



POLARIS

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

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

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For composite performance and a fully compliant presentation, visit: www.polariscapital.com/international-equity

INTERNATIONAL EQUITY COMPOSITE REPORT

	2020		Annualized as of March 31, 2020					Since 6/30/1984
	YTD	Q1	1 Yr	3 Yrs	5 Yrs	10 Yrs		
<i>Polaris Capital International Equity Composite gross</i>	-32.96%	-32.96%	-26.19%	-5.81%	-1.78%	4.98%	10.33%	
<i>Polaris Capital International Equity Composite net</i>	-33.05%	-33.05%	-26.57%	-6.32%	-2.31%	4.37%	9.50%	
MSCI EAFE Index, gross dividends reinvested	-22.72%	-22.72%	-13.92%	-1.33%	-0.13%	3.20%	8.15%	

Q1 2020 composite returns are preliminary. Past performance is not indicative of future results.

While markets were on relatively stable footing at the beginning of 2020, the months of February and March dramatically skewed returns. The Polaris International Equity Composite returned -32.96%, underperforming the MSCI EAFE Index, which declined -22.72%. Measures to prevent the spread of the novel coronavirus (COVID-19) resulted in the shutdown of the global economy, never before seen in modern economic history. The resulting demand and supply shocks to the global economy motivated governments and central banks to undertake unprecedented monetary and fiscal policies. Yet doing so did little to boost industries hardest hit, especially travel, entertainment and discretionary retailers. Unemployment rates spiked in the U.S.; other countries faced similar predicaments. Oil prices also collapsed in March, first as demand for petroleum products weakened and then as Saudi Arabia-Russia output negotiations broke down in a fight for market share and cross retaliation for proxy geopolitical conflicts. It was a “perfect storm” of oversupply with falling demand. In such unprecedented times, the stock market declined in excess of -20% from its peak, defined as a bear market. After global policy measures were announced, and glimmers of hope shone in China and South Korea, the market rebounded from its March 23rd trough, stabilizing at a low level through the end of the quarter. *For more information on Polaris’ views communicated during the March market gyrations or on COVID-19 medical developments, please visit the Polaris Capital website.*

The international equity portfolio underperformed the benchmark partially due to weakness in foreign currencies relative to the United States Dollar. This was primarily centered around energy- and resource-related countries such as Norway, Colombia and Canada, where the portfolio was overweight relative to the benchmark. Additionally, some defensive sector holdings did not act as intended. However, portfolio risk was reduced at the beginning of March by substantially increasing cash, as management trimmed certain cyclical positions to model or half weight in anticipation of the pending COVID-19 crisis. Beginning on the March 23rd market low, management began to quickly redeploy cash to buy new companies at attractive valuations and diversified the portfolio further by increasing the number of securities. The vast majority of new additions posted gains in the last week of the quarter.

FIRST QUARTER 2020 PERFORMANCE ANALYSIS

Although we trimmed cyclicals in February and early March, the portfolio remained overweight in financials, consumer discretionary and materials. These sectors detracted most from absolute returns. Utilities and healthcare fared better during the quarter.

Lower oil prices hampered a number of banks in the international portfolio. Banks from oil exporting countries, such as SpareBank 1 SR and DNB ASA from Norway, and Bancolombia in Colombia, declined. This trend will likely reverse on a return to higher oil prices when demand eventually normalizes; the portfolio’s bank holdings have strong capital ratios and experienced management teams with which to withstand this downturn.

The reverberations from low oil prices were felt in many sectors, like energy and materials. Canadian methanol producer, Methanex Corp., reduced output as demand for methanol declined. The company stopped production at two plants without take or pay contracts in Trinidad and Chile; the company also halted its Geismer 3 expansion project and other capital expenditures.

U.K. consumer discretionary companies topped portfolio performance in the fourth quarter of 2019 but were among the worst performers in the first quarter of 2020. U.K. homebuilders, Taylor Wimpey PLC and Bellway PLC, went into the crisis in great shape, with good control of inventory, build rates, selling prices and financing. But the subsequent U.K. lockdown shut down construction sites and home sales; both homebuilders withdrew guidance and cancelled dividends. Apparel retailer Next PLC closed stores temporarily, in line with all other retailers; the company also shut down its online, warehouse and distribution operations to protect staff. In a similar vein, Sweden cash transfer and cash management company, Loomis AB, declined as most of its retail customers closed shops.

When “black swan” (simplistically defined as a statistically extreme unpredictable event with severe impacts) events happen, there are always some companies left flatfooted. Typically, companies that have levered up to complete a merger or a large expansion project bear the brunt. This time was no different. Of all the companies in the international portfolio, only three had recently elevated debt-inducing activities: U.K. theater operator, Cineworld Group, announced the acquisition of Cineplex; Canadian methanol producer, Methanex, readied to launch the Geismer 3 project; and South African chemical and energy company, Sasol Ltd., completed its debt-financed chemical project in Lake Charles, Louisiana. These three were among the worst performers in the portfolio. Changing market conditions already spurred on Methanex to defer Geismer 3 project spending for up to 18 months, while Cineworld management may have opportunity to renegotiate more favorable acquisition terms.

Some of the portfolio’s defensive sector holdings offered stability in a volatile market. Performance in the utilities sector was led by Japan’s Kansai Electric Power. Kansai underwent a management shakeup and corporate governance improvements. In healthcare, Novartis AG benefitted as one of its divisions, Sandoz, produces hydroxychloroquine, which was reported in some countries as a beneficial drug in the fight against COVID-19. Novartis already started clinical trials and has committed to donating up to 130 million doses of hydroxychloroquine as a possible “game changer”. The company also announced a buyback program to repurchase up to 10% of total outstanding shares in the next three years.

During the quarter, portfolio management initiated eight new positions. Most of the companies purchased had been on Polaris’ watchlist for some time, but did not reach attractive price points until March. These companies shared many attributes including clean, liquid balance sheets and resilient business models. Investments trended thematically into: 1) stocks down quite substantially that might rebound strongly within 12 to 24 months, many of which were in the travel or tourism sectors or 2) defensive names typically defined as “recession resistant”. Based on the second premise, Polaris purchased Fresenius SE, a European hospital group specializing in kidney dialysis; industrials Bunzl PLC, a British commercial distributor, and Finnish pulp/paper capital equipment supplier, Valmet OYJ; and three materials companies. One notable tourism/travel stock was Irish budget airline, Ryanair Holdings. The majority of new companies already showed promise, with stock prices ticking higher after purchase.

The following table reflects the sector and regional allocation for a representative international equity portfolio as of March 31, 2020.

	MSCI EAFE Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Comm. Services	Real Estate	Cash
N. America	0.0%	6.2%	0.0%	0.0%	0.8%	0.0%	1.9%	0.0%	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%
Japan	26.3%	11.3%	0.0%	1.5%	1.0%	3.4%	0.0%	1.9%	0.0%	2.1%	0.0%	1.4%	0.0%	0.0%
Other Asia	11.1%	15.4%	0.0%	0.0%	1.1%	0.0%	2.0%	1.4%	0.0%	3.8%	5.6%	1.7%	0.0%	0.0%
Europe	56.1%	45.1%	0.0%	0.0%	12.1%	7.9%	9.0%	1.7%	3.5%	5.9%	0.0%	5.0%	0.0%	0.0%
Scandinavia	6.5%	10.7%	0.0%	0.0%	2.4%	1.7%	0.7%	0.0%	0.0%	5.9%	0.0%	0.0%	0.0%	0.0%
Africa & South America	0.0%	2.2%	0.0%	0.0%	0.7%	0.0%	0.0%	0.0%	0.0%	1.5%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	9.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%
Portfolio Totals		100.0%	0.0%	1.5%	18.0%	13.0%	13.6%	5.0%	3.5%	22.8%	5.6%	8.1%	0.0%	9.0%
MSCI EAFE Weight	100.0%		4.0%	4.2%	6.7%	14.2%	11.1%	12.6%	14.3%	16.5%	7.6%	5.5%	3.3%	0.0%

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

We believe that the market bottomed out in the third week of March, with substantial volatility expected in ensuing months. While the market sell-off was quick and sharp, a recovery may be more protracted. The same could be said for the global economy. Recessions (two quarters of GDP decline) are likely in many countries; the timeline might extend as conditions normalize in the U.S. and Europe at a far slower pace than in China and South Korea.

However, conventional wisdom suggests that markets recover far in advance of broader economic trends. If the market has already troughed, we may see fits and spurts of growth and retraction in the coming months. Rapid portfolio adjustments may help reduce negative returns and reposition the international portfolio for a market recovery. We have already executed on this strategy, making opportunistic purchases after a late March low. We bought companies that declined 50% or more, which we believe are ripe for a rebound, especially when COVID-19 concerns diminish (on either a proven treatment or vaccine). While volatility may persist in the coming quarters, we will continue making adjustments, increasing and diversifying holdings, and deploying cash to maintain the Polaris discipline. Doing so may allow the portfolio to more broadly participate in a sharp recovery. As fellow shareholders, we are disappointed by recent underperformance but are encouraged by early results of recent portfolio changes.

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 is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI EAFE Index measures the performance of stock markets in these geographic areas including reinvestment of gross dividends.