POLARIS
CAPITAL MANAGEMENT, LLC

121 High Street
Boston, Massachusetts 02110
Telephone (617) 951-1365
polariscapital.com

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For current global equity performance, **please click here**

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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2022		Annualized as of March 31, 2022				
	YTD	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
Polaris International Equity Composite gross	**-5.24%**	**-5.24%**	**-3.92%**	**6.08%**	**6.21%**	**8.63%**	**11.16%**
Polaris International Equity Composite net	**-5.36%**	**-5.36%**	**-4.40%**	**5.55%**	**5.65%**	**8.03%**	**10.34%**
MSCI EAFE Index, gross dividends reinvested	-5.79%	-5.79%	1.65%	8.28%	7.22%	6.77%	8.81%

Composite returns are preliminary. Past performance is not indicative of future results.

In the first quarter of 2022, inflation remained elevated fueled by massive spending, tight supply chains, and high commodity prices on the backdrop of geopolitical tensions. The conflict between Russia and the Ukraine intensified; sanctions against Russia, one of the largest global energy exporters, drove up energy prices worldwide, while casting doubt on global economic growth forecasts. COVID related lockdowns in China exacerbated the dour GDP outlook, as the world's second largest economy shutdown factories and shipping ports to facilitate the country's aggressive zero-COVID policy. Supply chain disruptions led to even higher inflation. To address inflation, the Federal Reserve raised the federal funds rate by a quarter percentage point in March 2022 for the first time since 2018, while signaling additional rate increases on the horizon. As would be expected of a volatile quarter, the MSCI EAFE Index declined -5.79%, while the Polaris International Equity Composite returned -5.24%.

The international equity portfolio's outperformance was broad-based, beating the benchmark in six of nine sectors, including most cyclicals like financials, communication services, industrials and information technology. The consumer discretionary sector was the largest detractor, where the portfolio was overweight and underperformed. Geographically, the portfolio's holdings in the United Kingdom declined most, impacted by homebuilders and consumer retailers. The portfolio had notable gains in Ireland, Switzerland, Singapore and Japan, as well as out-of-benchmark holdings in Canada, Colombia, Chile and Greece.

At the individual stock level, four of the top 10 contributors during the quarter were commodity related including Methanex Corp., Lundin Mining, Antofagasta and Marubeni Corp. Over the last few quarters, commodities have been strong due to demand and supply imbalances and supply chain disruptions. Now with 'higher inflation for longer' rhetoric, commodities have another leg up as in the past they have served as a hedge against inflation. Detractors were mainly consumer discretionary stocks, including Bellway PLC, Next PLC, Inchcape PLC and Taylor Wimpey PLC. The portfolio's sole holding in Russia, diamond miner Alrosa PJSC, was marked down to effectively zero as the Moscow Stock Exchange restricted non-Russian investors from selling and sanctions prohibited exchanging rubles for dollars.

FIRST QUARTER 2022 PERFORMANCE ANALYSIS

Bancolombia SA was the single best performer in the financial sector, up more than 35% for the quarter after announcing robust earnings, with non-performing loans improving, net interest margin expanding, and digital banking service NEQUI reaching 10 million users. Colombian billionaire Jaime Gilinski made another attempt to take over Colombia's most influential group GEA, including Grupo Nutresa and Grupo Sura, which has a 46% stake in Bancolombia. The market reacted positively on this development, as Gilinski has a track record of unlocking value and efficiencies in Latin American banks. Singapore-based United Overseas Bank (UOB) made its largest acquisition in 16 years, agreeing to buy the consumer assets of Citigroup in Indonesia, Malaysia, Thailand and Vietnam. The deal will double UOB's client base in these countries, which the company dubbed "a very good strategic fit". Singapore is quickly becoming a financial hub in Asia, usurping market share from Hong Kong, which has been burdened by restrictive laws, politics and COVID-19 outbreaks.

Jazz Pharmaceuticals singlehandedly boosted the health care sector, as the stock was up more than 20% for the quarter. The Irish biopharmaceutical company recouped prior quarter losses after posting strong earnings. Management went on to detail a five-year drug pipeline plan and execution strategy, which were well received by the market. The launch of the second-generation narcolepsy drug, Xywav, gained swift adoption across the applicable patient population.

The portfolio's communication services holdings outperformed the sector benchmark, attributable to Japanese telecom KDDI Corp., Ipsos, LG Uplus and Deutsche Telekom. Most notably, KDDI posted solid results, pointing to the strategic six-month turnaround in its mobile telecommunications group, which was boosted by sales and promotions. Profits were sizeable, attributable to the company's main growth drivers – life design domain and business services – as well as an uptick in the subscriber base.

Marubeni Corp., the Japanese trading company, rose more than 20% for the quarter after raising March 2022 full year guidance on robust operations across agriculture, energy, metals and mining businesses. The company also increased dividends and announced a share buyback in 2022. SKF AB offset some of these industrial sector gains. The Swedish bearing and seal manufacturer lost ground after a competitor reported weaker results on waning auto demand and supply chain issues. Additionally, SKF paused exports to Russia and also stopped production at its Russian factory, which comprises 2% of total sales.

Four U.K. companies dragged down the consumer discretionary sector, starting with homebuilders Bellway and Taylor Wimpey. Despite reporting positive operations and outlook, both stocks have been hit hard on the ongoing cost burdens and uncertainties around cladding and remediating fire safety defects in U.K. buildings. Next PLC, a British clothing and home goods retailer, was weak as the general industry remained under pressure on higher markdowns and inflation. Inchcape, the U.K. multinational automotive distributor, announced impressive 2021 annual results, highlighting consumer demand and pricing power on vehicle supply shortages. Revenues rose, while operating profits nearly doubled year-on-year. Yet, the stock price declined more than 25%, with a market wary of ongoing demand metrics given economic uncertainty. Inchcape also committed to exiting its Russian retail business (approximately 5% of profits), which further weighed down the stock.

Inflation and ensuing higher prices boosted commodity stocks like Methanex, Lundin Mining and Antofagasta, yet the same prices also squeezed margins at chemical/packaging companies processing those raw materials. As a result, BASF SE, Solvay SA and a few other stocks suffered double-digit declines as these companies have yet to raise downstream prices enough to offset higher raw material prices. On a granular level, Methanex reported its strongest operational and financial performance in its history. The company also restarted plant construction of Geismar 3, restarted Chile IV and completed the Geismar 2 project. Shares of copper producer, Lundin, rose as favorable copper prices set many all-time financial records in 2021. Lundin also expanded or completed a number of its mining projects, and is on track to close its acquisition of Josemaria Resources. Chilean copper miner, Antofagasta, bounced back from recent lows, releasing stellar 2021 results backed by an almost 50% increase in realized copper prices. The biggest materials sector detractor was Alrosa PJSC, the Russian diamond miner. Alrosa stopped trading along with other Russian stocks as the Moscow Stock Exchange closed for part of February and March. At this time, the investment team has marked down the position to effectively zero, and will likely divest Alrosa when restrictions are lifted.

During the quarter, Sumitomo Mitsui Trust Holding and Andritz AG were sold to make room for new investments with better upside potential. Cash was reallocated to new buys in Nomad Foods and OpenText Corp. Nomad Foods is Europe's largest branded frozen food manufacturer, producing healthy margins and good return on equity. Canada's OpenText, a provider of enterprise information management software and solutions, commands 30-40% market share on its service offerings and has grown revenue via organic growth and acquisitions. These more defensive investments may provide downside protection in the event of more economic volatility if the Russian-Ukraine conflict and higher interest rates weigh on economic activity.

The following table reflects the sector and regional allocation for a representative international equity portfolio as of March 31, 2022.

	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%*	12.0%	0.0%	0.0%	5.3%	0.0%	1.7%	0.0%	0.0%	4.0%	1.0%	0.0%	0.0%	0.0%
Japan	*22.3%*	12.4%	0.0%	0.0%	0.6%	2.4%	3.4%	1.4%	0.0%	0.0%	1.4%	1.7%	1.4%	0.0%
Other Asia	*12.7%*	17.9%	0.0%	0.0%	0.0%	1.1%	4.8%	0.0%	0.0%	3.8%	6.5%	1.7%	0.0%	0.0%
Europe	*57.0%*	39.0%	0.0%	0.0%	8.9%	4.7%	9.0%	1.5%	4.8%	4.4%	0.0%	5.6%	0.0%	0.0%
Scandinavia	*8.0%*	11.5%	0.0%	0.0%	1.8%	2.8%	0.6%	0.0%	0.0%	6.3%	0.0%	0.0%	0.0%	0.0%
Africa & South America	*0.0%*	3.6%	0.0%	0.0%	1.6%	0.0%	0.0%	0.0%	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Cash	*0.0%*	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%
Portfolio Totals		100.0%	0.0%	0.0%	18.3%	11.0%	19.5%	3.0%	4.8%	20.5%	8.9%	9.0%	1.4%	3.7%
MSCI EAFE Weight	*100.0%*		*4.1%*	*3.4%*	*8.2%*	*15.4%*	*11.5%*	*10.2%*	*13.4%*	*17.7%*	*8.6%*	*4.9%*	*2.9%*	*0.0%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

Faced with geopolitical upheaval, a protracted Russia-Ukraine conflict and circulating COVID-19 strains, worldwide economic volatility is inevitable. Supply chains and logistics remain stressed, resulting in higher prices across the board, from consumer goods and food supplies to commodities. In this context, we are constantly assessing the portfolio, seeking to ensure that our holdings not only weather the current climate, but thrive in an inflationary period accommodative to value stocks. We have already discussed the beneficiaries, including raw materials suppliers like Lundin and Methanex. Others may prove to be late-cycle winners, as companies like Mondi, HeidelbergCement, Michelin and Vinci begin to raise prices to recover raw material cost increases; these companies should generate better margins and stock prices going forward. We would be remiss in not mentioning financials here. Higher inflation will drive up interest rates, which should prove nimble enough to help banks' net interest margins and net income. Yet higher interest rates may have a negative impact on non-performing loans and mortgage fee income as the refinancing rush comes to a halt. Banks will need to deploy their assets into higher yielding loans to offset lower income on mortgage business; we have already seen this strategy enacted throughout the industry.

As evidenced by our portfolio turnover this quarter, we are actively seeking attractively-priced stocks with good upside potential and lesser downside risk. We are considering the risks of a big slowdown in Europe, continuing to diversify the portfolio geographically, while doing the same at the sector level. We believe that our fundamental bottom-up research, based on conservative investment assumptions and risk awareness, will continue to produce a well-rounded portfolio that has the potential to perform admirably no matter what economic turmoil we encounter.

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