



# POLARIS

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Additional data specific to Polaris' global and international investments is available as follows:

For current global equity performance, [please click here](#)

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For current global equity performance commentary, [please click here](#)

For current international equity performance commentary, [please click here](#)



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## GLOBAL EQUITY COMPOSITE REPORT

	2018			Annualized as of June 30, 2018				
	YTD	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 9/30/1984
<b>Polaris Capital Global Equity Composite gross</b>	-0.38%	1.66%	-2.01%	10.61%	9.77%	11.75%	9.11%	12.49%
<b>Polaris Capital Global Equity Composite net</b>	-0.61%	1.54%	-2.11%	10.12%	9.29%	11.26%	8.55%	11.61%
MSCI World Index, gross dividends reinvested	0.76%	1.93%	-1.15%	11.70%	9.09%	10.55%	6.86%	10.00%

*Q2 2018 composite returns are preliminary. Past performance is not indicative of future results.*

The Polaris Global Equity Composite gained +1.66% for the second quarter of 2018, lagging the MSCI World Index, which returned +1.93%. The portfolio's significant benchmark-relative underweight to the U.S., during a period in which U.S. stocks performed well, primarily drove underperformance during the quarter. At quarter end, the composite's U.S. allocation was approximately 37%, while the U.S. represented 61% of the MSCI World Index.

At the sector level, health care was the global portfolio's top contributor to performance, with double-digit gains from Teva Pharmaceutical, UnitedHealth Group and Quest Diagnostics. The materials sector was the second largest contributor, benefiting from holdings in Methanex, Linde and BHP Billiton. U.S.-based ALLETE and NextEra Energy, as well as Japan's Kansai Electric Power, benefitted from cold weather-related electricity demand. Within the information technology sector, Web.com Group, Inc., Western Union, Microsoft Corp and Infosys added measurably to performance. Conversely, industrials detracted as General Dynamics faded on investor concerns about its Gulfstream business. Financial sector losses centered on emerging market banks and banks that cater to developing regions; these banks felt the jitters of an escalating trade war.

In the second quarter, we sold our positions in Symrise AG, Asahi Group Holdings, Pinnacle Financial Partners, Mixi Inc. and Sberbank. We purchased consumer discretionary stocks, Publicis Groupe and Inchcape, and two Korean companies: tobacco manufacturer KT&G Corp and banking institution, Shinhan Financial Group.

### PERFORMANCE ANALYSIS

Teva Pharmaceutical, the Israeli-based generic drug company, rebounded from prior lows as it continued its restructuring and reduced debt. The company reaffirmed the long-term safety of its blockbuster branded drug, Copaxone, and expects its new migraine therapy to undergo FDA review in 2018. UnitedHealth Group reported solid revenues and earnings-per-share for the quarter and increased full year 2018 guidance.

Among materials, Methanex Corporation posted record quarterly results on strong underlying demand and higher methanol prices. The Linde-Praxair merger remains on track and is expected to pass regulatory hurdles on a timely basis; both portfolio stocks gained during the quarter. French minerals company, Imerys SA, had a solid first quarter. Unfavorable foreign exchange rates and a recent U.S. verdict against Imerys talcum powder unit put pressure on the stock price.

Web.com Group was among the largest contributors to portfolio performance. Web.com's stock price advanced after it agreed to be acquired by an affiliate of Siris Capital Group in an all-cash transaction valued at approximately \$2 billion. Elsewhere in the information technology sector, Xerox Corp.'s stock declined (-16%) after activist investors scuttled a proposed merger with Fuji Film. Nexon, a Japanese gaming company, declined (-12%) after it reported results that missed analyst expectations, impacted by higher capital expenditures related to technology development.

UK-based fashion retailer, Next PLC, topped consumer discretionary sector results. Robust online sales surpassed analyst expectations, with the stock rising nearly +20% during the quarter. U.K. movie theater operator, Cineworld Group, reported solid earnings, leveraging synergies from the recent Regal Entertainment acquisition. The sector was hampered by losses from Hyundai Mobis, after it terminated the restructuring of

Hyundai Glovis, Kia and Hyundai Motors. The objective was to simplify the companies' cross-holding structure, yet activist shareholders demanded changes to the deal. Hyundai Mobis noted an improved proposal is forthcoming.

Irish convenience foods supplier Greencore Group Plc, delivered excellent results. The company announced half-year numbers with revenue growth from both its U.K. food-to-go grocery business and its U.S. Peacock acquisition. The stock rose +31% on speculation that the Peacock division may secure more U.S. outsourcing contracts. Conversely, U.S. food company JM Smucker was down. A sluggish consumer product industry and increasing competition led to lower pricing power and higher promotional spending to defend market share.

The financial sector detracted most from second quarter performance, although our holdings outperformed the MSCI World Index financial sub-sector on a relative basis. Thai banking/financial services firm, Siam Commercial, saw its stock drop nearly (-20%). Although the bank accrued decent quarterly metrics, net profits shrunk. British multi-national bank, Standard Chartered, publicized good loan growth, increasing net interest margins and improving capital ratio. Nevertheless, the stock remained depressed on macro-economic concerns in core banking markets, namely China and the U.K. U.S. community banks were responsible for the portfolio's good relative financial sector results. Regulators signaled a rollback of certain banking regulations, which investors viewed as a positive for smaller financial institutions. Webster Financial, the best sector contributor, was up +16% after announcing higher revenues and more loan originations and deposit balances.

The industrials sector also detracted from quarterly results, although portfolio holdings outperformed the sector average. Babcock International Group, a top five individual stock contributor, cited a year-over-year increase in revenue and profit along with a growing order book. Double-digit gains from Babcock were partially offset by a (-15%) decline in General Dynamics. The defense company had increased earnings, margin expansion and a healthy backlog. Postponed delivery of two Gulfstream planes undermined performance metrics.

The following table reflects the sector and regional allocation for a representative global equity portfolio as of June 30, 2018.

	MSCI World Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom Services	Real Estate	Cash
N. America	64.2%	39.7%	1.5%	2.8%	3.1%	2.4%	3.9%	2.5%	5.9%	9.1%	7.3%	1.2%	0.0%	0.0%
Japan	8.6%	3.5%	0.0%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%	1.2%	0.0%	0.0%
Other Asia	4.3%	12.0%	0.8%	0.0%	1.4%	0.0%	1.6%	0.5%	0.0%	3.4%	3.4%	0.9%	0.0%	0.0%
Europe & Middle East	20.8%	32.5%	0.0%	0.0%	6.3%	5.2%	9.6%	1.4%	2.9%	4.9%	0.0%	2.2%	0.0%	0.0%
Scandinavia	2.2%	7.5%	0.0%	0.0%	1.2%	2.1%	0.4%	0.0%	0.0%	3.7%	0.0%	0.0%	0.0%	0.0%
Africa & South America	0.0%	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.1%
Portfolio Totals		100.0%	2.2%	4.2%	12.0%	9.6%	15.6%	4.3%	8.8%	23.9%	11.6%	5.6%	0.0%	2.1%
MSCI World Weight	100.0%		6.8%	3.0%	4.9%	11.2%	12.7%	8.3%	12.2%	16.8%	18.5%	2.6%	3.0%	0.0%

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

Most fundamental indicators that we track point to synchronized global growth. The majority of companies, regardless of geography or industry, with which we met have expressed optimism about the global economy. Yet, the recent declines among systemically important financial institutions (SIFIs) have given us pause. This current economic boom may be intermittently tested by the ongoing threat of trade wars or challenges in emerging markets. We will capitalize on periods of market volatility to add new investments to the portfolio. 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 Index, 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 Index measures the performance of stock markets in these geographic areas including reinvestment of gross dividends.