FOURTH QUARTER 2022 INTERNATIONAL EQUITY COMPOSITE

Information presented is supplemental to the annual composite report.
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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2022					Annualized as of December 31, 2022				
	YTD	QIV	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
Polaris International Equity Composite (net of fees)	**-16.08%**	**17.62%**	**-11.36%**	**-14.95%**	**-5.36%**	**-16.08%**	**-1.66%**	**-0.19%**	**5.56%**	**9.78%**
Polaris International Equity Composite (gross of fees)	**-15.66%**	**17.76%**	**-11.24%**	**-14.84%**	**-5.24%**	**-15.66%**	**-1.17%**	**0.34%**	**6.13%**	**10.60%**
MSCI EAFE Index, gross dividends reinvested	-14.01%	17.40%	-9.29%	-14.29%	-5.79%	-14.01%	1.34%	2.03%	5.16%	8.38%

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

Global equity markets rallied in the fourth quarter of 2022, despite continued COVID-19 headwinds, a weakening European economy, and higher inflation dampening consumer spending. China lifted its stringent zero-COVID policy in early December, which was expected to alleviate supply chain bottlenecks and boost overall global demand. However, the opposite proved true, as outbreaks in major cities interrupted factory activity. The country battled a nationwide wave of infections, with its manufacturing and services metrics falling to their lowest levels since the beginning of the pandemic.

The economic fallout from the ongoing Russian-Ukraine war increased throughout Europe. Russia supplied nearly 50% of energy sources in Europe; sanctions resulted in tightening supplies of oil, natural gas and other commodities throughout the continent. Thankfully, energy prices in Europe fell significantly due to warmer seasonal weather, energy savings, weaker economic activity and energy pre-buying, resulting in a comfortable storage position heading into the winter. However, so long as the conflict rages on, the speed and magnitude of the European slowdown remains in question.

Markets were generally undeterred by negative geopolitical actions, hinging optimism on robust company earnings and signals from the U.S. Federal Reserve. Companies reported reduced volumes, but continued pricing power. Higher prices may persist, as inflationary pressures are unlikely to abate anytime soon even after the U.S. Federal Reserve cited moderating inflation data.

With competing macro trends at play, global equities had strong gains, with the MSCI EAFE Index up 17.40% for the quarter; the Polaris International Equity Composite returned 17.62% (net of fees) for the period. Foreign exchange impact was a contributing factor to portfolio performance, as most currencies appreciated against the U.S. dollar.

The Composite had double-digit returns in overweight sectors (consumer discretionary, materials, financials and communication services), as well as industrials and health care. Information technology, real estate and consumer staples were in modest positive territory by comparison. At the country level, portfolio holdings in most European countries, including the U.K., France, Norway, Belgium and Switzerland, as well as off-benchmark countries like Chile, China, Colombia and Greece, were absolute contributors. Detractors were mainly relegated to single stock holdings in Puerto Rico and Italy.

The top 10 overall contributors were diversified across sector and country, led by French advertiser, Publicis Groupe; Chilean copper miner, Antofagasta; two German reinsurers; Yara International, the Norwegian fertilizer producer; U.K. clothing retailer, Next PLC; two financials including DNB Bank and United Overseas Bank; and two Asian industrials including China's Weichai Power Co. and Japan's Marubeni Corp. Among the small handful of decliners were Kia Corp., Popular Inc, Greencore Group and flatexDEGIRO AG.

FOURTH QUARTER 2022 PERFORMANCE ANALYSIS

In the consumer discretionary sector, U.K. apparel retailer Next PLC issued a reassuring trading statement with upbeat full-year earnings. A number of tailwinds boosted results: 1) inflation declined in November, helping consumer sentiment; 2) the British Pound strengthened against the U.S. dollar, offering more buying power for Next which purchases raw materials in USD; and 3) positive investor sentiment returned to the consumer discretionary sector. Inchcape, the U.K.-based global automotive distributor, reported strong organic growth across distribution and retail divisions, subsequently meeting profit guidance for 2022. The company's acquisition of Latin America auto distributor, Derco, progressed well, with completion slated for early 2023. Inchcape's geographic expansion included electric vehicle OEM partnerships with ORA in Hong Kong and BYD in Belgium and Luxembourg.

Among materials, Chilean copper miner Antofagasta gained on higher copper prices, Chinese market demand, and a better political environment in Chile. In September 2022, the new Chilean president's constitutional referendum failed, which may prompt a more balanced agreement (with lower royalties and taxes) between the mining industry and local government. Yara International, the Norwegian fertilizer manufacturer, was the second largest sector contributor. Amid supply disruptions and gas price volatility, Yara started optimizing operations, leveraging strategic European plant locations near shipping ports. Strong margins across all commercial segments more than offset lower deliveries.

The majority of industrial holdings posted double-digit returns for the quarter, led by Weichai Power Co., Marubeni Corp., and VINCI SA. Chinese diesel engine manufacturer Weichai had lackluster third quarter 2022 earnings, after one of its subsidiaries issued a profit warning. However, the stock rallied on heavy duty trucks orders, which are expected to start rolling in as China retracts its strict COVID-19 measures. High commodity prices and a weaker Yen helped Marubeni, the Japanese international trading house. The company reported solid earnings across its agriculture, energy, food and metals businesses, subsequently increasing dividends and share buybacks. A further boost: In November, Warren Buffett's Berkshire Hathaway raised its stakes in each of Japan's five biggest trading houses, of which Marubeni was one. French company VINCI SA, which runs roads and airport concessions, upgraded guidance, backed by double-digit sales growth for the first nine months of 2022; 50% growth in international businesses; solid operating performance across all divisions; and robust order books.

Two French communication services stocks were standouts during the quarter. Advertising and public relations company, Publicis Groupe, announced the third consecutive quarter of double-digit organic growth, which was even higher than pre-pandemic organic growth rates. The company reported continued momentum in account wins (Sapient and Epsilon) and upgraded their 2022 guidance for the second time. Publicis also entered into a joint venture with Carrefour Group, one of the world's largest grocery and convenience stores retailers. The collaboration is intended to reach the booming retail media market in Continental Europe and Latin America. Post pandemic reopening sped up demand for Ipsos Group's brand and market research business; the company pointed to continued organic growth and a healthy order book as it raised profit guidance for 2023, while expanding its footprint in the Americas and Asia.

Generics competition hamstrung Jazz Pharmaceuticals' stock price earlier in the year; the concern was for naught, as Jazz's low-sodium formulation of narcolepsy drug, Oxybate, easily outpaced the high-sodium generic alternative. The Irish pharma also started Phase III trials for its new epilepsy/atonic seizures medication with a wider patient population.

The financial sector had barbell returns with some of the best and worst portfolio performers. The stock price of German reinsurers, Hannover Re and Munich Re, gained on a firmer pricing environment. A convergence of global events (Russia-Ukraine war, Hurricane Ian), 40-year high inflation and a decline in capital to underpin underwriting activity led to the firmest pricing environment in decades. Munich Re said as much in its third quarter earnings announcement, raising 2023 guidance for gross premiums to $48 billion. Hannover Re echoed the same in its September corporate news release, detailing renewal rates by continent and natural catastrophe history.

Conversely, Puerto Rican bank, Popular Inc., declined on lower net interest income and net interest margins due to the rapid repricing of government deposits. However, the bank discussed on their earnings call that their deposit betas are fairly low relative to mainland banks. flatexDEGIRO, a German online discount brokerage firm, dropped even though earnings were resilient. The company highlighted customer growth, interest rate tailwinds and solid year-over-year revenue gains, but cut its fiscal year revenue forecast, anticipating fewer retail investor trades in a down market. Additionally, German regulator BaFin insisted that flatexDEGIRO increase its capital base and install new regulatory and audit requirements.

Among other detractors was South Korean auto maker, Kia, which had slack quarterly results on the back of higher costs and extra provisions for engine recalls. Headwinds included the U.S. Inflation Reduction Act and how EV subsidies will impact the broader auto market, as well as weaking demand metrics (and the congruent rising incentive programs to prop up sales) heading into 2023.

For fiscal year 2022, Greencore showed progressive annual improvements in revenue, operating profit and deleveraging, supported by continued volume growth via new business wins. Yet management struck a cautious tone about 2023 cost-of-living conditions in the U.K., questioning consumer spending power. In late September 2022, Greencore's new CEO outlined a strategy focused on profitability, rather than revenue growth with associated facility shutdowns and potential layoffs. The market took a wait-and-see approach to this business development.

During the quarter, five portfolio companies were sold, most of which were exited on deteriorating fundamentals or less favorable market trends. Chemical companies, BASF and Solvay, as well as HeidelbergCement were sold on weakening competitiveness due to elevated European energy prices. Asahi Group Holdings, the Japanese beverage company, was sold as volumes fell (indicative of a downward trend in beer sales in Japan) and import prices rose. Another sale was Catcher Technology, the Taiwanese electronics casing manufacturer, which faced weakening demand for consumer electronics.

The one new purchase was Koninklijke Ahold Delhaize, a global leader of supermarket brands in the U.S. (Stop & Shop, Food Lion, Hannaford, Giant to name a few), Belgium and the Netherlands. The company has industry-leading margins and an excellent capital allocation policy.

The following table reflects the sector and regional allocation for the Polaris International Equity Composite as of December 31, 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%*	11.5%	0.0%	0.0%	4.1%	0.0%	1.9%	0.0%	0.0%	4.0%	1.5%	0.0%	0.0%	0.0%
Japan	*21.9%*	11.2%	0.0%	0.0%	0.9%	2.6%	3.9%	0.0%	0.0%	0.0%	0.1%	1.8%	1.8%	0.0%
Other Asia	*12.7%*	17.8%	0.0%	0.0%	0.0%	2.6%	4.8%	0.0%	0.0%	4.8%	3.8%	1.9%	0.0%	0.0%
Europe	*57.3%*	42.6%	0.0%	0.0%	8.5%	2.8%	11.5%	3.5%	4.4%	5.3%	0.0%	6.6%	0.0%	0.0%
Scandinavia	*8.1%*	10.6%	0.0%	0.0%	1.9%	3.3%	0.6%	0.0%	0.0%	4.9%	0.0%	0.0%	0.0%	0.0%
Africa & South America	*0.0%*	2.6%	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%
Cash	*0.0%*	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%
Portfolio Totals		100.0%	0.0%	0.0%	17.5%	11.3%	22.7%	3.5%	4.4%	19.3%	5.5%	10.3%	1.8%	3.7%
MSCI EAFE Weight	*100.0%*		*5.0%*	*3.5%*	*7.8%*	*15.1%*	*11.1%*	*10.5%*	*13.6%*	*18.7%*	*7.8%*	*4.5%*	*2.6%*	*0.0%*

Table may not cross foot due to rounding.

2022 YEAR IN REVIEW

For the year ending 2022, the Polaris International Equity Composite dropped -16.08% (net of fees), lagging the MSCI EAFE Index at -14.01%. Losses were attributable to precipitous sector-wide declines in consumer discretionary and materials, where the portfolio was overweight. Nevertheless, the portfolio had relatively decent results in health care, communication services, real estate, industrials and IT sectors. From a country perspective, the Polaris International Equity Composite had notable contributions from Singapore, the Netherlands and Switzerland, as well as double-digit gains from off-benchmark countries including Chile, Greece and Colombia. Detractors included the U.K., South Korea and Canada.

During the year, we sold more than a dozen holdings, some of which were long-term performers that, in our view, became overvalued. Capital was reinvested in current holdings and used to purchase four new companies. In the traditionally defensive consumer staples sector, we purchased Ahold Delhaize and Nomad Foods, Europe's largest branded frozen food manufacturer. Other buys included Canada's OpenText, a provider of enterprise information management software and solutions, which commands 30-40% market share on its service. Irish company Smurfit Kappa Group PLC was added; the paper packaging company sits on the lower end of the cost curve thanks to its vertical integration and ability pass on price increases to its consumer goods customer base.

INVESTMENT ENVIRONMENT AND STRATEGY

Macroeconomics spur on inflation concerns for the coming quarters. China abandoned its zero-COVID policies, but failed to add medical infrastructure for the resurgence of COVID cases. As a result, many factories and shipping facilities are understaffed, and supply chain bottlenecks continue. The supply-demand constraints remain ever present. The same basic premise holds true for Europe, which has limited oil, natural gas and food commodity supplies as a result of the escalating Russian-Ukraine war.

On this backdrop, we are hard pressed to believe economic pundits calling for the end of interest rate hikes. There are a number of price indicators implying inflation pressures peaked in October 2022, but that simply means the torrid pace of inflation is moderating. For the foreseeable future, we expect central banks worldwide will raise interest rates to temper inflation – albeit at more metered increments. Regardless of the pace of hikes, the end result is the same: the cost of capital goes higher and liquidity is drained out of the system.

This scenario has not been fully realized, as markets have been buffeted by abundant stimulus cash in individuals' bank accounts and on company balance sheets. However, savings are slowly being drawn down and companies are facing higher costs and lower volumes as consumer spending slows. Many Fortune 500 companies have already felt the squeeze on profit margins. As economic growth stagnates, we expect other pricey high-growth stocks to suffer.

At Polaris, we maintain our strict value commitment, steering clear of the richly-valued stocks and tech high-flyers prone to steep declines in this environment. Our research screens continue to find attractively-priced, fundamentally sound companies intended to diversify the portfolio, enhance the valuation profile and minimize downside risk. This is a backstop for slowing economic growth, although we do not think a major recession is probable unless further non-systemic events occur. We are also weighted toward cyclical, cash-generative companies, whose earnings growth should lead to higher valuations in an eventual recovery. We expect that such dual-pronged efforts will lead to continued outperformance, as was the case in the fourth quarter.