavia	6.2%	18.8%	0.0%	0.0%	2.0%	8.1%	2.0%	0.0%	0.0%	6.7%	0.0%	0.0%	0.0%
Africa & South America	0.0%	1.3%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%
Portfolio Totals		100.0%	4.2%	1.5%	23.5%	10.3%	21.1%	8.3%	4.1%	12.3%	6.1%	6.5%	2.1%

*Table may not cross foot due to rounding.*

## INVESTMENT ENVIRONMENT AND STRATEGY

In recent quarters, lower oil prices have had a marginally positive effect on the U.S. consumer; other countries have not reaped benefits from lower commodity prices, largely due to the rapid devaluation of non-USD currencies including the Euro and Yen. However, at the beginning of 2015, depreciated currencies appear to be having a constructive impact on companies based in those currencies. We are starting to see the beginning of better economic activity. Conversely, the strong USD is having a deteriorating effect on multi-national earnings of U.S. companies, dampening heady projections for the U.S. economy.

We remain attentive to the slowing GDP trends in China, and the conceivable deceleration of the Chinese real estate industry. In Brazil, a possible drought looms over both living conditions and economic growth

in the region. Notwithstanding these potential “black swan” events, we remain optimistic about global markets in 2015, but expect slow growth instead of a robust recovery. We will continue to make investments for the international portfolio based on this outlook and hope to report similarly admirable performance in the quarters ahead.

As always, we welcome your questions and comments.

#### **DISCLOSURES & 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 stock markets in the 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.*