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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**

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SECOND QUARTER 2022 INTERNATIONAL EQUITY COMPOSITE

Information presented is supplemental to the annual composite report.
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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2022			Annualized as of June 30, 2022				
	YTD	**QII**	**QI**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**	**Since 6/30/1984**
Polaris International Equity Composite gross	**-19.30%**	**-14.84%**	**-5.24%**	**-19.59%**	**-0.24%**	**1.62%**	**7.54%**	**10.62%**
Polaris International Equity Composite net	**-19.51%**	**-14.95%**	**-5.36%**	**-19.99%**	**-0.74%**	**1.08%**	**6.95%**	**9.80%**
MSCI EAFE Index, gross dividends reinvested	-19.25%	-14.29%	-5.79%	-17.33%	1.54%	2.69%	5.88%	8.31%

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

The MSCI EAFE Index dropped -14.29% in the second quarter of 2022, its biggest quarterly decline since the Index plummeted -22.72% in the first three months of 2020 at the start of the pandemic. Rising inflation caused this recent slump in global markets, as businesses raised prices and consumers felt the squeeze of more expensive goods and services. Inflation may remain stubbornly high so long as COVID-19 lockdowns in China and the Russia-Ukraine conflict constrain supplies while demand increases.

The Federal Reserve and other central banks worldwide are taking measures to raise interest rates in an attempt to cool inflation; however, actual rate increases have not been significant enough to change the course of economic growth. With short- and longer-term interest rates ranging between 1.25% and 3.0%, *real rates* (after inflation) are substantially negative with inflation now running at 8% in most of the developed world. Low *real rates* are stimulative to economic growth, leaving inflation uncontrolled. The question on our minds, like many investors, is whether it will take a recession to temper inflation and rising prices.

Market volatility in the first half of 2022 reflects concerns that only a significant economic downturn will reduce demand for goods, services, and labor enough to control inflation. The developed world delivered trillions in monetary/fiscal stimulus during the pandemic. Many companies report much of this money has yet to be spent. Consumers have shifted consumption from goods and services such as streaming content, boats, RVs and home improvements during pandemic lockdowns to different buying patterns focused on travel and clothing. Yet emerging countries that could not, or chose not to, borrow to provide stimulus are still recovering from severe economic shocks.

Global equity markets have been understandably volatile, with most developed and emerging countries suffering double-digit declines. On this backdrop, the Polaris International Equity Composite, at -14.84%, fell generally in line with MSCI EAFE Index returns for the quarter. Defensive sectors rotated back into favor after the last few quarters of cyclical sector gains. Health care was the top contributor, followed by real estate and consumer staples. Financials, materials and consumer discretionary detracted most. The portfolio had barbell results from off-benchmark countries: single holdings in Taiwan, China, India, Greece and Puerto Rico had relatively strong results, while stocks from South Korea and Canada declined. Weakness in most foreign currencies relative to the U.S. dollar hampered portfolio results.

A handful of individual stocks including Deutsche Telekom, Amcor PLC, Catcher Technology, Jazz Pharmaceuticals and Weichai Power Co. were among the positive contributors to performance. Commodity-related stocks, which generated strong returns in late 2021-early 2022, reversed course this quarter, as prices of copper and methanol dropped. Lundin Mining, Methanex Corp., Marubeni Corp. and Antofagasta each suffered double-digit declines.

SECOND QUARTER 2022 PERFORMANCE ANALYSIS

Deutsche Telekom (DT) was the largest contributor in the portfolio, as the German telecom reported respectable quarterly results and raised full year guidance on the back of its U.S. T-Mobile business. T-Mobile grew high single digits as it continues to take market share from Verizon and AT&T. DT also announced the sale of its 40,000+ cell tower portfolio across Germany and Austria, seeking to fetch a price of $22 billion. The sale is expected to cut DT's debt and fund the acquisition of a higher ownership stake in T-Mobile. Conversely, French advertising/PR firm Publicis fell on concerns about television and on-line ad spending, after competitor Snap Inc. warned of a material slowdown.

The international portfolio outperformed in the health care sector, buoyed by gains at Jazz Pharmaceuticals. The Irish biopharmaceutical company was up modestly on earnings; the company continues to execute on its strategy and drug pipeline.

In information technology, Catcher Technology was up more than 10% as the Taiwanese company reported new model and market share gains across major clients and gaming PCs. The company continued its share repurchase program, buying back more than 28 million shares in the first quarter of 2022. SK Hynix and Samsung Electronics slid on less favorable supply-demand metrics. Customers successfully built-up chip inventory, and have no immediate purchase order needs, especially on the back of slackening economic growth. This might portend lower pricing in the coming months.

Chinese diesel engine maker, Weichai Power, was among the top performing stocks for the quarter, and the best performer in industrials. While sales volumes were lackluster, operating income and net profit were resilient. Sales are expected to resume as China begins re-opening cities, industries and factories. Weichai management expects that the spin-off of Torch Technology will provide sufficient capital to fund tech research, enhance core competencies and build brand awareness. Marubeni was the greatest sector detractor, down more than -20%. Volatility in commodity prices and recessionary concerns hurt the Japanese integrated trading and investment business, which has a diversified portfolio of mostly economically-sensitive materials, energy and consumer product companies.

High gas prices had a deleterious impact on purchasing power as end consumers, especially in the lower- and middle-income brackets, forsook discretionary buys in favor of staples. The spending dilemma compounded by the higher price of goods – from cars and apparel retailers to televisions and appliances. As a result, stocks like LG Electronics and Sony Group Corp. declined in excess of -20% for the quarter. Elsewhere in the consumer discretionary sector, auto manufacturers (Kia Corp., Honda) and auto parts suppliers like Hyundai Mobis and Magna International felt the pinch of the Ukraine war, which disrupted the flow of goods like wiring harnesses for vehicles. This further constrained auto production just as this sector was ramping up from pandemic lows.

In the financial sector, the stock price of flatexDEGIRO AG halved during the quarter on general market volatility. The German online discount brokerage firm actually posted higher quarterly revenues and added to its 2.2 million customer base, but numbers failed to meet analyst expectations. flatexDEGIRO offered upbeat guidance on June 21st, estimating near-record revenues, more than a half million in new customers, and 75-85 million transactions by the end of 2022; the market response has been underwhelming.

Norwegian based Sparebank 1 SR-Bank highlighted decent loan growth and stable margins in its most recent earnings release. However, profits deteriorated due to weaker performance in its insurance divisions as claim ratios rose on greater natural disaster incidence. Additionally, the acquisition of SpareBank 1 Forvaltning AS in late 2021 has yet to prove accretive, with start-up costs still affecting accounts.

Amcor, the U.K. consumer packaging company, was among the top contributors in the materials sector, up more than 10%. The company delivered strong numbers after passing raw material costs on to their customers. Amcor is unable to meet all demand because of supply chain problems, but the lack of volume growth is being made up by prioritizing delivery of higher value sustainable packaging products in the health care, proteins, pet food and coffee end markets. Investors also lauded Amcor's strategic acquisition of ExxonMobil's Exxtend technology (certified polyethylene material), which will increase the amount of recycled content in its packaging.

Other materials sector stocks weren't so lucky. The Federal Reserve's 0.75% rate hike mid-June validated concerns about a looming recession; dour economic growth prospects bled through to myriad commodity stocks. Copper miners, Antofagasta and Lundin Mining, lost steam as copper prices dropped -18% on the quarter, further crimped by slower Chinese industrial activity during its lockdown and severe stress in the local housing market. Lundin completed the acquisition of Josemaria Resources, but the stock dipped on projected capital expenditures. Antofagasta reported a pipeline leak at one of its facilities, causing an interruption of production for 10 days. Similarly, methanol prices dropped from prior highs; Canada's Methanex lost nearly -30% although company fundamentals (demand for ethanol, cash flow) remain resilient.

During the quarter, Swedish bank Svenska Handelsbanken and Indian IT outsourcer Infosys were sold at healthy profits to make room for more defensive holdings that may buoy the international portfolio in the face of a potential recession.

The following table reflects the sector and regional allocation for a representative international equity portfolio as of June 30, 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%*	12.1%	0.0%	0.0%	4.2%	0.0%	1.8%	0.0%	0.0%	4.3%	1.8%	0.0%	0.0%	0.0%
Japan	*22.3%*	13.0%	0.0%	0.0%	0.7%	2.2%	3.5%	1.7%	0.0%	0.0%	1.6%	1.8%	1.4%	0.0%
Other Asia	*12.8%*	16.5%	0.0%	0.0%	0.0%	1.4%	5.0%	0.0%	0.0%	3.9%	4.4%	1.8%	0.0%	0.0%
Europe	*57.0%*	41.2%	0.0%	0.0%	9.8%	4.0%	9.7%	2.0%	5.3%	4.4%	0.0%	6.0%	0.0%	0.0%
Scandinavia	*8.0%*	9.9%	0.0%	0.0%	1.8%	3.2%	0.5%	0.0%	0.0%	4.4%	0.0%	0.0%	0.0%	0.0%
Africa & South America	*0.0%*	2.3%	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%	0.0%
Cash	*0.0%*	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%
Portfolio Totals		100.0%	0.0%	0.0%	18.0%	10.8%	20.5%	3.7%	5.3%	17.9%	7.8%	9.6%	1.4%	5.0%
MSCI EAFE Weight	*100.0%*		*4.8%*	*3.5%*	*7.5%*	*14.9%*	*11.3%*	*10.9%*	*13.9%*	*17.7%*	*7.8%*	*5.0%*	*2.9%*	*0.0%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

After more than 10 years of economic expansion, when annual worldwide consumer price inflation averaged a paltry 2.4% (per World Bank statistics), consumers are now dealing with price increases of magnitudes they haven't faced in several decades. The COVID-19 pandemic caused sudden shifts in consumer spending and manufacturing, as plants shut down on social distancing requirements. Inventory dwindled and supply chains dried up. In whipsaw fashion, consumerism resumed as COVID restrictions eased; production and supply chains failed to match pace with pent up demand. Ongoing supply chain disruptions led to increased price pressures, starting with companies' raw materials and input costs that flowed through to the end consumer. Inflation persists even though global central banks keep raising interest rates; more draconian measures may be necessary to temper inflation, which will inevitably lead to a recession. The economic slowdown will be hastened by impediments to global trade, most notably the Russia-Ukraine conflict, sanctions impacting critical supplies and materials, less favorable relations between the West and Russia and China and more European fiscal funds diverted to defense.

Our view is that central banks will attempt to balance the need to control inflation but if their actions substantially increase interest rates this could increase government borrowing costs so much that it will impair the fiscal balance of governments. We remain concerned such a scenario looks very much like an organization in financial distress. Hence, if inflation can somehow erode the value of government debt it may be a better alternative that a debt restructuring that will have broad implications for sovereign credit ratings.

Meanwhile, the substantial declines in the real value of debt portfolios are greater than investors have seen in history. For this reason, we are firmly of the view that equity portfolios are the best alternative to protecting wealth since companies can and are adjusting prices of their goods and services to allow cash flow to grow in nominal and real terms. Within equity markets, we have seen how just small increases in interest rates have caused large losses in highly valued stocks, with the Nasdaq 100 Index (comprised of FAANG stocks and similar ilk) down -29.5% year-to-date. Again, we emphasize value investments that generate sustainable cash flows over multiple market cycles should perform better.

Given the potential for a recession, we aim to strategically reposition the portfolio, adding more defensive companies and reducing weightings in economically-sensitive sectors and geographies. We are carefully assessing companies with higher debt levels that may be negatively impacted by higher interest rates, and will update the portfolio as our research dictates. We intend to purchase opportunistically on further downturns, seeking new companies that further de-risk and diversify the international equity portfolio. We expect that our patient, fundamental research efforts, on a backdrop of macro-economics, will allow us to outperform in this trying climate.