POLARIS
CAPITAL MANAGEMENT, LLC

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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2023				Annualized as of September 30, 2023				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
Polaris Intl. Equity Composite (net of fees)	8.47%	-2.08%	2.02%	8.58%	27.58%	8.18%	1.30%	4.54%	9.82%
Polaris Intl. Equity Composite (gross of fees)	8.87%	-1.95%	2.14%	8.71%	28.21%	8.72%	1.83%	5.10%	10.63%
MSCI EAFE Index, gross dividends reinvested	7.59%	-4.05%	3.22%	8.62%	26.31%	6.28%	3.74%	4.32%	8.41%

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

Investors entered the third quarter of 2023 optimistic that central banks orchestrated a soft landing for the global economy, with monetary tightening coming to an end. Initial signs supported this premise, as the U.S. Consumer Price Index cited the lowest core inflation marks in over two years, and labor markets cooled in July and August. Global markets similarly witnessed deceleration in the pace of economic growth, with European business activity contracting to its lowest level since November 2020. Inflation trickled down in the U.K. over the past two months, while Germany recorded a technical recession and China's stimulus efforts confronted financial distress among property developers.

Yet headline inflationary pressures persisted. The Ukraine-Russian conflict continued to push up energy and consumer goods prices; OPEC+ supply reductions increased oil/gas prices and downstream services; and supply-demand constraints increased across many industries from autos to apparel, transportation and health care. Labor costs and strike activity rose, while employee productivity gains remain in question. The U.S. economy generated a surprisingly strong 336,000 jobs in September, fueling higher inflation risks.

On this backdrop, central banks remained resolute on enforcing restrictive interest rate policies, with Fed officials suggesting another rate hike before the end of 2023. Recession concerns ramped up on the prospect of "higher-for-longer" rates, as consumer spending slowed and businesses deferred capital investments. International equities dropped into negative territory, with the MSCI EAFE Index at -4.05%. There was no safe harbor in bonds either, with "yields up, prices down". The sell-off was led by intermediate- and long-term government bonds; only very short-duration fixed income investments posted gains.

In a volatile macro environment, the Polaris International Equity Composite outperformed at -2.08% (net of fees), beating the MSCI EAFE Index. Outperformance was driven by absolute gains in the financials, energy, materials, health care and real estate sectors. Financials were led by DNB Bank and the German reinsurers. Higher oil prices benefitted TotalEnergies SE. Inflation-sensitive consumer sectors, communication services and information technology lagged, as did industrials.

The U.K. market was the strongest performer regionally, thanks to consumer confidence on peaking interest rates. The sell-off in U.K. government bonds moderated and long-term fixed mortgage rates fell, boosting the prospects for U.K. homebuilders. Other notable contributors included oil exporter, Norway, as well as Ireland, Singapore, Greece, Switzerland and Puerto Rico. Off-benchmark holdings in Canada and South Korea detracted most.

THIRD QUARTER 2023 PERFORMANCE ANALYSIS

Financials provided ballast in a down market. German reinsurers benefitted from a "hard" market, increasing prices on the backdrop on geopolitical uncertainties, climate change and high inflation. The high price discipline, coupled with rising reinvestment yields as a result of higher interest rates, supported earnings for both Munich Re and Hannover Re; both stocks gained on this forward trend. DNB Bank reported betterthan-expected quarterly earnings, helped by a robust oil-based Norwegian economy and higher interest rates. Net profits rose 20% year-over-year, counterbalanced by impairment provisions related to a legacy portfolio in Poland.

World oil demand continues to advance, boosted by emerging countries' economic growth, summer air travel, increased oil use in power generation and recovering Chinese petrochemical activity. The recent decision by OPEC members to cut production only added to the supply/demand imbalance; higher oil prices were the result. TotalEnergies SE, a provider of fuel, natural gas, and electricity, re-emphasized its intention to increase shareholder distributions, while maintaining capital expenditure rates. The company's growth strategy continues to focus on its low cost, low emission hydrocarbon portfolio and furthering its integrated power business.

In materials, Canada's Methanex Corp. noted firmer methanol prices on 1) higher oil prices, which act as a key indicator of methanol blending demand, 2) increasing methanol to olefin operating rates, and 3) macro-economic recovery in China. Yara International posted lackluster quarterly results, citing turbulence in the order flow; however, the stock jumped as farmers resumed critical fertilizer purchases.

Continued inflation, which is driving interest rates higher, is having a detrimental effect on the mainstream and lower-income consumer. Discretionary spending has abated in favor of consumer staples; even in this vertical, consumers trended to lower-cost foods and proteins. Canadian Tire's retail sales declined 0.1% in the second quarter, impacted by a softening of consumer demand, particularly in Ontario, and a mix shift towards more essential and value offerings. Management withdrew its previous four-year (2022-2025) financial guidance given the slowdown in retail. Despite recording industry-leading sales and margins among major appliance manufacturers, LG Electronics declined as profitability fell short of expectations on increased marketing expenses. LG management also offered a guarded outlook due to intense price competition in the appliance market.

Bucking the "consumer weakness" trend was Japanese automotive manufacturer, Honda Motors, which reported higher production following sluggish volume delivery the previous year. Honda has outperformed its global peers year-to-date, citing favorable sales mix, controlled incentives and positive shareholder policies. A number of U.K. companies including homebuilders and clothing retailers like Next PLC also saw a rebound as U.K. inflation trended down.

The communication services sector was under pressure as Ipsos dropped in line with its advertising/marketing brethren, as client spending lessened (especially among technology and telecom customers). Teleperformance, an industrials sector holding, also declined on this thematic trend as the company noted a pullback in client spending, as focus rotated to leaner operations and lower fixed costs. As a result, Teleperformance scaled back guidance on top-line expectations for the second consecutive quarter.

While enthusiasm raged on about the long-term potential of artificial intelligence (AI), nearer-term concerns over sluggish semiconductor capital spending dragged down the IT sector. SK Hynix, a global memory chip manufacturer, advanced strongly in the first half of the year due to its dominance in high bandwidth memory (HBM), a critical component in AI servers. However, the stock declined this quarter as news surfaced that its DRAM and NAND chips were found in the new Huawei Mate 60 Pro phone. Since Huawei was placed on the U.S. export control list in 2020, SK Hynix had no direct sales to Huawei. It is widely speculated that Hynix chips were sourced through a third-party agency. OpenText Corp. was down as quarterly results failed to meet market expectations. While the license and maintenance segments drove the upside for fiscal year 2023, the cloud business was slightly below expectations. Management also expects Micro Focus to return to organic growth in 2024.

During the quarter, Jumbo SA, a Greek specialty retailer with a footprint in airports, was sold on valuation. Jumbo benefitted from the continued increase in travel; stock exit was based on the strength of the recovery. The remaining shares of Bancolombia were also sold. Daimler Truck AG, the global manufacturer for medium- and heavy-duty trucks and buses, was purchased. Balance sheet and cash flow strength reinforce the resilient nature of Daimler Truck's business model, while high barriers to entry within the industry deepen its competitiveness. Growth opportunities abound in the electrification of truck fleets and increasing content per vehicle requirements. Another new buy was Itochu Corp., the Japanese trading company, which offers one of the most diversified product and service offerings among its peers.

The following table reflects the sector and regional allocation for the Polaris International Equity Composite as of September 30, 2023.

	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%*	13.9%	0.0%	0.0%	4.4%	0.0%	3.8%	0.0%	0.0%	3.8%	1.9%	0.0%	0.0%	0.0%
Japan	*22.9%*	13.4%	0.0%	0.0%	0.8%	3.8%	4.9%	0.0%	0.0%	0.0%	0.0%	2.1%	1.9%	0.0%
Other Asia	*11.3%*	16.4%	0.0%	0.0%	0.0%	2.2%	3.7%	0.0%	0.0%	4.3%	4.7%	1.5%	0.0%	0.0%
Europe	*57.8%*	43.8%	2.2%	0.0%	6.4%	6.2%	10.9%	3.0%	4.3%	5.4%	0.0%	5.5%	0.0%	0.0%
Scandinavia	*8.0%*	9.6%	0.0%	0.0%	1.7%	2.9%	0.5%	0.0%	0.0%	4.4%	0.0%	0.0%	0.0%	0.0%
Africa & South America	*0.0%*	1.0%	0.0%	0.0%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	*0.0%*	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%
Portfolio Totals		100.0%	2.2%	0.0%	14.1%	15.2%	23.9%	3.0%	4.3%	18.0%	6.5%	9.1%	1.9%	1.9%
MSCI EAFE Weight	*100.0%*		*4.8%*	*3.4%*	*7.5%*	*15.9%*	*12.0%*	*9.8%*	*13.4%*	*19.1%*	*7.7%*	*4.1%*	*2.3%*	*0.0%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

Central banks firm monetary stance will likely result in a "higher-for-longer" interest rate environment; investors need to come to terms with a normal period of positive real interest rates. It will take an adjustment after 10+ years of virtually zero or negative real interest rates, which led to considerable market excesses and over-inflated asset values… none of which were healthy for long-term capital market stability. Unwinding artificially low interest rates that precipitated high inflation is a fine balancing act, with a soft landing as the best scenario.

Central banks must remain committed to change habitual investor expectations that keep upward pressure on inflation. Change will be achieved when real interest rates and capital costs remain above inflation, and do so for the foreseeable future.

We anticipate that higher real rates for longer will slowly favor the traditional value stocks we hold. During the third quarter, we kicked the tires, traveling to the Netherlands, Japan and Canada to visit a number of current investments as well as prospects. We noted important governance changes in Japan, which should benefit many of our regional holdings. (More about this trend will be addressed in an upcoming blog post – visit us at www.polariscapital.com)

IMPORTANT INFORMATION: The Polaris International Equity Composite was established on April 1, 1995 with a performance inception date of June 30, 1984. Performance from the inception date through March 31, 1995 represents the portfolio track record established by Portfolio Manager Bernard Horn while affiliated with a prior firm. 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. One cannot invest directly in an index.