



POLARIS

CAPITAL MANAGEMENT, LLC

121 High Street
Boston, Massachusetts 02110
Telephone (617) 951-1365
polariscapital.com

This composite commentary is provided as part of our historical archive and not intended for current marketing or advertising use. The entirety of the respective quarterly commentary will be available on the ensuing pages. Should you have questions/concerns, please contact Polaris Capital via our [website](#) or call the office directly. For more information, [Contact Our Team](#).

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

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

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

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

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



POLARIS CAPITAL MANAGEMENT, LLC
125 Summer Street, 14th Floor – Boston, MA 02110
617-951-1365 or info@polariscapital.com

Information presented is supplemental to the annual disclosure presentation. For composite performance and a fully compliant presentation, go to: www.polariscapital.com/

INTERNATIONAL EQUITY COMPOSITE REPORT

	2010				Annualized as of September 30, 2010						Since Inception 6/30/1984
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	
<i>Polaris Capital International Equity Composite gross</i>	9.66%	19.35%	-12.20%	4.65%	11.34%	-7.48%	3.78%	10.99%	10.24%	10.48%	12.43%
<i>Polaris Capital International Equity Composite net</i>	9.11%	19.16%	-12.35%	4.47%	10.60%	-8.12%	3.09%	10.13%	9.37%	9.63%	11.52%
<i>International Equity Benchmarks</i>											
MSCI EAFE Index, gross dividends reinvested	1.46%	16.53%	-13.75%	0.94%	3.71%	-9.06%	2.45%	2.99%	4.92%	6.42%	9.96%
Lipper International Mutual Funds	3.14%	16.85%	-13.06%	1.60%	6.06%	-9.15%	2.37%	2.70%	5.60%	N/A	0.00%

Q3 2010 composite returns are preliminary. Past performance is not indicative of future results.

Market volatility defined the third quarter, as July and September positive performance sandwiched the negative month of August. This quarter exemplified the mixed market results and normalized volatility investors may expect going forward. However, August volatility heavily impacted many investors, leading to the withdrawal of nearly \$11.6 billion from equity mutual funds during the month (data: Investment Company Institute). Yet, the quarter was actually quite successful; investors who left the market in August may have missed an opportunity to benefit from the double digit returns international markets achieved by quarter end.

PERFORMANCE ANALYSIS

In the third quarter, financials benefited from State Bank of India and a number of Scandinavian banks, including DNB Nor and Svenska Handelsbanken; these financial institutions performed well in relatively healthy, growing economies. Completion of European bank stress testing induced a relief rally, with most European economies (outside of Spain, Portugal, Italy and Ireland) showing signs of modest growth and stability.

Late cycle companies (such as industrial companies that depend on capital spending) contributed most to the international portfolios' outperformance this quarter. During the 2008 – 2010 periods, these companies generated positive cash flow despite the recession due to longer-term order books. We placed these firms on close watch on concerns that their order books were not being replenished by new orders. We contemplated selling several holdings. However, over the last two quarters, discussions with company management teams pointed to increases in pre-order activity, some of which resulted in new orders. This was confirmed in second quarter earnings announcements and conference calls with portfolio companies. In this case, our research efforts led us to be patient and hold these stocks in the volatile May and August months that tested many investors' confidence. The patience and decisions paid off as many of the industrial companies advanced strongly. In general, the strength of these late cycle companies is a good sign of underlying economic growth, especially due to non-U.S. economies.

In the third quarter, industrials such as Konecranes, YIT Oyj, Kone Oyj and Andritz posted returns in excess of 20%, as their order books and revenue streams were stronger than expected. The top-performing Scandinavian companies were all export-oriented, with competitive global business models that were able to capitalize on growth in emerging markets. Many of the industrial and material companies in the international portfolios have substantial exposure to emerging markets, which was driving a strong recovery in sales and cash flow.

Materials companies, whose products are in strong demand due to the base growth of developed economies compounded by growth in emerging countries, also contributed strongly to results. We have positioned the international portfolios toward those materials companies, which cannot supply enough to keep up with increased demand despite sluggish worldwide growth. Nine out of eleven portfolio companies posted double digit returns in the materials sector; six of the nine posted gains in excess of 20%. Symrise AG, a German maker of ingredients in the beverage, food and fragrance industry, benefited from consumer demand for healthier foods and reduction in salt and high fructose corn syrup. Other materials companies expressed surprise at the negative macro-economic media reports, as their businesses indicated recovery. Companies such as Smurfit Kappa (resilient demand for boxes for food and other products in Europe and Latin America), Methanex (strong demand for methanol from

China) and Solvay continued to report strong earnings and cash flows. Importantly, many companies across the entire portfolio have executed such effective cost cutting that the small increases in business are resulting in much stronger increases in cash flow and profitability.

The only materials stock in negative absolute territory was CRH, the Irish building materials group. The company's European business remained strong, but performance has been impinged by weak U.S. business. Although the U.S. government provides stimulus for infrastructure, many projects have not been executed because state and local governments remain cash strapped. As a result, CRH's U.S. volumes have declined. However, the federal government recently announced that it would undertake even more highway and infrastructure spending in an attempt to offset weakness at the state and local level.

In the consumer discretionary sector, Autoliv capitalized on growth in the global auto industry that has been boosted by emerging market (namely China) car sales. Christian Dior and Duni AB contributed to sector outperformance. We invest in luxury goods companies, as sales of luxury goods are often resilient in a recession. French luxury retailer Christian Dior, which also controls Moët Hennessy Louis Vuitton (LVMH), benefitted from this trend. In yet another example the world economy is decoupling, emerging economies are contributing to the strength in luxury sales. Wine merchants are reporting that 2009 Bordeaux futures prices are at all time high due to heavy Chinese buying. Eleanor Marsh, Polaris analyst on the job researching companies in France, reported lines outside LVMH stores in Paris as Chinese shoppers were allowed to only buy a limited number of items. As projected last quarter, Duni's margins recovered after publishing its annual catalog with price increases to offset raw material costs.

The fundamental results of companies in the aforementioned three sectors (industrials, materials and consumer discretionary) declined during the recession, some more than others. Yet we have chosen companies whose business models were far more resilient than investors expected in late 2008 and early 2009. Unfortunately these stocks contributed to the variance in portfolio returns more than they should based on how well cash flow held up in the downturn and recovered subsequently. The extensive research Polaris performed on these companies has helped keep an objective stance in these volatile and emotional markets and thus allowed fellow shareholders to enjoy the strong rebounds in performance.

The international portfolios' energy stocks posted strong returns, backed by stabilized Asian refining companies and higher global oil prices, which boosted Thai Oil and Sasol. The British Petroleum disaster highlighted insufficient U.S. deep water drilling standards; further drilling activity will require more careful and sophisticated monitoring. Technip SA directly addresses this need, with its technologically advanced flexible piping systems that allow oil companies to track substantial amounts of data and lift crude from deep water wells. The stock rose 38% this quarter, attributable to new interest by U.S. companies and a recent initial contract win in Brazil.

In healthcare, both pharmaceuticals posted positive returns. French biopharma company Transgene was up more than 30% after the company announced partnerships with Jennerex for a treatment of solid tumors and with Ventana Medical Systems on a non-small cell lung cancer immunotherapy product.

Comprising approximately 10% of the international portfolios, defensive sectors (consumer staples, healthcare, telecom) were not the strongest performers, yet each had meaningful gains. As referenced in prior reports, we added to our defensive names to help reduce risk in the portfolios and to seek admirable returns in down markets.

CURRENT ASSET ALLOCATION

In the September quarter, Japan's Culture Convenience was eliminated from the portfolios due to concerns about the video rental industry. The portfolios had only a small weighting in the stock that was slowly reduced over the past six months as fundamentals deteriorated. No new buys were executed. We will seek to buy opportunistically, purchasing positions in down markets and selling positions at a profit in market advances. This strategy has been deployed actively throughout this year as market volatility persisted.

The following table reflects the September 30, 2010 sector and country allocation for a representative portfolio.

Representative International Portfolio

	EAFE	Portfolio											
	Weighting	Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Cash
N. America	0.00%	2.09%	0.00%	0.00%	2.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Japan	21.14%	11.45%	0.00%	1.65%	1.61%	3.18%	0.00%	3.58%	0.00%	0.00%	0.00%	1.43%	0.00%
Other Asia	13.05%	13.29%	2.91%	0.00%	1.95%	0.00%	0.00%	0.00%	0.00%	2.91%	3.58%	1.94%	0.00%
Europe	59.68%	45.42%	3.29%	0.00%	10.51%	8.11%	9.76%	1.92%	2.78%	6.89%	2.15%	0.00%	0.00%
Scandinavia	6.12%	19.72%	0.00%	0.00%	0.00%	6.62%	4.96%	0.00%	0.00%	8.14%	0.00%	0.00%	0.00%
Africa & S. An	0.00%	2.84%	2.13%	0.00%	0.71%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	0.00%	5.19%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	5.19%
Industry Totals		<u>100.00%</u>	8.32%	1.65%	16.88%	17.90%	14.73%	5.51%	2.78%	17.94%	5.73%	3.37%	5.19%
Market Weight	<u>100.00%</u>		7.44%	5.22%	10.40%	12.23%	10.41%	10.39%	8.54%	24.82%	4.81%	5.76%	0.00%

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

The Polaris strategy over the last 24 months is based on the view that the economic recovery will be slow, steady and mixed. We expect that there will be periods of good and bad news, reflecting a more traditional business cycle. In our opinion, such volatility is normal; the early 1990s through 2007 period proved an anomaly when virtually all sectors experienced unprecedented, strong growth. Reflecting this growth, security markets generated abnormally high investment returns. The average annual return for the S&P 500 Index from 1991 through 2007 was 11.4% when inflation was 2.7% for a real return of 8.7% compared to the well-accepted historical average of 5.5% after inflation.¹

However, more normal business cycles and security markets have returned. Expectations of individuals, corporations, and governments will be more cautious, conservative, and likely result in a more sustainable path to growth. Such economic behavior and environment can still result in very satisfactory investment returns, just not excessive and unsustainable returns.

We have always believed in long-term investing based on the assumption that historical security returns seem to lie between two boundaries. The “low-risk” end of the risk/return band (Treasury Bills) has historically earned investors a 0.98% return after inflation; the upper end of the band, representing a portfolio of world equities (based on a 16 country world equity index (1900-2000)²; MSCI World Index (2001-2009)), has returned about 5.5% after inflation (data 1900-2009).³ We believe that this compelling historical data is likely to persist and persevere with a similar range of risks and returns. As for investment strategy, we continue to look forward to the ups and downs of the current market, whereby we strive to align ourselves to take advantage of market advances to sell holdings while seeking profits. At the same time, we patiently await market declines to buy good companies at compelling valuations.

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 measures 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. The Lipper averages are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper average represents an index of quarterly results for all global or international funds as published in the Lipper Special Quarterly Summary Report. The Lipper averages and all indices are not investment products available for purchase.

¹ Source: Polaris Capital Management

² Source: Elroy Dimson, Paul Marsh and Mike Staunton, *The Triumph of the Optimists: 101 Years of Global Investment Returns*, 2001

³ Source: Dimson, et al. 2001; Polaris Capital Management