



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

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

INTERNATIONAL EQUITY COMPOSITE REPORT

	2016				Annualized as of September 30, 2016				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
<i>Polaris Capital International Equity Composite gross</i>	6.50%	13.12%	-5.15%	-0.74%	11.50%	5.06%	13.28%	5.38%	11.86%
<i>Polaris Capital International Equity Composite net</i>	6.08%	12.97%	-5.28%	-0.87%	10.91%	4.50%	12.62%	4.72%	10.99%
MSCI EAFE Index, gross dividends reinvested	2.20%	6.50%	-1.19%	-2.88%	7.06%	0.93%	7.87%	2.29%	8.99%

Q3 2016 composite returns are preliminary. Past performance is not indicative of future results.

Global markets advanced notably this quarter, with the MSCI EAFE Index returning 6.50%. The third quarter followed a tumultuous June quarter with highs and lows triggered by the Brexit vote. Investors fled to safety, and punished companies with exposure to the UK domestic economy. Over the ensuing three months, Brexit's impact was downgraded, with residual concerns mitigated by global macro-economic growth initiatives. The Bank of England cut interest rates in early August and the Bank of Japan unveiled a 28 trillion yen fiscal stimulus package.

The Polaris International Equity Composite was up 13.12%, surpassing the MSCI EAFE Index by a significant margin. We are pleased with the outperformance, attributable to absolute gains in eight of nine sectors. More than 80% of portfolio stocks had positive returns. Contributors to performance included materials companies LANXESS AG, Showa Denko, Solvay SA, Methanex Corp and BHP Billiton. Consumer discretionary stocks such as International Game Technology Inc. and British homebuilders Persimmon, Bellway Plc and Barratt Developments also added to returns. The financial sector was buoyed by gains from Scandinavian banks and German reinsurers. Industrial sector companies Loomis AB and Finnish crane equipment manufacturer, Konecranes Oyj, saw share prices increase. There were only a handful of stocks that detracted from portfolio performance, which included Indian IT outsourcer, Infosys, Germany's Deutsche Telekom and pharmaceutical companies.

PERFORMANCE ANALYSIS

Overall, portfolio holdings within the materials sector were up, with many posting double-digit returns during the quarter. The market approved of LANXESS' recent strategic acquisitions including the purchase of Chemours' clean/disinfect chemical unit and Chemtura, a lubricant and flame retardant business. The company is making in-roads in specialty chemicals, while seeking to dispose of assets from its less-profitable rubber business. Showa Denko's petrochemical division raised earnings estimates on higher ethylene spreads; the hard disk drive media business showed positive results; and the company (in cooperation with JX Nippon Oil & Energy) agreed to purchase LyondellBassell's joint venture stake in polypropylene producer SunAllomer. As a result, Showa Denko and JX Nippon increased their market share of this high-demand polymer used in packaging, textiles, plastic parts and automotive components.

Consumer cyclicals also added to positive returns. International Game Technology reported good second quarter results, backed by higher lottery sales in Italy and North America. The company achieved three consecutive quarters of growth, while simultaneously paying down the up-front costs for Italian lotto concessions. U.K. homebuilders reported positive industry trends, with 10% or more increases on post-Brexit reservations. We bought additional shares of the homebuilders on the second day after the Brexit vote.

The portfolio benefitted from financial sector holdings. Swedish bank, Svenska Handelsbanken, reported second quarter profits that beat analyst estimates. The company announced higher trading income, lower loan losses and lower costs due to currency effects. German reinsurer Munich Re achieved a nearly \$1.1

billion second quarter profit, despite higher natural catastrophe expenditures. Puerto Rico-based bank Popular Inc. was purchased during the quarter. We believe the Commonwealth's largest bank is undervalued due to the local debt crisis, which may be addressed by the recently-passed Puerto Rico Oversight, Management and Economic Stability Act.

Stocks in the industrial sector also added to positive portfolio returns. Konecranes' stock rose after it received approval from U.S. and E.U. antitrust regulators to purchase the materials/port solutions unit from U.S. equipment maker Terex Corp. The approval is conditional on the divestment of Konecranes' STAHL CraneSystems. The company also announced improved profits on the back of cost savings efforts. Loomis AB, the Sweden-based armored car and cash management service, noted historic organic growth and improved operating margins amongst all business segments in the second quarter of 2016. The market responded positively to the news. Andritz, a previous portfolio holding, was repurchased. The Austrian supplier of plants and services for hydropower, pulp/paper and metals appeared attractive because of its recurring service-based revenue streams, solid balance sheet and acquisition track record.

In telecom, Germany's freenet AG increased revenues and gross profit margins on the back of stable mobile communications business and increased digital lifestyle subscriptions. The company went on to reaffirm guidance for the rest of the year. Good results from freenet mitigated modest losses at Deutsche Telekom, which faced stiff German telecom rivalry; however, DT's U.S. arm T-Mobile gained ground with 890,000 new users in the second quarter.

Samsung Electronics advanced, notwithstanding the lithium battery problems late in the quarter. The company reported its biggest operating profit in two years on strong Galaxy S7 sales, as it increased cellphone market share. The stock price rose further on news of management's proactive restructuring efforts to avoid tax and/or share count issues in a changing regulatory environment. Infosys declined after lowering its annual sales forecast. The entire IT outsourcing industry is facing competition from customizable internet-based/cloud software.

The EpiPen debacle and ensuing drug price discussion impacted the entire pharmaceutical industry, including Teva Pharmaceutical and Novartis AG. Teva was also hit with negative rulings on three of its patents, opening up to generic sales.

The following table reflects the sector and country allocation for a representative international equity composite portfolio as of September 30, 2016.

	MSCI EAFE Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Real Estate	Cash
N. America	0.0%	4.4%	0.0%	0.0%	2.4%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%
Japan	23.8%	6.4%	0.0%	0.0%	2.1%	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	2.1%	0.0%	0.0%
Other Asia	12.3%	17.3%	3.9%	0.0%	2.5%	2.2%	1.9%	0.0%	0.0%	2.3%	4.3%	0.0%	0.0%	0.0%
Europe	57.7%	49.1%	0.0%	0.0%	13.5%	2.2%	16.8%	1.8%	3.6%	7.3%	0.0%	3.9%	0.0%	0.0%
Scandinavia	6.2%	18.9%	0.0%	0.0%	1.8%	7.8%	1.6%	0.0%	0.0%	7.8%	0.0%	0.0%	0.0%	0.0%
Africa & South America	0.0%	1.7%	1.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%
Portfolio Totals		100.0%	5.7%	0.0%	22.2%	12.2%	20.3%	4.0%	3.6%	19.5%	4.3%	6.0%	0.0%	2.3%

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

Our unwavering value philosophy, focused on identifying companies with free sustainable cash flow and conservative balance sheets continues to drive our investment process. This discipline proved fruitful over the past quarter, and has contributed to long-term outperformance through the quarter ended September 30, 2016. We continue to seek out stocks that may enhance the valuation profile of the portfolio and lead to satisfactory returns. Over the past year, attractively valued companies have been predominately focused on two sectors: financials and materials, and a few countries: Japan and other Asian economies. Analyst travel has ensued. We look forward to sharing our findings in the months 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.