



# POLARIS

CAPITAL MANAGEMENT, LLC

121 High Street  
Boston, Massachusetts 02110  
Telephone (617) 951-1365  
[polariscapital.com](http://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/](http://www.polariscapital.com/international-equity/)

### INTERNATIONAL EQUITY COMPOSITE REPORT

	2013					Annualized as of December 31, 2013						
	YTD	QIV	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since 6/30/1984
<b>Polaris Capital International Equity Composite gross</b>	<b>34.23%</b>	<b>11.83%</b>	<b>9.59%</b>	<b>0.79%</b>	<b>8.67%</b>	<b>34.23%</b>	<b>14.52%</b>	<b>23.01%</b>	<b>11.18%</b>	<b>11.92%</b>	<b>11.23%</b>	<b>12.90%</b>
<b>Polaris Capital International Equity Composite net</b>	<b>33.35%</b>	<b>11.64%</b>	<b>9.41%</b>	<b>0.62%</b>	<b>8.49%</b>	<b>33.35%</b>	<b>13.76%</b>	<b>22.19%</b>	<b>10.41%</b>	<b>11.10%</b>	<b>10.38%</b>	<b>12.00%</b>
MSCI EAFE Index, gross dividends reinvested	23.29%	5.75%	11.61%	-0.73%	5.23%	23.29%	8.66%	12.96%	7.39%	4.96%	6.08%	9.98%

*Q4 2013 composite returns are preliminary. Past performance is not indicative of future results.*

The Polaris International Equity Composite (gross of fees) outperformed the MSCI EAFE Index benchmark for the quarter, up 11.83% versus the benchmark's 5.75%. The vast majority of portfolio holdings were in positive absolute territory, with most posting double-digit returns.

For the year ended December 31, 2013, the International Equity Composite was up 34.23%, compared to the benchmark at 23.29%. We are pleased with the outperformance, attributable primarily to stock picking. The flexibility to invest in companies with strong sustainable free cash flows in foreign countries (developed and emerging), industry and market cap, helped deliver satisfactory returns in 2013.

#### PERFORMANCE ANALYSIS

For the fourth quarter of 2013, all 10 sectors made absolute positive contributions to portfolio performance, led by consumer discretionary, consumer staples and materials. In consumer discretionary, Duni AB continued to perform well with strong third quarter sales. A large price increase to customer Procter & Gamble is expected to bolster Duni's earnings this year and next. British homebuilders posted double-digit gains, which slightly moderated toward quarter end as the U.K. government scaled back on its assisted home buying program. In our opinion, reduced government support for buyers who cannot otherwise afford property leads to better sustainability of the British housing market.

While both Japanese brewery and dairy companies achieved healthy returns, the predominant consumer staples story was Irish convenience food producer Greencore Group. As the top contributor to performance this quarter, Greencore stock was up more than 50% after turning a profit on its U.S. operations, validating the geographic expansion.

The materials sector was the third largest contributor to the International Equity Composite's performance. Imerys had double-digit returns backed by improving market conditions and strategic changes to its business, which included divesting non-core assets and focusing on growth segments. Canadian methanol producer Methanex was able to leverage higher prices (difference between gas and oil) and capture better margins due to methanol demand.

In financials, DNB Bank, Svenska Handelsbanken and two reinsurers, Hannover Re and Munich Re, returned strong results. Svenska Handelsbanken remains one of the best-managed European banks, with solid cost controls and asset quality. The main detractor was Standard Chartered, which dropped after releasing repetitive earnings downgrades.

In telecom, Freenet announced good results in a consolidating market, while introducing new products. KDDI capitalized on the smartphone shift, as it beat competitors to market in Japan. Deutsche Telekom experienced good revenue and earnings growth led by T-Mobile after its MetroPCS merger. The publicly traded U.S. subsidiary increased subscribers by 1 million, leading to a 38% USD revenue boost.

Finnish building/industrial service company Caverion demerged from YIT. Caverion has since cycled through cost adjustments, enhanced its service business in Northern Europe and improved profitability, resulting in a stock jump of 50% during the quarter.

Although all sector results were in absolute positive territory, the health care and energy portfolios underperformed their respective benchmarks. The health care sector was negatively impacted by Transgene, which reported non-productive liver cancer drug trials and delayed announcement of a lung cancer Phase 2B trial.

The energy sector was buoyed by Maurel et Prom and Sasol Ltd., but these results were mitigated by declines in Thai Oil. The company was affected by the political turbulence in Thailand. However, we do not think the unrest should affect future cash flows, as Thai Oil provides an important country resource.

## CURRENT ASSET ALLOCATION

No positions were liquidated in the quarter. Additional capital was invested within existing holdings and new stock Tullow Oil, an independent oil explorer focused in emerging market countries throughout the African continent. The following table reflects the sector and country allocation for a representative international equity composite portfolio as of December 31, 2013.

	MSCI EAFE Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Cash
N. America	0.0%	3.0%	0.0%	0.0%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Japan	21.1%	8.7%	0.0%	0.0%	1.4%	0.0%	0.0%	4.6%	0.0%	0.0%	0.0%	2.7%	0.0%
Other Asia	12.0%	8.4%	1.2%	1.4%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	4.6%	0.0%	0.0%
Europe & ME	60.8%	60.6%	3.6%	0.0%	12.3%	2.9%	20.3%	4.4%	4.0%	6.4%	2.3%	4.5%	0.0%
Scandinavia	6.2%	14.8%	0.0%	0.0%	0.0%	6.2%	2.1%	0.0%	0.0%	6.4%	0.0%	0.0%	0.0%
Africa & S. 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%
Cash	0.0%	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%
<b>Portfolio Totals</b>		<b>100.0%</b>	<b>6.5%</b>	<b>1.4%</b>	<b>18.0%</b>	<b>9.2%</b>	<b>22.4%</b>	<b>9.0%</b>	<b>4.0%</b>	<b>12.8%</b>	<b>6.8%</b>	<b>7.1%</b>	<b>2.8%</b>

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

As would be expected after a stellar year for world markets, with the MSCI World Index up 27.37%, MSCI Europe Index up 25.96% and MSCI EAFE Index at 23.29% fewer undervalued companies are present at the start of 2014 than at the beginning of 2013. Notwithstanding higher stock prices, our research team continues to pinpoint new investment opportunities. We made evolutionary improvements to our screening technology and investment process during 2013, which have allowed us to uncover companies not previously filtering through our screens. Currently, our screens are dominated by Asian companies, which is not surprising considering the MSCI Emerging Markets Index was down -2.27% in 2013, a dramatic underperformance relative to developed countries. Additionally, we are carefully assessing valuations of previously depressed European companies, many of which are reporting positive near-term industry trends.

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 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.*