



# POLARIS

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

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## INTERNATIONAL EQUITY COMPOSITE REPORT

	2019				Annualized as of September 30, 2019				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
<i>Polaris Capital International Equity Composite gross</i>	9.55%	-2.44%	2.41%	9.64%	-5.45%	6.96%	5.26%	8.87%	11.44%
<i>Polaris Capital International Equity Composite net</i>	9.13%	-2.56%	2.28%	9.50%	-6.03%	6.37%	4.69%	8.22%	10.59%
MSCI EAFE Index, gross dividends reinvested	13.35%	-1.00%	3.97%	10.13%	-0.82%	7.01%	3.77%	5.39%	8.82%

*Q3 2019 composite returns are preliminary. Past performance is not indicative of future results.*

Global equity markets were impacted by considerable trade friction and geopolitical volatility. The MSCI EAFE Index dropped -1.00%, while the Polaris International Equity Composite returned -2.44% for the third quarter of 2019.

The United Kingdom, Austria, Germany and Israel had negative returns at the Index level; however, the portfolio's holdings in those countries outperformed. In particular, U.K. consumer discretionary holdings, Bellway PLC and Next PLC, and British engineering services company Babcock International Group, exacted double-digit gains for the quarter. Overweight positions in Norway, France, Sweden and Canada detracted, as each of these countries saw their local stock markets slide. Exposure to foreign currencies hampered results as the U.S. dollar appreciated against most major currencies. At the sector level, outperformance in consumer discretionary, industrials and information technology (IT) could not offset losses in materials and financials, which were overweight portfolio positions relative to the benchmark.

### PERFORMANCE ANALYSIS

Methanex, the Canadian based methanol producer, was impacted by lower realized methanol prices, due mainly to a large inventory build. The company also announced the construction of a third methanol facility in Geismar, Louisiana; investors were concerned about increased leverage as the company self-financed the project. Previously management expressed interest in a strategic financier of the project. French company, Imerys SA, slumped due to negative organic revenue growth in the first half of the year. The company forecasted a 10% profit decrease in 2019 due to deconsolidation of the North American talc subsidiaries and the temporary shutdown of the Willsboro plant due to asbestos contamination. Australian miner, BHP Group, declined due to weakening iron ore prices. Prices peaked in the second quarter of 2019 on the back of supply disruptions caused by the Vale dam disaster. In recent months, iron prices have moderated 25-30% as capacity came back online, while demand slackened in China. Sasol was under pressure, as the financial profitability of its Lake Charles chemical project continued to disappoint. The materials sector is commonly considered a bellwether for global economic activity; negative results could suggest further economic weakness in the months ahead, for which we are prepared.

Central banks throughout Asia cut interest rates as a pre-emptive move to support growth at a time when risks to the global economy are piling up. Share prices of South Korea's Shinhan Financial Group and Thailand's Siam Commercial Bank dropped in this environment, with expectations that further rate cuts will add pressure on net interest margins. The portfolio made a new investment in Toronto-Dominion Bank, one of Canada's largest banks. The undervalued bank is an attractive buy due to its strong retail exposure, established banking footprint in the Northeast U.S. and part ownership of TD Ameritrade.

In communication services, gaming company Nexon Co. was down as its second quarter operating income missed street estimates due to lower traction in its flagship game, Dungeon & Fighter, in mainland China. Recent updates to the game did not resonate with customers, with weaker sales that may take a few quarters to redress. Theater operator Cineworld's pretax profit declined in the first half of the year,

attributable to timing of blockbuster films when compared with the year before, but the company reported it was on track to meet full-year expectations. Cineworld has been actively refurbishing some of its high-traffic locations and introduced an unlimited movie pass within the U.S. market; both efforts are expected to help bolster Cineworld results regardless of the upcoming movie slate.

On the positive side, industrial holdings outperformed. U.K.-based Babcock International was the top overall contributor in the portfolio, up more than 20% during the quarter. The company recovered from a negative short seller research report rife with inaccuracies about future business prospects. Polaris research analysts conducted in-depth work on the company, visiting the Davenport facility in the U.K. and meeting with management. Polaris determined that concerns about a deteriorating relationship with the U.K.'s Ministry of Defense were unfounded. In a Babcock trading update, the company reported increased activity across the UK warship support program, and was the preferred bidder on a new warship build. Among other industrials, VINCI SA gained modestly after winning new airport and highway concessions, including the Gatwick expansion. VINCI was also shortlisted to acquire a majority stake in Australia's Hobart International Airport.

In IT, Infosys Ltd. gained traction in the cloud and digitization business, serving as the preferred cloud vendor for Microsoft. Quarterly results showed revenues up nearly 10% year-on-year, with digital revenue growth up 42%. The company also won a handful of new client accounts. SK Hynix's stock was up as DRAM prices rose in June and July; the company also noted declining memory inventories due to better demand. The South Korean semiconductor supplier rose in line with industry competitors, Micron and TSMC, both of which projected strong industry demand in 2020. Within the consumer staples sector, Japan's Asahi Group was up more than 10% after it reported mixed first half results with below target numbers in alcohol beverages but strong performance in soft drinks and food. The market has also warmed up to Asahi's strategy of diversifying outside Japan, mainly through key acquisitions.

The following table reflects the sector and regional allocation for a representative international equity portfolio as of September 30, 2019.

	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%	7.7%	0.0%	0.0%	1.7%	0.0%	2.2%	0.0%	0.0%	3.8%	0.0%	0.0%	0.0%	0.0%
Japan	24.6%	9.6%	0.0%	1.5%	0.2%	0.0%	0.0%	2.2%	0.0%	2.0%	0.0%	3.8%	0.0%	0.0%
Other Asia	12.1%	18.1%	0.0%	0.0%	2.1%	0.0%	3.1%	1.2%	0.0%	5.4%	5.0%	1.3%	0.0%	0.0%
Europe	57.4%	43.6%	0.0%	0.0%	9.6%	7.9%	9.9%	1.7%	2.0%	6.2%	0.0%	6.4%	0.0%	0.0%
Scandinavia	6.0%	14.3%	0.0%	0.0%	2.0%	5.7%	0.8%	0.0%	0.0%	5.8%	0.0%	0.0%	0.0%	0.0%
Africa & South America	0.0%	3.0%	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	3.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.6%
Portfolio Totals		100.0%	0.0%	1.5%	16.6%	13.6%	16.1%	5.1%	2.0%	25.1%	5.0%	11.4%	0.0%	3.6%
MSCI EAFE Weight	100.0%		5.1%	3.8%	7.0%	14.7%	11.5%	12.0%	11.6%	18.6%	6.7%	5.4%	3.6%	0.0%

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

Continued trade tensions between the U.S. and China have weighed down the global economy; we do not see those fractious conditions resolving anytime soon. Our portfolio companies have responded to these events by cautiously exploring or even curtailing their investment and production plans. While we continue to seek defensive companies like VINCI SA, Loomis AB and BBA Aviation, our screens point to more companies in sectors like materials and industrials. New investments were being initiated at the start of the fourth quarter.

*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.*