



# 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**

	2010					Annualized as of December 31, 2010						Since 6/30/1984
	YTD	QIV	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	
<i>Polaris Capital International Equity Composite gross</i>	20.83%	10.05%	19.50%	-12.20%	4.65%	20.83%	-2.25%	4.88%	12.08%	10.82%	10.95%	12.72%
<i>Polaris Capital International Equity Composite net</i>	20.03%	9.86%	19.31%	-12.35%	4.47%	20.03%	-2.93%	4.19%	11.22%	9.95%	10.10%	11.80%
<i>International Equity Benchmarks</i>												
MSCI EAFE Index, gross dividends reinvested	8.21%	6.65%	16.53%	-13.75%	0.94%	8.21%	-6.55%	2.94%	3.94%	5.09%	6.22%	10.13%
Lipper International Mutual Funds	10.75%	7.35%	16.85%	-13.06%	1.60%	10.75%	-6.47%	2.89%	3.81%	6.03%	N/A	N/A

*Q4 2010 composite returns are preliminary. Past performance is not indicative of future results.*

The international portfolios' annual results, which exceeded the MSCI EAFE Index benchmark, can be credited to strategic bottom-up stock picking, as our research identified fundamentally-sound companies that not only survived the recession, but emerged stronger in the early recovery phase of the world economy. Importantly, many of the portfolio companies underwent restructuring during the recession, streamlining business units and creating efficiencies. As a result, companies posting even slow sales growth generated higher percentage increases in cash flows. Further bolstering the international portfolios' results, we purchased a number of new companies during the year, many of which posted strong returns by year end.

**PERFORMANCE ANALYSIS**

**Fourth Quarter 2010:** The international portfolios' holdings in more than three quarters of the sectors posted positive absolute returns, with the largest contributions coming from energy, material and industrial companies. In a reversal from previous quarters, developed countries saw the most substantial gains, while holdings in emerging countries experienced volatility.

Performance was not dominated by one sector or country; the defining factors for success were individual companies' capability to offer products that 1) beat deflation, 2) saved customers' money or 3) targeted growing economies (both developed and emerging.)

The tight supply of diesel in Asia (due to Chinese demand for cleaner fuels than coal) boosted the international portfolios' energy holdings. Capitalizing on the Asian supply-demand constraints and the recently loosened price controls in Thailand, Thai Oil boosted production and increased profitability. A newer position, Prosafe SE also performed well, after announcing record third quarter 2010 results.

In the industrial sector contribution, Andritz AG was a top contributor in the fourth quarter. Exemplifying the money-savings principle, one Andritz division produces recovery boilers for pulp making facilities. Andritz's boilers can transform pulp mills from consuming electricity to producing electricity and selling the excess to the power grid. Almost all of the industrial holdings posted positive returns for the quarter, following the upward trend started by strong third quarter earnings.

The international portfolios benefitted from investments in materials companies that own critical raw materials required by faster growing countries. German chemical company BASF was up on news of a potential joint venture with Malaysia's Petronas, as well as news that it won European Union approval to acquire food and cosmetics ingredients maker Cognis Holding GmbH. European shutdowns of higher-polluting coal-based production increased demand for methanol production from clean natural gas – a boon to Methanex Corporation.

Resistant to volatile macro-economic conditions, most of the consumer discretionary stocks posted results in double-digit territory. Duni AB, a provider of tabletop goods to restaurants, has been a top contributor for each of the last two quarters. Deflation concerns did not hamper luxury goods like Christian Dior, which was able to defend its pricing with a strong brand name. Benefitting from global auto industry demand (spurred on by emerging country car sales), Autoliv Inc. posted strong numbers for the entire year.

The financial sector holdings showed mixed results. After a strong run earlier in 2010, State Bank of India dropped, as the stock was impacted by emerging market volatility. KBC Groep suffered due to its exposure in Ireland. Offsetting some of the negative results, re-insurers bounced back as concerns about the sovereign debt crisis in Europe abated.

In the “defensive category”, most consumer staples posted positive returns with the exception of Japanese stocks. In mid-November, Ireland’s Greencore Group announced a proposed merger with U.K.-based Northern Foods, creating a powerful entity in the ready-made food industry. As a stand-alone company, Greencore had strong fundamentals and good business progress, but was undervalued by the markets. The merger, which had terms favorable to Greencore shareholders and management, will likely enhance company perception in the marketplace.

**Full Year 2010 Performance:** The international portfolios saw some strong gains from industrials, materials and energy stocks, many of which have substantial exposure to emerging markets. Finland’s industrials such as Konecranes, YIT Oyj and Kone Oyj posted satisfactory returns 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.

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 portfolios toward those materials companies, which cannot supply enough to keep up with increased demand despite sluggish worldwide growth. 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. Companies such as Smurfit Kappa (resilient demand for boxes for food and other products in Europe and Latin America) and Methanex (strong demand for methanol from China) continued to report strong earnings and cash flows. CRH, the Irish building materials group, detracted from better performance in this sector. The company’s European business remained strong, but performance has been impinged by weak U.S. business.

Although achieving positive absolute returns, consumer discretionary stocks, namely British homebuilders, contributed little to the portfolios. After strong returns in the first half of the year, homebuilders stagnated in the fourth quarter when the British government announced large budget cuts. In early 2011, many of these homebuilders have posted positive earnings reports, demonstrating their ability to grow even in a slow housing market.

Defensive sectors within the portfolios (telecom, consumer staples, healthcare and utilities) contributed positively, but less so than their cyclical counterparts.

#### CURRENT ASSET ALLOCATION

During the year, we sold holdings in companies that had reached their valuation limits or where analysis revealed deterioration in individual company fundamentals. Culture Convenience, the Japanese provider of music and film CDs and video games, had been facing increased competition from others who have more effectively embraced internet channels of distribution. Based on projected weaker sales, the international portfolios decided to realize a marginal loss and sell the position in the third quarter of 2010.

Rich valuations were evident in Cargotec, where weak sales forecasts (due to lower sales levels in shipbuilding, container handling and port facilities) were not reflected in the current stock price. Similarly, Tokyo Electric Power became fairly valued, once we factored in the cost of higher priced non-nuclear energy generation due to higher oil prices and higher capital expenditures. In both instances, the international portfolios realized losses when the stocks were sold and cash was allocated to new investments and increased weightings in portfolio areas with strong growth potential. During the year, we purchased a number of new holdings (some of which are referenced above) across several sectors including IT, healthcare, industrials and energy.

The table on the following page shows the asset allocation for a representative international portfolio as of December 31, 2010.

## Representative International Portfolio Asset Allocation

	Market Weighting	Portfolio Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Info. Tech.	Telecom Services	Cash
N. America	0.00%	2.68%	0.00%	0.00%	2.68%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Japan	22.12%	11.13%	0.00%	1.71%	1.49%	3.31%	0.00%	3.39%	0.00%	0.00%	0.00%	1.23%	0.00%
Other Asia	13.46%	14.06%	3.09%	0.00%	3.10%	0.00%	0.00%	0.00%	0.00%	2.49%	3.67%	1.71%	0.00%
Europe	58.25%	47.24%	5.53%	0.00%	12.57%	9.21%	8.96%	1.35%	2.31%	5.12%	2.18%	0.00%	0.00%
Scandinavia	6.18%	20.21%	0.00%	0.00%	0.00%	10.17%	3.75%	0.00%	0.00%	6.28%	0.00%	0.00%	0.00%
Africa & S. America	0.00%	2.61%	2.13%	0.00%	0.48%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	0.00%	2.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.08%
<b>Industry Totals</b>		<b>100.00%</b>	<b>10.75%</b>	<b>1.71%</b>	<b>20.33%</b>	<b>22.69%</b>	<b>12.71%</b>	<b>4.74%</b>	<b>2.31%</b>	<b>13.90%</b>	<b>5.85%</b>	<b>2.94%</b>	<b>2.08%</b>
Market Weighting	100.00%		7.99%	5.00%	11.43%	12.60%	10.37%	10.20%	8.32%	23.52%	5.03%	5.48%	0.00%

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

While economic conditions improve in the private sector, questions remain about the fiscal health of governments worldwide. Countries are expected to implement budget cuts, higher taxes and similar measures to mitigate rising debt levels. Such fiscal policies may negatively impact economies worldwide. Additionally, we remain concerned about the possible implosion of the Chinese real estate market, which continues to experience a boom because currency controls trap liquidity in the country and investors have nowhere to invest except stocks and real estate, thus creating unsustainable valuations. We are hard pressed to find a real estate bubble in the history of the world that has not ended badly and, despite the Chinese efforts to engineer a soft landing, we remain skeptical this bubble will escape the inevitable.

Our outlook remains consistent: we expect economic activity to be slow, steady and mixed. We are guardedly optimistic about future growth prospects, as we identify fundamentally-strong companies reporting good earnings across myriad sectors and countries. Sales growth reported among many late-cycle companies may also portend early stages of macro-economic recovery. We are taking advantage of this environment to analyze current holdings and new opportunities in an effort to mitigate potential loss of principal if the above negative developments evolve, as we continually seek to grow the value of our investments in the years to come.

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, measure 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.*