



# POLARIS

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

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Information presented is supplemental to the annual disclosure presentation.  
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## GLOBAL EQUITY COMPOSITE REPORT

	2016				Annualized as of September 30, 2016				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 9/30/1984
<i>Polaris Capital Global Equity Composite gross</i>	7.93%	9.66%	-2.49%	0.93%	13.53%	8.31%	14.69%	5.77%	11.26%
<i>Polaris Capital Global Equity Composite net</i>	7.58%	9.53%	-2.58%	0.82%	13.02%	7.81%	14.14%	5.18%	10.64%
MSCI World Index, gross dividends reinvested	6.06%	4.99%	1.21%	-0.19%	12.02%	6.43%	12.25%	5.06%	9.77%

*Q3 2016 composite returns are preliminary. Past performance is not indicative of future results.*

Global markets advanced notably this quarter, with the MSCI World Index returning 4.99%. The third quarter followed a tumultuous June quarter with highs and lows triggered by the Brexit vote. Investors fled to safety, and punished companies with exposure to the UK domestic economy. Over the ensuing three months, Brexit's impact was downgraded, with residual concerns mitigated by global macro-economic growth initiatives. The Bank of England cut interest rates in early August and the Bank of Japan unveiled a 28 trillion yen fiscal stimulus package. Meanwhile, the U.S. economy showed satisfactory progress, with the Federal Reserve intending to tighten monetary policy. The expectation of higher U.S. interest rates had a positive impact on returns for U.S. financial and cyclical stocks; conversely, defensive companies declined.

The Polaris Global Equity Composite was up 9.66%, surpassing the MSCI World Index by a significant margin. We are pleased with the outperformance, attributable to positive gains in seven of 10 sectors. Approximately 80% of portfolio stocks had positive returns. Contributors included materials companies LANXESS AG, Showa Denko and Solvay SA. Consumer discretionary stocks such as International Game Technology Inc. and British homebuilders Persimmon, Bellway Plc and Barratt Developments also added to returns. The financial sector was buoyed by gains from U.S. and Scandinavian banks. Industrial sector companies including Finnish crane equipment manufacturer, Konecranes Oyj, and U.S.-based electronics distributor, Wesco, had substantial returns. Detractors from portfolio performance included Carter's Inc., The J.M. Smucker Co., Indian IT outsourcer, Infosys, as well as several U.S. utility and telecom companies.

### PERFORMANCE ANALYSIS

Portfolio holdings within the materials sector were up, with many posting double-digit returns during the quarter. Among the top sector performers were LANXESS, Showa Denko, Solvay SA, Methanex Corp, BHP Billiton and Linde AG. The market approved of LANXESS' recent strategic acquisitions, including the purchase of Chemours' clean/disinfect chemical unit and Chemtura, a lubricant and flame retardant business. The company is making in-roads in specialty chemicals, while seeking to dispose of assets from its less-profitable rubber business. Showa Denko's petrochemical division raised earnings estimates on higher ethylene spreads; the hard disk drive media business showed positive results; and the company (in cooperation with JX Nippon Oil & Energy) agreed to purchase LyondellBassell's joint venture stake in polypropylene producer SunAllomer. As a result, Showa Denko and JX Nippon enlarged their market share of this high-demand polymer used in packaging, textiles, plastic parts and automotive components.

Ameris Bancorp, Independent Bank Corp., and International Bancshares had noteworthy gains in the financial sector. Ameris announced healthy quarterly metrics, with increasing revenue, higher net income from mortgage and Small Business Administration backed loans, organic loan growth and successful acquisition conversions. Independent Bank reported good second quarter earnings, highlighting commercial loan and core deposit growth. The portfolio exited Astoria Financial as it was the subject of a takeover by New York Community Bancorp. Sale proceeds were used to purchase Puerto Rico-based bank Popular Inc. We believe the Commonwealth's largest bank is undervalued due to the local debt crisis, which may be addressed by the recently-passed Puerto Rico Oversight, Management and Economic Stability Act.

Stocks in the industrials sector also added to positive portfolio returns. Konecranes' stock rose after it received approval from U.S. and E.U. antitrust regulators to purchase the materials/port solutions unit from U.S. equipment maker Terex Corp. The approval is conditional on the divestment of Konecranes' STAHL CraneSystems. The company also announced improved profits on the back of cost savings efforts. U.S.-based Wesco International Inc. confirmed full year guidance, referencing good construction end market demand that offset weakness in its energy business. Andritz, a previous portfolio holding, was repurchased. The Austrian supplier of plants and services for hydropower, pulp/paper and metals appeared attractive because of its recurring service-based revenue streams, solid balance sheet and acquisition track record.

Consumer cyclicals also added to positive returns. International Game Technology reported solid second quarter results, backed by higher lottery sales in Italy and North America. The company achieved three consecutive quarters of growth, while simultaneously paying down the up-front costs for Italian lotto concessions. U.K. homebuilders reported positive industry trends, with 10% or more increases on post-Brexit reservations. We bought additional shares of the homebuilders on the second day after the Brexit vote. Carter's Inc. detracted from performance as it revised down sales and guidance due to weak wholesale and international business. Lower margins were due to increasing capital expenditures related to expansion, technology and marketing.

Information technology company, HP Inc., announced its intention to acquire Samsung's printing business. With this transaction, HP expands its printing business in Asia and gains new printing technologies and 6,500 patents. The stock was up more than 20% at quarter end. Samsung Electronics advanced, notwithstanding the lithium battery problems late in the quarter. The company reported its biggest operating profit in two years on strong Galaxy S7 sales, as it increased cellphone market share. The stock price rose further on news of management's proactive restructuring efforts to avoid tax and/or share count issues in a changing regulatory environment. Infosys declined after lowering its annual sales forecast. The entire IT outsourcing industry is facing competition from customizable internet-based/cloud software.

The J.M. Smucker Co. encountered deflationary headwinds in the core foods segment. According to the Department of Labor, the "food at home" index dropped 1.9% over 12 months; the price index for meat, poultry and eggs was down 6.5% during the same period. This put pressure on J.M. Smucker, which was relying on its acquisition of pet food business, Big Heart, to make up the difference. However, Big Heart's volumes and sales were down in the second quarter.

Telecom sector stocks detracted, including U.S.-based Frontier Communications and Verizon Communications. Frontier announced second quarter earnings that incorporated assets from its recent wireline acquisition. Revenues on a consolidated basis were below expectation, but Frontier raised its estimate of integration savings from \$700 million to \$1.2 billion. Verizon detailed subpar earnings, with lower total operating revenues. However, the company continued to execute complementary acquisitions, including Yahoo's core web assets, workforce management company, Fleetmatics, and IoT solutions company, Sensity.

The EpiPen debacle and ensuing drug price discussion impacted the entire pharmaceutical industry, including portfolio holdings Teva Pharmaceutical and Novartis AG. Teva was also hit with negative rulings on three of its patents, opening up to generic sales. The withdrawal of health insurers from state exchanges created by the Affordable Care Act strained the relationship between the current Administration and insurers. Participation in loss-making exchanges is part of the health insurers' justification for consolidation (i.e. the merger between Anthem Inc. and Cigna). However, these mergers are being challenged by the Department of Justice. As a result, the Global Equity Composite holdings in Anthem and UnitedHealth Group Inc. were down slightly.

As previously referenced, defensive sectors were best performers in the first half of 2016; this quarter favored cyclicals. As a result, utilities were down, with portfolio holdings ALLETE Inc. and NextEra Energy Inc., each dropping more than 5%. ALLETE saw second quarter 2016 results impacted by lower sales to taconite customers.

The following table reflects the sector and regional allocation for a representative global equity composite portfolio as of September 30, 2016.

	MSCI World Index	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Telecom Services	Real Estate	Cash
N. America	62.8%	41.1%	1.1%	2.8%	2.6%	2.8%	2.2%	1.3%	4.9%	12.8%	7.9%	2.7%	0.0%	0.0%
Japan	8.9%	4.0%	0.0%	0.0%	1.3%	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%	1.4%	0.0%	0.0%
Other Asia	4.6%	8.7%	2.4%	0.0%	1.4%	0.0%	1.1%	0.0%	0.0%	1.3%	2.5%	0.0%	0.0%	0.0%
Europe & Middle East	21.5%	32.3%	0.0%	0.0%	8.4%	2.9%	10.7%	1.0%	2.1%	5.0%	0.0%	2.3%	0.0%	0.0%
Scandinavia	2.3%	11.3%	0.0%	0.0%	1.1%	4.9%	0.7%	0.0%	0.0%	4.7%	0.0%	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%	0.0%
Cash	0.0%	2.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%
Portfolio Totals		100.0%	3.5%	2.8%	14.8%	10.5%	14.7%	3.6%	6.9%	23.8%	10.4%	6.4%	0.0%	2.6%

*Table may not cross foot due to rounding.*

## INVESTMENT ENVIRONMENT AND STRATEGY

Our unwavering value philosophy, focused on identifying companies with free sustainable cash flow and conservative balance sheets continues to drive our investment process. This discipline proved fruitful over the past quarter, and has contributed to long-term outperformance through the quarter ended September 30, 2016. We continue to seek out stocks that may enhance the valuation profile of the portfolio and lead to satisfactory returns. Over the past year, attractively valued companies have been predominately focused on two sectors: financials and materials, and a few countries: Japan and other Asian economies. Analyst travel has ensued. We look forward to sharing our findings in the months ahead.

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.*