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

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GLOBAL PORTFOLIOS

SECOND QUARTER 2008 PERFORMANCE ANALYSIS:

The second quarter performance was negatively impacted by three main sectors: consumer staples, consumer discretionary and financials. While the consumer sectors make up a small proportion of the portfolio the declines were large. It should be noted that much of the remaining portfolio performed closer to benchmarks.

Consumer discretionary results were marred largely by U.K. homebuilders, which continued to underperform due to house and land price declines triggered by reduced mortgage lending and buyer apprehension. We believe the market unfavorably compared British homebuilders to their U.S. counterparts; yet, this is an inaccurate comparison. Extensive stress testing was conducted on models to determine what price break would trigger a “sell” on British homebuilders. In projections, the Polaris research team dropped U.K. builders’ volumes down 10%, took their selling prices down 10% and marked down their land values by 10%; and they were still undervalued.

Consumer staples stocks were underweight relative to the benchmark and also underperformed. Japanese dairy and beer suppliers hindered results and an Irish food company, CRH, also declined. During the first quarter, Japanese consumer staples holdings were boosted by beverage price hikes and a strong Yen appreciation. However, the stocks returned to undervalued levels in the second quarter.

We continued to invest cautiously in consumer-oriented sectors, favoring select companies with strong free cash flow and strong corporate teams. Within that framework, we remain constructive about Japanese consumer staples as well as U.K. homebuilders. The dramatic falls in homebuilder valuations anticipate more drastic declines in fundamentals than we believe to be realistic over the next three to five years. The positions represent relatively small proportions of the portfolios and the valuations assume the assets are virtually worthless. This is highly unlikely.

Financials also underperformed, primarily U.S. banking institutions as well as a few European holdings. However, many of the recent investments in re-insurers have proven successful to date. As with all financial companies in the portfolios, the re-insurers have not engaged in price wars or invested in risky subprime securities. However, the market still has trouble discerning financial companies with strong fundamentals from those that are poorly managed.

At over 20% of the portfolio’s composition, industrial holdings outperformed relative to the benchmark, with the majority of holdings posting positive returns. Leading the way was Andritz, an Austrian global plant, systems and services provider for the pulp and paper, hydropower and steel industry. Posting some of the strongest numbers was the recent portfolio addition of Italy-based Trevi Group, one of the leaders in the foundation engineering field and in the design and construction of advanced systems in geotechnical and hydrocarbons drilling sectors.

Telecommunications companies in the U.S. and Japan rebounded, after successfully dealing with price competition and mobile phone rate deregulation respectively. These holdings also eclipsed the benchmark returns.

Australia’s diversified commodities company, BHP Billiton, U.S. industrial gas manufacturer Praxair and South Africa’s paper producer Sappi, performed admirably within the materials sector. Additionally, the majority of the portfolios energy holdings posted double digit returns that contributed positively to performance.

SECOND QUARTER 2008 ASSET ALLOCATION:

During the quarter, we sold stocks that reached valuation limits, redeploying the cash to new and current portfolio positions. We purchased a new industrial company, Tognum AG, a leading supplier of high-speed, powerful diesel engines and complete propulsion systems for ships, heavy agricultural and rail vehicles, industrial drive systems and onsite power generators. Other purchases contributed to the telecommunication sector. By making such purchases, management was able to improve the valuation of the portfolio and reduce overweight exposures in some sectors.

Portfolios remain underweight in the U.S. and overweight in Scandinavian countries and emerging markets. The U.S. market still offers less value than the rest of the world. The following table shows the asset allocation at June 30, 2008.

	World Market Weighting	Portfolio Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretion'y	Consumer Staples	Health Care	Financials	Information Technology	Telecom. Services	Other	Cash
N. America	*50.97%*	36.67%	1.70%	3.62%	5.24%	8.18%	1.36%	0.00%	3.60%	11.35%	0.00%	1.63%	0.00%	0.00%
Japan	*9.85%*	10.98%	0.00%	0.82%	2.32%	2.72%	0.54%	3.08%	0.00%	0.00%	0.00%	1.51%	0.00%	0.00%
Other Asia	*4.81%*	5.97%	1.08%	0.00%	2.02%	0.00%	0.00%	0.00%	0.00%	0.00%	1.47%	1.40%	0.00%	0.00%
Europe	*31.24%*	29.68%	2.21%	0.00%	6.75%	4.87%	5.76%	1.15%	0.00%	8.94%	0.00%	0.00%	0.00%	0.00%
Scandinavia	*3.13%*	12.82%	0.00%	0.00%	0.71%	7.25%	1.89%	0.00%	0.00%	2.97%	0.00%	0.00%	0.00%	0.00%
Africa & S. America	*0.00%*	3.82%	1.43%	0.00%	2.39%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	*0.00%*	0.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%
Industry Totals		100.00%	6.41%	4.44%	19.42%	23.02%	9.56%	4.23%	3.60%	23.26%	1.47%	4.53%	0.00%	0.06%
Market Weighting	*100.00%*		*11.12%*	*4.75%*	*7.78%*	*11.82%*	*9.68%*	*8.96%*	*8.82%*	*22.05%*	*10.43%*	*4.59%*	*0.00%*	*0.00%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY:

Financial markets continue to signal a general economic decline. Consumers may have been able to overcome the credit crisis; however, credit issues coupled with the drain of consumer cash flow (due to higher gas, commodity and consumer staples prices) proceeded to test world economies. On the horizon, U.S. Federal stimulus packages and Federal Reserve monetary policy are expected to boost the economy.

Until that time, however, investment strategy dictates that investors “follow the liquidity”— which is currently funneling to resource-rich countries and companies involved in oil development, mining, materials and other commodities. Resource economies are reinvesting their cash flow mainly to finance domestic and public capital formation, as well as devoting a large proportion of their resource revenues to exploration as well as downstream activities such as refining and petrochemicals. This effort points to investment opportunity in select materials/industrials/energy companies in some emerging and developed countries.

However, a country's economic performance following a resource boom is not pre-ordained: it also depends to a considerable extent on the policies followed by its government and world economic growth. Polaris is maintaining an overweight position in the materials sector, while being vigilant for companies that become overvalued or subject to declines in fundamentals.

As always, the Polaris team seeks out companies that are primed to outperform in difficult times, recognizing that these holdings tend to bear fruit when conditions improve. We continue to invest in companies that are generating free cash flow, even in credit-constrained markets, while also tapping the opportunities in resource-rich countries.