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GLOBAL PORTFOLIOS

FOURTH QUARTER 2008 PERFORMANCE ANALYSIS:

Volatility punctuated the fourth quarter, with country and industry factors having a more pronounced impact on individual holdings. Polaris's research process focuses on companies with strong cash flows and low debt levels; yet in some instances, individual stock fundamentals were overwhelmed by country and industry factors.

Such an effect was evidenced in financials, as the entire sector declined due to dramatic failures of some large organizations and questions surrounding U.S. bank bailout programs. It is worth noting that the portfolio's financial holdings materially outperformed the MSCI World Index financials benchmark. The portfolio stocks generally avoided subprime/overleveraged conditions, keeping fundamentals (strong balance sheets, good customer base and clean loans) intact, yet stock prices dropped. We believe holding select stocks at such depressed valuations may invariably result in strong performance over the long term. We have already witnessed positive signs within these investments, as evidenced by relative outperformance in the third quarter.

The healthcare industry, a consistent performer for most of 2008, suffered due to concerns about reimbursement, cost ratios and rising medical costs, which slowed earnings growth. Once healthcare organizations re-price premiums in early 2009, earnings growth may resume.

Country factors evolved into global economic concerns, as constrained credit dampened demand for goods and services. Materials, industrials and consumer discretionary were negatively impacted as a result.

Consumer discretionary stocks relinquished some of their gains from the third quarter. Since December 2007, homebuilders have been burdened by lagging sales. Yet many of these companies had strong balance sheets allowing them to weather difficult market cycles. In the fourth quarter, these companies continued to be proactive in their efforts to stave off future declines. For example, Persimmons renegotiated its debt, while other builders are actively seeking alternatives to generate cash and resolve debt concerns.

During the fourth quarter, the portfolios' holdings in multiple industries had relative outperformance against the MSCI World Index benchmark, including financials, consumer staples, information technology, telecommunications and utilities. We invested in the telecom and utilities sectors due to the stability of their cash flows; the holdings in these sectors not only protected value, but, in the case of telecoms, returned positive gains. Many of these companies were based in Japan, including telephone operator KDDI Corporation, utility companies Kansai Electric Power and Tokyo Electric Power and within consumer staples, milk producer Meiji Dairies. In the depressed consumer discretionary market, Culture Convenience, a Japan-based holding company in the operation of video/music rental chains, also gained substantially. The Japanese Yen appreciation further helped domestic-oriented stocks, with many of these stocks gaining 20% to 35%.

2008 Review

Of the entire decline in 2008, approximately 70% was due to four sectors that contributed about equal amounts (7-9%) to performance: financials, industrials, consumer discretionary and materials, in order of importance. As scene in the fourth quarter, country and industry factors had a pronounced impact on individual holdings.

The financial sector was the largest detractor to performance at both index and portfolio level. It is worth noting that the portfolios' financial holdings materially outperformed the MSCI World Index financials benchmark for the year ending 2008, primarily due to gains in some U.S. banks and recently purchased insurance companies. However, the portfolios' overweight in this sector negatively impacted the overall performance.

A hallmark of our stock selection strategy is to pinpoint companies that have flexible business models with a base level of service business, not solely new growth business. If a crane, elevator, escalator or factory stops running entirely, those critical elements will have to be repaired or replaced with new parts. As such, service businesses within the industrial sector historically have provided strong margins and sustainable cash flow even in the worst of economic conditions.

Consumer discretionary results were negatively affected by U.K. homebuilders, which underperformed 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. The dramatic drop in homebuilder valuations anticipates more drastic declines in fundamentals than we believe to be realistic over the next three to five years. Thus far, these companies have preserved cash flow by rapidly decreasing costs, quickly controlling new building to match decreasing sales rates and paying down debt, all of which have allowed the firms to avoid issuing new equity at depressed valuations and preventing dilution. We continued to invest cautiously in consumer-oriented sectors, favoring select companies with substantial free cash flow and strong corporate teams.

Global economic concerns and constrained credit dampened demand for goods and services. Materials and industrials were negatively impacted as a result. Depressed materials stock prices were evident worldwide, ranging from Australia's diversified commodities company, BHP Billiton, and U.S. industrial gas manufacturer Praxair to South African holdings, Metorex and Sappi.

Knowing the portfolio held stocks benefiting from global growth, we invested in more defensive sectors to balance this exposure, which helped performance in certain financials, information technology, telecommunication services and utilities. Consequently, companies in these sectors had more stable cash flows unaffected by current economic volatility. The holdings in these sectors not only protected value, but also provided diversification in these times of market turbulence.

FOURTH QUARTER 2008 ASSET ALLOCATION:

Based on the extreme declines in many company valuations worldwide, management is actively making portfolio changes and evaluating a host of new investments. During the quarter, we sold holdings in the material and industrial sectors where analysis revealed deterioration in fundamentals in relation to evolving market dynamics. Other stocks were sold when they advanced and reached their valuation limits. By executing such sells, management was able to improve the valuation of the portfolio and reduce exposure in some sectors that may experience further weakness.

We continued to seek better values overseas; consequently, portfolios remain underweight in North America relative to the World Index. The portfolios Scandinavian and Japanese holdings were weighted greater than the benchmark, while investments in continental Europe were less heavily weighted. The following table shows the asset allocation at December 31, 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	*53.61%*	39.30%	0.29%	4.43%	3.54%	8.35%	0.00%	0.00%	3.51%	18.67%	0.00%	0.51%	0.00%	0.00%
Japan	*11.71%*	13.92%	0.00%	2.19%	2.52%	3.29%	0.69%	3.83%	0.00%	0.00%	0.00%	1.40%	0.00%	0.00%
Other Asia	*4.24%*	6.27%	0.51%	0.00%	1.56%	0.00%	0.00%	0.00%	0.00%	0.00%	1.90%	2.30%	0.00%	0.00%
Europe	*28.18%*	25.97%	0.78%	0.00%	5.74%	5.32%	6.60%	1.35%	0.00%	6.19%	0.00%	0.00%	0.00%	0.00%
Scandinavia	*2.25%*	8.49%	0.00%	0.00%	0.00%	4.64%	1.23%	0.00%	0.00%	2.63%	0.00%	0.00%	0.00%	0.00%
Africa & S. America	*0.00%*	1.85%	1.58%	0.00%	0.26%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	*0.00%*	4.20%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.20%
Industry Totals		100.00%	3.15%	6.63%	13.63%	21.59%	8.51%	5.18%	3.51%	27.49%	1.90%	4.21%	0.00%	4.20%
Market Weighting	*100.00%*		*11.63%*	*5.73%*	*5.84%*	*10.92%*	*8.87%*	*11.09%*	*11.86%*	*18.58%*	*10.23%*	*5.25%*	*0.00%*	*0.00%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY:

Without clear visibility to an end in the current recession, companies worldwide have reacted with amazing swiftness to reduce their cost basis. Such efforts have created strong macro-economic headwinds, as cutbacks have created more unemployment and contributed to investor pessimism. In light of these developments, we believe the prudent course of action is to remain cautious and watchful of economic trends.

On a brighter note, there are several factors that may provide the needed stimulus for economic improvement. First, oil and other price declines will signal lower heating and transportation costs that previously contributed to material declines in disposable incomes in large consuming countries such as the U.S. During the past few years, oil rose from $25 to $147 a barrel. The negative impact on consumers' cash flow was underappreciated. Likewise, the stimulative effect of the recent drop in oil below $40 may also be underappreciated.

Although creating more unemployment, companies that are restructuring can stabilize the cost structure of the economy with flexibility to hold up cash flows better than in past recessions. In addition, massive amounts of stimulus are being injected into economies by governments worldwide. All of these actions may ultimately have a positive effect on the economy despite the headwinds each catalyst may represent.

We have been nimble enough to make changes to try to avoid further capital declines, reducing materials exposure, while shifting weightings to companies that have experienced stronger cash flows and low levels of debt. Companies that might experience refinancing difficulties or sustain lower cash flows have been sold.

We have retained positions that may weather further macro-economic declines, with the potential for dramatic increases when the markets return to normalized levels. We strongly believe that valuation declines have overshot the fundamental values of the portfolio companies. Moreover, there is growing evidence that portfolio companies with strong cash flows and manageable debt levels may be growing stronger as the credit crisis persists and competitors struggle or fail. When the economy reaches bottom, and finally turns, the portfolios should be well situated with strong performing companies. The value of having investors who understand and act in accordance with this philosophy cannot be over-emphasized. Investors tend to buy when returns have been positive, and sell when returns turn negative.

In conclusion, 2008 performance was unsatisfactory. Nevertheless, we remain confident that the investment philosophy, discipline and current strategy will result in investments that should be fundamentally sound in the current economic crisis.