



POLARIS

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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2022				Annualized as of September 30, 2022				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
<i>Polaris International Equity Composite (net of fees)</i>	-28.65%	-11.36%	-14.95%	-5.36%	-27.78%	-3.82%	-2.43%	4.55%	9.39%
<i>Polaris International Equity Composite (gross of fees)</i>	-28.38%	-11.24%	-14.84%	-5.24%	-27.41%	-3.33%	-1.92%	5.12%	10.20%
MSCI EAFE Index, gross dividends reinvested	-26.76%	-9.29%	-14.29%	-5.79%	-24.75%	-1.38%	-0.36%	4.15%	7.98%

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

The third quarter began with a brief global market rally as bond yields declined amid hopes that inflation had passed its peak; August inflation numbers dispelled that optimism. Inflation remained stubbornly high across most goods, materials and commodities, exacerbated by the Russia-Ukraine conflict. European natural gas prices climbed to unsustainable levels, as Russia shut down the flow of gas via the Nord Stream 1 pipeline into Germany, while the G-7 vowed to cap prices on Russian oil purchases. Faced with decades-high inflation, the U.S., U.K. and South Korea raised key policy rates by 150, 50 and 25 basis points respectively during the quarter; the European Central Bank raised its interest rates by a historic 75 basis points. Earnings warnings from many companies across industries and geographies added to the data points of a slowing global economy.

These macro-economic data and interest differentials in the developed world resulted in foreign exchange (FX) market changes. The Euro, Japanese Yen, Korean Won, British Pound, and resource countries' currencies fell relative to the U.S. dollar, some by margins not seen in decades. Consequently, FX had a negative impact on performance, as the international equity portfolio was overweight South Korea, Canada and the Nordic regions. As a result, the Polaris International Equity Composite dropped -11.36% (net of fees), while the MSCI EAFE Index declined -9.29% for the quarter.

Economically-sensitive sectors saw declines, specifically consumer discretionary, materials and industrials holdings. Daito Trust Construction Co. posted double-digit gains, boosting the portfolio's real estate sector results; the portfolio also recorded relative outperformance in communication services and financials. Taiwan was the lone portfolio country to post positive gains on the back of Catcher Technology, followed by relative outperformance in select developed and emerging countries. The U.K., Canada and South Korea were the largest detractors to performance.

In addition to Daito Trust and Catcher, positive performance was broadly diversified with two German reinsurers, Hannover Re and Munich Re, French advertising/marketing firm, Publicis Groupe, and Swedish cash handling company, Loomis AB, among the top contributors. Lackluster returns were noted in the U.K., where the new government's mini-budget, with tax cuts and higher spending, caused U.K. interest rates to jump. This led to declines in homebuilders Bellway PLC and Taylor Wimpey PLC and retailer Next PLC. China's Weichai Power also dropped, as lockdowns in China impeded sales.

THIRD QUARTER 2022 PERFORMANCE ANALYSIS

In July 2022, Daito Trust, the Japanese construction and real estate company, hiked the average selling price of its new construction buildings by 8%, the second such price hike of the year. Despite the price increase, orders have remained strong in the ensuing months, with order volumes up in August and September.

Publicis Groupe led the communication services sector, posting single-digit gains. The French marketing/advertising firm noted business momentum, with Sapiient and Epsilon organic growth improvement. The company reported new client wins, as large consumer packaging companies amped up their advertising and promotion to compete for a more cost-sensitive consumer. Publicis upgraded its outlook for the end of 2022, pointing to top- and bottom-line growth.

German reinsurers, Hannover Re and Munich Re, added to financials sector performance. Inflation, limited capacity and higher demand will likely drive price increases through 2023. Both reinsurers have expressed a bearish outlook on natural catastrophe reinsurance, lessening their exposure in certain geographies. Thankfully, the hurricane season had been relatively benign throughout most of 2022; Hurricane Ian, while costly, is not expected to exceed the budgeted losses. Higher interest rates will boost reinsurers' conservative investment portfolios, which had been under pressure for the past few years.

A traditionally defensive sector, consumer staples did not moderate overall declines. Greencore Group PLC and Nomad Foods Ltd. had double-digit losses. Greencore slid in tandem with a competitor that revised down its top- and bottom-line guidance. U.K. frozen foods company, Nomad, was downgraded by two credit rating agencies, which postured that operating performance would be impacted by input costs and declining consumer confidence in the European Union and U.K. Investors were concerned that consumers will trade down Nomad brands to cheaper private label products; however, we have yet to see this in our data.

In the information technology sector, OpenText Corp.'s stock slid after announcing the acquisition of Micro Focus, a U.K. software company that has struggled with profitability following its own acquisition of Hewlett Packard's software business in 2018. OpenText purchased Micro Focus, rolling up two of the largest software companies into one, for a relatively cheap valuation but assumed its debt. OpenText management expects its organizational platform will greatly facilitate Micro Focus' turnaround. One sector highlight was Catcher Technology, the Taiwanese electronics casing manufacturer, which reported good second quarter results.

Among materials, Yara International reported impressive second quarter results, nearly tripling operating income from the prior comparable period on higher fertilizer prices and strong performance of its overseas assets, which more than offset higher European feedstock costs. Yara hurdled the European gas price issue with its overseas hedge, yet market worries hurt the stock. Methanol prices remained resilient, as Methanex Corp. reported strong results ending the second quarter with \$878 million in cash and returning \$109 million to shareholders. Operating rates improved and demand increased, especially in the methanol to olefins business. Nevertheless, the stock dropped on higher U.S. natural gas prices, which have yet to materially impinge Methanex's net income. Methanex issued a September press release announcing a share buyback, taking advantage of its lower share price. Copper prices were down across the industry, with Lundin Mining Corp. falling in lock step with its competitors. However, the company took a big hit on news of a sinkhole near its Candelaria mine. From a production perspective, the impact is minimal; yet the fallout from a political and/or environmental perspective is much greater.

In industrials, China's Weichai Power Co. declined as the heavy-duty truck market sales fell, along with its profits, on the back of continued lockdowns in China. Its overseas subsidiary, KION Group, also issued a profit warning. China's State Council rolled out 19 measures to tackle local economic challenges; a fresh injection of investment on infrastructure projects could benefit Weichai.

The consumer discretionary sector was the largest detractor to portfolio performance. U.K. homebuilders, Taylor Wimpey and Bellway, declined on concerns that higher U.K. interest rates may depress housing markets. U.K.-based Next PLC announced strong first half results but guided down for the second half of the year. The retailer's stock price further dropped on macro worries of rising inflation, higher mortgage rates and Pound weakness heading into 2023.

Three companies were sold during the quarter: Cineworld Group PLC, Bunzl PLC and Fresenius SE. Cineworld was sold on concerns of potential shareholder dilution or bankruptcy, the latter of which came true in September. Bunzl and Fresenius were sold to invest proceeds in more compelling valuations and defensive business models in today's economic environment. Bunzl was sold when it met Polaris' valuation target; the timing was fortuitous as we had concerns about Bunzl's forward operating margins due to higher operating costs and property cost inflation. Fresenius was sold amid the company's lowered top- and

bottom-line guidance, as the German healthcare company cited short-term headwinds from material, supply chain and energy costs, staff shortages in dialysis clinics, higher wages from Fresenius Medical Care and fewer catalysts in its biosimilar pipeline.

Irish company Smurfit Kappa Group PLC was added to the portfolio. With a reasonable debt load and risk profile, Smurfit is a different company than the one we owned more than a decade ago. The paper packaging company sits on the lower end of the cost curve thanks to its vertical integration and has proven its ability to raise prices in the current environment. Nearly 80% of Smurfit's customers are in the resilient, fast-moving consumer goods industry.

The following table reflects the sector and regional allocation for the Polaris International Equity Composite as of September 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%	11.7%	0.0%	0.0%	3.9%	0.0%	1.8%	0.0%	0.0%	4.5%	1.4%	0.0%	0.0%	0.0%
Japan	22.6%	14.0%	0.0%	0.0%	0.8%	2.4%	3.5%	1.8%	0.0%	0.0%	1.8%	2.0%	1.8%	0.0%
Other Asia	12.8%	15.9%	0.0%	0.0%	0.0%	1.2%	4.7%	0.0%	0.0%	4.0%	4.4%	1.6%	0.0%	0.0%
Europe	56.7%	40.2%	0.0%	0.0%	11.2%	3.2%	9.2%	1.5%	4.1%	5.1%	0.0%	5.9%	0.0%	0.0%
Scandinavia	7.9%	10.1%	0.0%	0.0%	1.8%	3.5%	0.4%	0.0%	0.0%	4.3%	0.0%	0.0%	0.0%	0.0%
Africa & South America	0.0%	2.3%	0.0%	0.0%	1.7%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.8%
Portfolio Totals		100.0%	0.0%	0.0%	19.4%	10.3%	19.5%	3.4%	4.1%	18.5%	7.7%	9.5%	1.8%	5.8%
MSCI EAFE Weight	100.0%		4.9%	3.4%	7.5%	15.0%	11.3%	11.3%	13.5%	17.6%	7.9%	4.8%	2.8%	0.0%

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

Higher interest rates have yet to tamp inflation. As rates rise, there is greater concern for economic growth. We have already seen downward revisions of gross domestic product throughout the world, and we expect tepid economic conditions for the next few quarters. Since the beginning of the year, we have been aligning our portfolio to adapt accordingly by adding more defensive and traditionally recession-proof stocks. We expect that such efforts will provide ballast against ongoing market volatility.

That said, markets have likely calculated the macro risks, pricing in the probability that a global recession is on the horizon. Year-to-date (through September 30, 2022), most global indices have teetered into bear market territory. As cautious value investors, we will continue to rebalance holdings as the economy progresses and seek to uncover companies that will benefit in the next three to five years.

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