



# 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/global-equity](http://www.polariscapital.com/global-equity)

## GLOBAL EQUITY COMPOSITE REPORT

	2016		Annualized as of March 31, 2016				
	YTD	Q1	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 9/30/1984
<b>Polaris Capital Global Equity Composite gross</b>	<b>0.92%</b>	<b>0.92%</b>	<b>-2.65%</b>	<b>9.28%</b>	<b>8.57%</b>	<b>5.25%</b>	<b>11.21%</b>
<b>Polaris Capital Global Equity Composite net</b>	<b>0.81%</b>	<b>0.81%</b>	<b>-3.11%</b>	<b>8.79%</b>	<b>8.03%</b>	<b>4.65%</b>	<b>10.59%</b>
MSCI World Index, gross dividends reinvested	-0.19%	-0.19%	-2.90%	7.41%	7.11%	4.85%	9.72%

*Q1 2016 composite returns are preliminary. Past performance is not indicative of future results.*

The Polaris Global Equity Composite outperformed the MSCI World Index, gross benchmark in the quarter, gaining 0.92% (gross of fees), while the Index was down -0.19%. In a volatile quarter, when market averages dipped almost 10% at one point, we were pleased to have achieved positive results. Foreign exchange gains boosted the global portfolio's returns, with most developed world currencies except the British Pound, appreciating against the U.S. dollar.

Greater market volatility created buying opportunities, as the global portfolio purchased five companies parsed out in information technology and financial sectors. Five sales were executed, including Guangdong Investment Ltd. and Northern Star Resources, Ltd., both of which reached our valuation limits. As a result, the composition of the portfolio shifted, with the majority of cash from sales of non-U.S. companies reallocated to buy U.S.-based companies, J.P. Morgan Chase & Co., Franklin Resources Inc., Web.com Group Inc. and Avnet, Inc.

### PERFORMANCE ANALYSIS

Outperformance versus the benchmark can be attributed to positive performance in eight of 10 sectors, led by information technology, industrials and materials. Healthcare was the main detractor in a negative global market. On an individual stock basis, performance contribution was widespread with 18 stocks each posting gains in excess of 10% for the quarter. Most notable was Wesco International Inc., a late 2015 portfolio addition in industrials, which rebounded on the back of better-than-consensus earnings and the proposed acquisition of Atlanta Electrical Distributors. Another industrial holding, elevator/escalator manufacturer Kone Oyj, generated impressive sales in a rebounding Chinese housing market. Frontier Communications Corp. and Verizon Communications both had double-digit gains, following the completion of a deal whereby Frontier bought Verizon's wireline assets in Texas, Florida and California. Children's clothing manufacturer Carter's Inc. noted good quarterly results with swelling revenues driven by e-commerce. The company announced encouraging 2016 guidance, increased their dividend by 50% and committed to further share buybacks.

Marathon Petroleum Corp. was a significant detractor to global portfolio performance, as the company lowered the 2016 distribution expectations of its master limited partnership (MPLX) and cut capital expenditures as commodity prices declined. The company is expected to provide further financial support to MPLX by injecting its inland marine business in exchange for units, along with a potential private placement of up to \$1 billion. Allergan PLC and Teva Pharmaceutical Industries Ltd. were down, as the companies signaled a delay in Teva's \$40.5 billion acquisition of Allergan's Actavis generics unit. The majority of U.S. banks were in negative territory due to a prevailing low interest rate environment.

In the information technology sector, Wincor Nixdorf AG and Infosys Ltd both had double-digit gains for the quarter. Wincor Nixdorf was up, as its slated acquirer U.S.-based Diebold, Inc. received 68.9% of Wincor Nixdorf shares for purposes of satisfying the minimum tender condition. Infosys, the Indian outsourced technology consultant, rallied after raising 2016 revenue forecasts to 9%. Business momentum is back on

track after a less-than-stellar December 2015 quarter, which was impacted by sluggish year-end corporate tech planning and weaker currency. Semiconductor equipment manufacturer Brooks Automation, Inc. was sold in favor of two new companies with more attractive fundamentals, Web.com Group Inc. and Avnet, Inc. Web.com is a domain registration/web hosting service geared to small businesses, with a loyal subscription base. With the recent acquisition of Yodle, Web.com is positioned to not only host and design websites, but also to participate in digital marketing. Avnet is an electronics distributor, with a global footprint and customers across the value chain. Avnet consistently delivers over various business cycles, generates significant free cash flow and operates efficiently.

Not only did the Frontier-Verizon wireline acquisition boost the stock prices of both companies, but each provider referenced other promising developments, which resulted in double-digit gains. Frontier delivered the 12<sup>th</sup> consecutive quarter (ending December 31, 2015) of broadband momentum by adding 28,500 broadband connections. The company subsequently launched “Frontier Vantage”, a new suite of higher value-add products including multichannel TV packages, faster broadband and phone service. Verizon reported a solid fourth quarter of 2015, as the company regained momentum in wireless subscribers, while reducing customer attrition. German telecom Freenet AG reduced sector results, as the company’s acquisition of a 23.8% stake in Swiss telecom, Sunrise, was a departure from the previously-stated focus on the German market.

In addition to Carter’s Inc., other notable contributors in the consumer discretionary sector included International Game Technology PLC (IGT) and Regal Entertainment Group. IGT’s Italy-based Lottomatica subsidiary is leading a consortium bid on an Italian lottery concession, after which a joint venture will be arranged. The announcement came just ahead of IGT’s positive fourth quarter earnings report. Regal reported a record 2015 across most financial metrics, partially due to a strong fourth quarter of blockbuster film releases, investment in premium amenities and consistent focus on operational execution. The company also got a tangential boost from the AMC-Carmike Cinemas acquisition. A consolidating market is good for the movie theater industry and opens up the possibility of a similar merger & acquisition (M&A) transaction for Regal. British homebuilders hampered sector performance, as most were weaker on profit taking. In London, transaction volumes and prices were dropping in wealthier locales, where homebuilders had minor exposure.

Utility company, NextEra, delivered strong annual results, with earnings up 8% for the 2015 year. Their Florida Power & Light unit and renewable energy portfolio, Energy Resources, had healthy growth. ALLETE, Inc. reported strong 2015 earnings on the back of healthy net income and operating revenue. The company went on to announce another dividend increase; impressively, the company has paid dividends since 1948.

Australian energy company, WorleyParsons, rose more than 20% as the company announced overhead reduction programs that will deliver \$300 million annual savings over the next 18 months. The company also plans to strengthen the balance sheet through lower capital expenditures, tighter cost controls and asset disposal. Thai Oil benefitted from higher gross refining margins as lower energy price spurred higher consumption.

In the fourth quarter of 2015, U.S. banks Ameris Bancorp and BNC Bancorp were among the top contributors to global portfolio results, buoyed by M&A activity and the prospect of rising interest rates. Banks were heartened by the December 2015 Federal Reserve decision to nudge the federal funds rate up. However, in the subsequent two meetings the Fed decided to leave rates unchanged at between 0.25% and 0.50%. This quarter, U.S. banks were impacted by the revised outlook, as higher interest rates can boost banks’ net interest margins and income. British multinational banking and financial services company Standard Chartered was under pressure due to emerging market and commodity exposure. The company’s new CEO embarked on an aggressive capital and cost savings plan to position the bank through these challenging conditions.

Among other financial holdings, Russia’s Sberbank had a strong quarter as net interest margins continued to recover due to lower funding costs, coupled with a peak in loan loss provisions. 2016 will likely be better than 2015 for the bank allowing for dividend growth. Norwegian savings bank Sparebank 1 SR recovered on the back of better commodity prices, as the majority of their customer base has exposure to the energy sector.

In the past two years, the global portfolio's valuation screens have identified a preponderance of value opportunities amongst financials and information technology sectors. Much of our bottom-up research has revolved around these sectors, and we have sought entry points when companies reached value pricing levels. For example, U.S. banking institution J.P. Morgan shares lost approximately 20% of their value from the end of December 2015 to mid-February 2016; we took this precipitous drop as a purchase opening. The stock rebounded more than 10% by quarter end. Shares of asset management companies often trade down aggressively in market turmoil; we bought Franklin Resources when it was out of favor, suffering from outflows and foreign earnings kept abroad due to U.S. tax rules. The global portfolio also invested in Siam Commercial Bank, one of the largest banks in Thailand.

The Valeant Pharmaceuticals debacle has unfairly cast a shadow on the entire big pharma industry, as concerns surge about drug access and costs. This has impeded shares of Allergan and Teva, although fundamentals of both companies remain healthy. Teva is still intending to acquire Allergan's generic division on a postponed timeline, due to the U.S. Federal Trade Commission's lengthy review. Novartis was down more than 10%, on news of its cancer drug Gleevec going off-patent as of July 2016. The lost revenue streams were supposed to be replaced by heart failure drug Entresto, but the drug has yet to gain wide-scale adoption. Additionally, Novartis' Alcon division underperformed for the past year.

The following table reflects the sector and regional allocation for a representative global equity composite portfolio as of March 31, 2016.

	MSCI World Index	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom Services	Cash
N. America	62.7%	43.6%	1.0%	2.9%	2.5%	2.8%	2.6%	1.4%	5.0%	13.9%	8.2%	3.4%	0.0%
Japan	8.4%	3.7%	0.0%	0.0%	1.1%	0.0%	0.0%	1.2%	0.0%	0.0%	0.0%	1.4%	0.0%
Other Asia	4.5%	8.4%	2.2%	0.0%	1.1%	0.0%	1.3%	0.0%	0.0%	1.3%	2.6%	0.0%	0.0%
Europe & Middle East	22.0%	30.8%	0.0%	0.0%	7.8%	1.6%	9.9%	1.3%	2.2%	4.2%	1.5%	2.4%	0.0%
Scandinavia	2.4%	11.1%	0.0%	0.0%	1.2%	4.5%	0.9%	0.0%	0.0%	4.5%	0.0%	0.0%	0.0%
Africa & South America	0.0%	0.0%	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%	2.3%
Portfolio Totals		100.0%	3.2%	2.9%	13.7%	8.9%	14.6%	4.0%	7.2%	23.9%	12.2%	7.2%	2.3%

*Table may not cross foot due to rounding.*

## INVESTMENT ENVIRONMENT AND STRATEGY

We capitalized on market volatility, purchasing companies at attractive valuations. Many of the newly-added companies had been on our research screens for years, backed by carefully crafted fundamental analysis. These "richly valued" stocks came off prior highs allowing us entry, as evidenced by various financial and IT sector purchases. Portfolio turnover is likely to increase in the coming months, as we intend to capitalize on ongoing market turmoil. We believe that volatility will persist, as even modestly-growing economies might still experience some downside risks. Developed countries with substantial financial leverage and the majority of emerging markets will likely be susceptible.

Other economies, namely the U.S., will continue to see slow progress as lower oil prices have contributed to healthier consumer pocketbooks. Discussions with a number of our portfolio companies proved fruitful, as they identified three consumer spending patterns including: 1) spending on automobiles, home purchases and some discretionary goods; 2) investing more for both short- and long-term retirement goals; and 3) saving money via bank deposits/accounts, thereby repairing personal balance sheets. All of these initiatives bode well for a moderate but longer and more sustained economic recovery. We expect that many of the European countries will follow the lead of the U.S., within a two- to three-year time lag. We will keep these themes in mind as we manage the global portfolio with a goal toward continued long-term outperformance.

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 World, gross dividends reinvested, measures the performances of a diverse range of global stock markets in the United States, Canada, Europe, Australia, New Zealand and the Far East. The MSCI World Index measures the performance of stock markets in these geographic areas including reinvestment of gross dividends. The MSCI EAFE Index (Europe, Australia and the Far East) is an equity index, which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.*