



# POLARIS

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Additional data specific to Polaris' global and international investments is available as follows:

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Information presented is supplemental to the annual disclosure presentation.  
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## INTERNATIONAL EQUITY COMPOSITE REPORT

	2016		Annualized as of March 31, 2016				
	YTD	Q1	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
<i>Polaris Capital International Equity Composite gross</i>	-0.74%	-0.74%	-5.82%	6.09%	6.76%	4.98%	11.81%
<i>Polaris Capital International Equity Composite net</i>	-0.88%	-0.88%	-6.31%	5.48%	6.11%	4.31%	10.94%
MSCI EAFE Index, gross dividends reinvested	-2.88%	-2.88%	-7.87%	2.68%	2.76%	2.27%	8.96%

*Q1 2016 composite returns are preliminary. Past performance is not indicative of future results.*

The Polaris International Equity Composite (gross of fees) outperformed the MSCI EAFE Index benchmark in the quarter. The composite was down -0.74%, while the Index was declined -2.88%. In a volatile quarter, when market averages dipped almost 10% at one point, we were pleased to have outperformed. Foreign exchange gains boosted the international portfolio's returns, with most developed world currencies except the British Pound, appreciating against the U.S. dollar.

### PERFORMANCE ANALYSIS

Strong performance can be attributed to positive results in sectors within the information technology, energy and financials. Materials and healthcare were the main detractors in a negative international market.

In the information technology sector, Wincor Nixdorf AG and Infosys Ltd both had double-digit gains for the quarter. Wincor Nixdorf was up, as its slated acquirer U.S.-based Diebold, Inc. received 68.9% of Wincor Nixdorf shares for purposes of satisfying the minimum tender condition. Infosys, the Indian outsourced technology consultant, rallied after raising 2016 revenue forecasts to 9%. Business momentum is back on track after a less-than-stellar December 2015 quarter, which was impacted by sluggish year-end corporate tech planning and weaker currency.

Australian energy company, WorleyParsons, had strong returns as the company announced overhead reduction programs that will deliver \$300 million annual savings over the next 18 months. The company also plans to strengthen the balance sheet through lower capital expenditures, tighter cost controls and asset disposal. Thai Oil benefitted from higher gross refining margins as lower energy price spurred higher consumption.

Among financial holdings, Russia's Sberbank had a strong quarter as net interest margins continued to recover due to lower funding costs, coupled with a peak in loan loss provisions. 2016 will likely be better than 2015 for the bank allowing for dividend growth. Norwegian savings bank Sparebank 1 SR recovered on the back of better commodity prices, as the majority of their customer base has exposure to the energy sector. At the other end of the spectrum, British multinational banking and financial services company Standard Chartered was under pressure due to emerging market and commodity exposure. The company's new CEO embarked on an aggressive capital and cost savings plan to position the bank through these challenging conditions.

In the past two years, the international portfolio's valuation screens have identified a preponderance of value opportunities amongst financials and information technology sectors. Much of our bottom-up research has revolved around these sectors, and we have sought entry points when companies reached value pricing levels. During the quarter, the international portfolio invested in Siam Commercial Bank, one of the largest banks in Thailand. At the same time, multiple sales were executed including Guangdong Investment Ltd., Northern Star Resources and Rexam PLC, all of which reached our valuation limits. Rexam was the subject of a takeover by Ball Corporation.

A notable industrial holding, elevator/escalator manufacturer Kone Oyj, generated impressive sales in a rebounding Chinese housing market.

The top contributor in the consumer discretionary sector was International Game Technology PLC. IGT's Italy-based Lottomatica subsidiary is leading a consortium bid on an Italian lottery concession, after which a joint venture will be arranged. The announcement came just ahead of IGT's positive fourth quarter earnings report. British homebuilders Barratt Developments, Bellway Plc and Taylor Wimpey hampered sector performance, as most were weaker on profit taking. In London, transaction volumes and prices were dropping in wealthier locales, where homebuilders had minor exposure.

In healthcare, Teva Pharmaceutical Industries Ltd. was down, as the company signaled a delay in its \$40.5 billion acquisition of Allergan's Actavis generics unit. Novartis' stock price dropped on news of its cancer drug Gleevec going off-patent as of July 2016. The lost revenue streams were supposed to be replaced by heart failure drug Entresto, but the drug has yet to gain wide-scale adoption. Additionally, Novartis' Alcon division underperformed for the past year.

In materials, Showa Denko's stock price dropped after the company announced impairment losses of approximately \$92 million. The company provided guidance for fiscal year 2016 by forecasting improving profitability in petrochemicals and chemicals segments but lower profit in electronics due to a weak personal computer market. Yara International suffered from softer agricultural prices, coupled with a weaker U.S. dollar.

The following table reflects the sector and country allocation for a representative international equity composite portfolio as of March 31, 2016.

	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%	1.7%	0.0%	0.0%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Japan	22.5%	6.7%	0.0%	0.0%	1.8%	0.0%	0.0%	2.2%	0.0%	0.0%	0.0%	2.8%	0.0%
Other Asia	12.0%	14.6%	3.7%	0.0%	1.7%	0.0%	2.2%	0.0%	0.0%	2.4%	4.5%	0.0%	0.0%
Europe	59.0%	51.2%	0.0%	0.0%	12.5%	2.5%	16.4%	2.6%	3.7%	6.9%	2.4%	4.3%	0.0%
Scandinavia	6.5%	18.3%	0.0%	0.0%	1.9%	7.4%	2.0%	0.0%	0.0%	7.1%	0.0%	0.0%	0.0%
Africa & South America	0.0%	1.5%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.9%
Portfolio Totals		100.0%	5.2%	0.0%	19.6%	9.9%	20.6%	4.7%	3.7%	16.3%	6.9%	7.1%	5.9%

*Table may not cross foot due to rounding.*

## INVESTMENT ENVIRONMENT AND STRATEGY

We are enthused by the number of international companies unearthed by our screens and fundamental research. Our opportunity set has increased from six months ago, as market volatility generates more attractive valuations. Diligent research will continue, as we sift through these companies. We will exit companies of less value, and redeploy this cash to purchase new companies in the next few quarters. We believe that volatility will persist, as even modestly-growing economies might still experience some downside risks. Some regions (U.S., some European countries) may benefit from lower oil/commodity prices and lower interest rates. Other developed countries with substantial financial leverage and the majority of emerging markets, many of which face oversupply-weaker demand constraints, may face continued headwinds. With a keen eye to these macro-issues, we will continue to conduct bottom-up research in an effort to manage the international portfolio with a goal toward continued long-term outperformance.

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.*