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# INTERNATIONAL EQUITY COMPOSITE REPORT

| | 2020 | | | | | Annualized as of December 31, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | YTD | QIV | QIII | QII | QI | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since 6/30/1984 |
| ***Polaris International Equity Composite gross*** | **3.64%** | **26.72%** | **3.86%** | **17.45%** | **-32.96%** | **3.64%** | **2.97%** | **8.28%** | **8.09%** | **11.43%** |
| ***Polaris International Equity Composite net*** | **3.11%** | **26.56%** | **3.73%** | **17.31%** | **-33.05%** | **3.11%** | **2.41%** | **7.70%** | **7.47%** | **10.59%** |
| MSCI EAFE Index, gross dividends reinvested | 8.28% | 16.09% | 4.88% | 15.08% | -22.72% | 8.28% | 4.79% | 7.96% | 6.00% | 8.97% |

*Fourth quarter 2020 composite returns are preliminary. Past performance is not indicative of future results.*

Global equity markets ended the year on a strong note. During the fourth quarter of 2020, the MSCI EAFE Index returned 16.09%; the Polaris International Equity Composite substantially outperformed at 26.72%. This is the third consecutive quarter of absolute positive performance following poor first quarter results, in a year marked by a global pandemic, ensuing country lockdowns and political tumult. By the end of the year, stock markets were fueled by a number of positive developments: two highly-effective COVID-19 vaccines, continued aggressive government stimulus, record low interest rates and the conclusion of the U.S. Presidential race.

In a quarter when all sectors posted positive gains, cyclicals including consumer discretionary, financials and materials were the top contributors to performance. Consumer staples and health care contributed least, due to underweight positions in these defensive sectors. Our well-diversified portfolio outperformed in all developed countries in which we invest with the exception of Italy, where one stock impacted performance. Emerging market countries also played a part in quarterly results, as portfolio exposure in South Korea, Chile and Colombia boosted performance.

Many portfolio companies rebounded in the fourth quarter, validating our belief that short-term macroeconomic conditions rarely overwrite good fundamentals. Companies with strong cash flows, resilient, flexible business models and proactive management teams withstood the extraordinary pandemic headwinds. In fact, more than half of portfolio companies gained in excess of 20% and included a broad mix of long-term holdings and new stocks added during the year. Top performers included Methanex Corp., Magna International, Publicis Groupe, Samsung Electronics and Taylor Wimpey. Trevi Finanziaria was the only detractor of note.

## FOURTH QUARTER 2020 PERFORMANCE ANALYSIS

As the COVID-19 pandemic unfolded, demand for housing in many countries strengthened as people fled cities for the suburbs, further lured by low interest rates. Yet, lockdown measures reduced the ability to construct houses in a timely fashion. Homebuilders like Taylor Wimpey and Bellway made progress, working efficiently under the new socially-distanced construction conditions. Reservation rates were higher, cancellation rates dropped and balance sheets were solid; both companies cited 35%+ gains during the quarter with upbeat guidance for 2021. However, the mid-December U.K. lockdown might dampen house completions in the short term. Elsewhere in the consumer discretionary sector, Canadian car parts supplier, Magna International, had robust quarterly results on stronger sales, volumes, and cost cutting. The company also formed two electric vehicle joint ventures: one with electric automotive design/engineering firm, Fisker Automotive, and one with LG Electronics.

Nordic banks, including DNB ASA and Svenska Handelsbanken, performed well as local regulators decided to soften their dividend payouts stance. Both institutions also noted solid earnings without evidence of large losses or loan deferment requests. Bancolombia recovered most of 2020's lost ground with a sharp gain in December on the back of a Moody's rating affirmation and a stronger Colombian peso.

The international equity portfolio's substantial overweight in the materials sector contributed to outperformance. Methanex Corp. built momentum, as methanol spot prices jumped due to 1) end demand recovery, largely in China and other Asian economies, 2) oil price recovery, and 3) continued supply outages as competitors faced unanticipated plant shutdowns. Favorable supply-demand metrics boosted Antofagasta, a leading Chilean copper and gold miner. The fundamentals (resumption of building in China, increased industrial demand) underscoring the rise in commodity prices may translate into strong performance in other material sector companies in a post COVID-19 world; therefore, the portfolio maintains an overweight position in materials. In industrials, Signature Aviation jumped more than 70% during the quarter after disclosing two competing premium buyout offers.

In information technology, Samsung Electronics and SK Hynix both logged 50%+ returns as DRAM chip prices trended higher. A replacement cycle in data servers, Chinese inventory rebuilding and a recent Micron fab disruption were the primary drivers for this chip price projection. Additionally, SK Hynix's purchase of Intel's NAND business may bring better supply discipline, taking one competitor out of the industry. In other news, Samsung cited its television division as a strong revenue generator due to stay-at-home mandates. Plans to scrap its QLED/LCD televisions have been backburnered while Samsung capitalizes on demand.

French advertising firm, Publicis Groupe, was the top contributor in communication services. The company beat market expectations with relatively-decent organic growth and lower expenses, while announcing major client wins like Kraft Foods and TikTok. Retailers tapped Publicis, which is known for its digital marketing assets, to organize advertising/marketing campaigns focused on direct-to-consumer sales. The undercurrent was simple: steer buyers away from massive distributors like Amazon in favor of the retailer's own branded websites, distribution channels and e-commerce platforms. It is a message that is resonating with consumers in a post COVID spending environment. At the same time, retailers have been keen to reformat their print, TV and internet advertising to align with current affairs – from COVID-19 masking to social equity to travel planning. The creative teams at Publicis have been busy.

Few industries were more impacted by COVID-19 than travel and leisure, from airlines and hotels to restaurants and entertainment venues. Cineworld Group was down 30% in October as it shuttered all of its theaters in the U.S. and U.K. By December, Cineworld's stock partially recouped prior declines, gaining 66%, as the company refinanced debt with 10% dilution to shareholders. While streaming platforms are now popular by default, we believe consumers will embrace the theatrical experience when lockdowns are lifted as has been the case in countries like China and Japan. On December 10th, Disney (the company that provided nearly 40% of the 2019 U.S. box office) announced its intention to release its biggest titles to the theater, while also focusing on its Disney+ streaming platform. Cineworld jumped on the news.

Italian construction engineering firm, Trevi Finanziaria, was the main detractor to portfolio performance. The company marked time, as a strong performer early in the year that drifted back on postponed infrastructure projects. Trevi has made slow but steady progress in its order book and project pipeline.

The following table reflects the sector and regional allocation for a representative international equity portfolio as of December 31, 2020.

| | *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%* | 10.5% | 0.0% | 0.0% | 2.6% | 2.0% | 2.5% | 0.0% | 0.0% | 3.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| Japan | *25.3%* | 8.4% | 0.0% | 0.0% | 0.7% | 0.0% | 3.1% | 1.6% | 0.0% | 1.5% | 0.2% | 1.4% | 0.0% | 0.0% |
| Other Asia | *11.7%* | 18.3% | 0.0% | 0.0% | 0.0% | 1.3% | 3.4% | 1.1% | 0.0% | 3.2% | 7.9% | 1.3% | 0.0% | 0.0% |
| Europe | *55.5%* | 44.9% | 0.0% | 0.0% | 13.0% | 7.4% | 9.9% | 2.5% | 3.1% | 3.6% | 0.0% | 5.5% | 0.0% | 0.0% |
| Scandinavia | *7.5%* | 11.8% | 0.0% | 0.0% | 1.6% | 3.5% | 0.8% | 0.0% | 0.0% | 5.9% | 0.0% | 0.0% | 0.0% | 0.0% |
| Africa & South America | *0.0%* | 3.5% | 0.0% | 0.0% | 1.9% | 0.0% | 0.0% | 0.0% | 0.0% | 1.6% | 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% | 0.0% | 0.0% | 19.8% | 14.1% | 19.7% | 5.2% | 3.1% | 19.3% | 8.0% | 8.2% | 0.0% | 2.6% |
| *MSCI EAFE Weight* | *100.0%* | | *3.1%* | *3.9%* | *7.9%* | *15.2%* | *12.5%* | *10.9%* | *12.9%* | *16.3%* | *8.9%* | *5.2%* | *3.1%* | *0.0%* |

*Table may not cross foot due to rounding.*

## 2020 YEAR IN REVIEW

No one could have expected 2020 to be the year of a pandemic, replete with country lockdowns, rising unemployment, trade wars, political turmoil and volatile oil prices. Yet, each of these developments rippled through the global economy, with investor optimism souring as the first effects of COVID-19 took hold. Governments and central banks initiated unprecedented monetary and fiscal policies, hoping to boost industries hardest hit. Still, most companies cratered in the first quarter of 2020, falling into bear market territory (MSCI EAFE Index down -22.72%), only to begin their slow climb out of the trough in the second quarter. The third and fourth quarters heated up. For the year ending 2020, the Index rose 8.28%, while the Composite was up 3.64%. Underperformance in international equity portfolios was attributable to lackluster results in the overweight financial sector, as well as notable losses in communication services, consumer staples and utilities. At the country level, the portfolios outperformed in France, Finland, Belgium, Norway and Austria; yet these results did little to absorb the underperformance in the United Kingdom, Japan and Ireland. While full year performance was underwhelming, we are pleased to have markedly outperformed in the fourth quarter; we believe that the portfolio is well positioned for the fits and spurts of a 2021 recovery.

We would be remiss in not mentioning that 2020 was one of the worst years in history for value stocks. The MSCI EAFE Growth Index gained 18.68%, compared to the MSCI EAFE Value Index return of -2.10%. The Composite handily outperformed the Value Index, with international equity portfolios in single-digit positive territory for the year.

Part of our success stems from our work to restructure the portfolio, selling fairly-priced companies in favor of new ideas that may have more upside potential. We sold Kone OYJ and BHP Group at a profit, as both reached our valuation limits; Kansai Electric, Standard Chartered and a few others were exited on concerns about fundamental deterioration. This made space for twenty new buys including Antofagasta, Bunzl PLC, Honda Motor Co., HeidelbergCement AG, Sony Corp, Valmet OYJ and Catcher Technology. We invested in some COVID-19 sensitive sectors, such as travel and leisure, early in the year only to subsequently sell some of them on rich valuations following a rebound. Examples include: Irish airline, Ryanair Holdings (+44%), and Swedish RV solutions supplier, Dometic Group (+95%). We will continue to research such opportunities in 2021, hoping to pinpoint more undervalued stocks that may boost portfolio performance.

**INVESTMENT ENVIRONMENT AND STRATEGY**

We recognize that we are not "out of the woods" yet with the COVID-19 pandemic, as the next waves and strains of the virus cause country lockdowns. So far in 2021, we have already seen a moratorium on social activities in the U.K. until mid-February; Canada is hinting at stronger enforcement measures; France instituted a twelve-hour curfew; and Germany posted harder restrictions across all sixteen federal states. The U.S. isn't far behind, with many states mandating stay-at-home orders. Yet, we don't believe that any lockdown scenario will have the same gravity as it did in the first quarter of last year. Vaccines are in distribution, global citizens have dealt with the virus for nearly a year and most public companies learned to adapt to the new working condition, focusing on e-commerce and operational restructuring. When economies turn the corner, many highly-efficient businesses will be positioned for impressive growth. We are making every effort to build portfolios of these types of companies; we expect admirable performance (like that of the fourth quarter 2020) to follow.

*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 EAFE Index, gross dividends reinvested, is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The MSCI EAFE Growth Index and MSCI EAFE Value Index capture large- and mid-cap securities exhibiting overall growth and value style characteristics, respectively, across 21 developed markets, excluding the U.S. and Canada. One cannot invest directly in an index.*