



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

	2010					Annualized as of December 31, 2010						
	YTD	QIV	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs	Since 9/30/1984
Polaris Capital Global Equity Composite gross	20.85%	10.02%	14.42%	-9.25%	5.78%	20.85%	-2.24%	2.77%	10.59%	10.85%	12.20%	12.92%
Polaris Capital Global Equity Composite net	20.14%	9.87%	14.25%	-9.39%	5.63%	20.14%	-2.85%	2.10%	9.73%	9.92%	11.27%	11.94%
<b>Global Equity Benchmarks</b>												
MSCI World Index, gross dividends reinvested	12.34%	9.06%	13.89%	-12.49%	3.35%	12.34%	-4.29%	2.99%	2.82%	5.96%	7.52%	10.13%
Lipper Global Mutual Funds	13.21%	8.82%	13.92%	-11.59%	2.99%	13.21%	-4.05%	2.95%	2.82%	6.39%	N/A	N/A

*Q4 2010 composite returns are preliminary. Past performance is not indicative of future results.*

The global portfolios' annual results, which exceeded the MSCI World Index benchmark, can be credited to strategic bottom-up stock picking, as our research identified fundamentally-sound companies that not only survived the recession, but emerged stronger in the early recovery phase of the world economy. Importantly, many of the portfolio companies underwent restructuring during the recession, streamlining business units and creating efficiencies. As a result, companies posting even slow sales growth generated higher percentage increases in cash flows. Further bolstering the global portfolios' results, we purchased a number of new companies during the year, the majority of which posted double digit returns by year end.

**PERFORMANCE ANALYSIS**

**Fourth Quarter 2010:** The global portfolios' holdings in all sectors posted positive absolute returns, with the largest contributions coming from industrial, material and energy companies. In a reversal from previous quarters, developed countries saw the most substantial gains, with the portfolios' U.S., German and Austrian stocks posting strong numbers, while holdings in emerging countries experienced volatility.

Performance was not dominated by one sector or country; the defining factors for success were individual companies' capability to offer products that 1) beat deflation, 2) saved customers' money or 3) targeted growing economies (both developed and emerging.)

Within the industrial sector, Andritz AG was a top contributor to performance during the quarter. Exemplifying the money-savings principle, one Andritz division produces recovery boilers for pulp making facilities. Andritz's boilers can transform pulp mills from consuming electricity to producing electricity and selling the excess to the power grid. Overall, nearly all of the industrial holdings posted positive returns for the quarter, following the upward trend started by strong third quarter earnings.

The global portfolios benefitted from investments in materials companies that own critical raw materials required by faster growing countries. German chemical company BASF was up on news of a potential joint venture with Malaysia's Petronas, as well as news that it won European Union approval to acquire food and cosmetics ingredients maker Cognis Holding GmbH. European shutdowns of higher-polluting coal-based production increased demand for methanol production from clean natural gas – a boon to Methanex Corporation.

The tight supply of diesel in Asia (due to Chinese demand for cleaner fuels than coal) boosted the global portfolios' energy holdings. Capitalizing on the Asian supply-demand constraints and the recently loosened price controls in Thailand, Thai Oil boosted production and increased profitability. A newer position, Prosafe SE also performed well, after announcing record third quarter 2010 results.

Resistant to volatile macro-economic conditions, most of the consumer discretionary stocks in the portfolio posted double digit returns. Duni AB, a provider of tabletop goods to restaurants, has been a top contributor for each of the last two quarters. Deflation concerns did not hamper luxury goods like Christian Dior and specialty retailers like Carter's, both of which were able to defend their pricing with their strong brand names. Benefitting from global auto industry demand (spurred on by emerging country car sales), Autoliv Inc. posted strong numbers for the entire year.

The global portfolios have historically maintained underweight positions in information technology (IT) stocks, as analysis revealed overvalued stocks, weak growth and intense price competition. Post-recession, some fundamentally-strong IT stocks remained at depressed valuations while generating substantial free cash flow, offering a deep-value manager like Polaris an entry point. We bolstered our positions in our stalwart stocks and added two new names, Brooks Automation and Wincor Nixdorf, in 2010. With a higher portfolio weighting and strong performance, IT sector stocks became an important contributor to fourth quarter performance.

Considered a “money saving” company, Wincor Nixdorf provides ATM and point-of-sale technologies to developed and emerging countries. In particular, Indian banking institutions are utilizing ATM technologies to modernize their services/sales and to increase customer penetration. Brooks Automation provides another good example, as its technologies help reduce the costs of making semiconductor chips. As semiconductor wafer fabricators increase production capacity to satisfy electronics orders in 2011, demand for Brooks’ products and services may increase.

The financial sector holdings showed mixed results. After a strong run earlier in 2010, State Bank of India dropped, as the stock was impacted by emerging market volatility. KBC Groep suffered due to its exposure in Ireland. Offsetting the negative results, re-insurers bounced back as concerns about the sovereign debt crisis in Europe abated. The global portfolios participated in Webster Financial’s secondary offering, which sold 8.7 million shares, with proceeds used to pay back TARP; the stock responded with a handsome gain for the quarter. Independent Bank Corp. continued its streak of strong performance, as it weathered the financial crisis with very few charge offs and non-performing loans. On October 22, Ameris acquired from the FDIC the failed First Bank of Jacksonville; in a similar action on November 12, Ameris acquired Darby Bank & Trust Co. A positive strategy that boosted the company’s assets by 33%, the market finally began to appreciate this development at Ameris. In 2011, we will likely see many opportunities for healthy banks to acquire failed banks.

In the “defensive category”, consumer staples posted positive returns with the exception of Japanese stocks. Quality consumer brands, like J.M. Smucker Co. and H.J. Heinz Co., can typically withstand deflationary forces. In mid-November, Ireland’s Greencore Group announced a proposed merger with U.K.-based Northern Foods, creating a powerful entity in the ready-made food industry. As a stand-alone company, Greencore had strong fundamentals and good business progress, but was undervalued by the markets. The merger, which had terms favorable to Greencore shareholders and management, will likely enhance company perception in the marketplace.

**Full Year 2010 Performance:** It is noteworthy that our most important contributions stemmed from the developed world (United States, continental Europe and Scandinavian countries). This fact seems incongruous with the tide of investor money flowing into emerging markets; however, we achieved strong returns without the level of volatility often associated with emerging markets.

Contributing more than half of the positive results for the year, U.S. holdings performed strongly, with banks, industrials and consumer staples leading the pack. Most of the German holdings in the portfolios posted double digit returns during the year. Swedish and Finnish stocks in the portfolio also achieved double-digit returns.

The global portfolios saw some strong gains from industrials, materials and energy stocks, many of which have substantial exposure to emerging markets. Finland’s industrials such as Konecranes, YIT Oyj and Kone Oyj posted satisfactory returns, as their order books and revenue streams were stronger than expected. The top-performing Scandinavian companies were all export-oriented, with competitive global business models that were able to capitalize on growth in emerging markets.

Materials companies, whose products are in strong demand due to the base growth of developed economies compounded by growth in emerging countries, also contributed strongly to results. We have positioned the portfolios toward those materials companies, which cannot supply enough to keep up with increased demand despite sluggish worldwide growth. Symrise AG, a German maker of ingredients in the beverage, food and fragrance industry, benefited from consumer demand for healthier foods and reduction in salt and high fructose corn syrup. Companies such as Smurfit Kappa (resilient demand for boxes for food and other products in Europe and Latin America) and Methanex (strong demand for methanol from China) continued to report strong earnings and cash flows. CRH, the Irish building materials group, detracted from better performance in this sector. The company’s European business remained strong, but performance has been impinged by weak U.S. business.

The global portfolios’ financial holdings significantly outperformed the sector benchmark due to the strength of small- and mid-cap U.S. banks. Southwest Bancorp performed well, partially attributable to a capital raise that strengthened the balance sheet, while Ameris Bancorp, Webster Financial and Astoria Financial posted double digit returns. While many U.S. community banks/thrifts suffered in 2007-08, this year signaled a return to better valuations.

Defensive sectors within the portfolios (telecom, consumer staples, healthcare and utilities) contributed positively, but less so than the cyclical counterparts. Interestingly, some of the strongest contributors were new purchases during the year, such as telecom company, Frontier Communications and healthcare sector stock, Questcor Pharmaceuticals.

Within the consumer discretionary sector, homebuilders stagnated in the fourth quarter when the British government announced large budget cuts. In early 2011, many of these homebuilders have posted positive earnings reports, demonstrating their ability to grow even in a slow housing market.

#### CURRENT ASSET ALLOCATION

During the year, we sold holdings in companies that had reached their valuation limits or where analysis revealed deterioration in individual company fundamentals. Culture Convenience, the Japanese provider of music and film CDs and video games, had been facing increased competition from others who have more effectively embraced internet channels of distribution. Based on projected weaker sales, the global portfolios decided to realize a marginal loss and sell the position in the third quarter of 2010.

Rich valuations were evident in Cargotec, where weak sales forecasts (due to lower sales levels in shipbuilding, container handling and port facilities) were not reflected in the current stock price. Similarly, Tokyo Electric Power became fairly valued, once we factored in the cost of higher priced non-nuclear energy generation due to higher oil prices and higher capital expenditures. In both instances, the global portfolios realized losses when the stocks were sold and cash was allocated to new investments and increased weightings in portfolio areas with strong growth potential. We purchased a number of new

holdings (some of which are referenced above) across many sectors including financials, IT, healthcare, industrials, telecom, consumer discretionary and energy.

The following table shows the asset allocation for a representative global portfolio as of December 31, 2010.

Representative Global Portfolio Asset Allocation

	Market Weighting	Portfolio Weighting	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Info. Tech.	Telecom Services	Cash
N. America	54.46%	37.33%	1.33%	2.22%	3.24%	6.55%	1.53%	2.65%	4.59%	11.08%	1.47%	2.68%	0.00%
Japan	10.07%	7.12%	0.00%	0.98%	0.77%	1.82%	0.00%	2.47%	0.00%	0.00%	0.00%	1.09%	0.00%
Other Asia	6.13%	8.00%	2.14%	0.00%	1.58%	0.00%	0.00%	0.00%	0.00%	1.09%	2.18%	1.01%	0.00%
Europe	26.52%	32.75%	2.66%	0.00%	8.21%	6.14%	6.70%	1.62%	1.95%	3.80%	1.67%	0.00%	0.00%
Scandinavia	2.81%	12.50%	0.00%	0.00%	0.00%	4.70%	3.54%	0.00%	0.00%	4.26%	0.00%	0.00%	0.00%
Africa & S. America	0.00%	2.22%	1.39%	0.00%	0.83%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cash	0.00%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.08%
<b>Industry Totals</b>		<b>100.00%</b>	<b>7.52%</b>	<b>3.20%</b>	<b>14.64%</b>	<b>19.20%</b>	<b>11.77%</b>	<b>6.73%</b>	<b>6.54%</b>	<b>20.23%</b>	<b>5.32%</b>	<b>4.78%</b>	<b>0.08%</b>
Market Weighting	100.00%		10.95%	3.95%	8.34%	11.32%	10.42%	9.79%	9.25%	20.12%	11.71%	4.16%	0.00%

Table may not cross foot due to rounding.

## INVESTMENT ENVIRONMENT AND STRATEGY

While economic conditions improve in the private sector, questions remain about the fiscal health of governments worldwide. Countries are expected to implement budget cuts, higher taxes and similar measures to mitigate rising debt levels. Such fiscal policies may negatively impact economies worldwide. Additionally, we remain concerned about the possible implosion of the Chinese real estate market, which continues to experience a boom because currency controls trap liquidity in the country and investors have nowhere to invest except stocks and real estate, thus creating unsustainable valuations. We are hard pressed to find a real estate bubble in the history of the world that has not ended badly and, despite the Chinese efforts to engineer a soft landing, we remain skeptical this bubble will escape the inevitable.

Our outlook remains consistent: we expect economic activity to be slow, steady and mixed. We are guardedly optimistic about future growth prospects, as we identify fundamentally-strong companies reporting good earnings across myriad sectors and countries. Sales growth reported among many late-cycle companies may also portend early stages of macro-economic recovery. We are taking advantage of this environment to analyze current holdings and new opportunities in an effort to mitigate potential loss of principal if the above negative developments evolve, as we continually seek to grow the value of our investments in the years to come.

As always, we welcome your questions and comments.

## 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 and EAFE Indexes, gross dividends reinvested, measures the performance of a diverse range of global stock markets in the United States, Canada, Europe, Australia, New Zealand and the Far East. The Lipper averages are compiled by Lipper, Inc., an independent mutual fund research and rating service. Each Lipper average represents an index of quarterly results for all global or international funds as published in the Lipper Special Quarterly Summary Report. The Lipper averages and all indices are not investment products available for purchase.*