POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

PERFORMANCE COMMENTARY – FIRST QUARTER 2024

Global equity markets enjoyed consecutive months of gains, with the MSCI World and ACWI Indices returning 9.01% and 8.32% respectively for the quarter. European markets rounded the corner, reporting better-than-expected inflation figures, while the U.S. continued its hot streak on the back of mega-cap tech stocks. Asian countries and select emerging markets also posted modestly positive returns, with a notable market re-rating in Japan as the country reevaluated its stance on deflation. Major central banks (including the Federal Reserve) wrestled with the idea of rate cuts, holding firm as the drivers of inflation remain in play. The exceptions were the Swiss National Bank, which cut rates, and aforementioned Japan, which raised rates for the first time in 17 years.

On this backdrop, the Polaris Global Value UCITS Fund ("the Fund") returned 6.05% at net asset value, lagging the benchmarks. The Fund had absolute positive gains across all sectors, led by financials, industrials and consumer discretionary holdings. A significant underweight in the heated information technology sector was primarily responsible for the underperformance. Real estate and utilities had middling returns, although the Fund beat the benchmark in both. From a country perspective, the Fund outperformed in Germany, United Kingdom, Switzerland and Sweden to name a few. The Fund and benchmark were generally aligned in U.S. stock performance; however, the significant U.S. underweight (approximately 31%) played into the Fund-level differential to the MSCI World Index. Norway, Canada and Italy were the only countries in the portfolio with absolute negative returns for the quarter.

FIRST QUARTER 2024 PERFORMANCE ANALYSIS

In the financials sector, The Carlyle Group drove gains with its quarterly earnings and positive guidance for 2024. Enhanced fee income on a pay structure overhaul, in combination with a lower expense base, widened margins in the quarter. Two German reinsurance companies, Munich Re and Hannover Re, continued to advance on a firmer price environment. Both raised dividends and set positive guidance for 2024. For many of the traditional U.S. banks, performance was higher on net interest margin expansion and a benign credit environment. Brooklyn, NY-based Dime Community Bank was a detractor of note, coming under pressure due to its commercial and multi-family real estate exposure. The sharp decline at struggling New York Community Bank (which absorbed failed Signature Bank in March 2023) also heightened unease about the regional banking sector and specifically the much smaller Dime Community.

Portfolio revisions in early 2024 proved fruitful, as we steered away from the passenger car market in favor of the broader truck market. Industrial holdings, Daimler Truck Holding and Allison Transmission Holdings, both gained more than 30% for the quarter. Strength in North American on-highway and defense divisions, coupled with price increases, drove Allison's net sales higher, which more than offset elevated material and manufacturing costs. Daimler Truck hosted an investor day, showcasing its North American market growth with a roll-out of electric delivery trucks in California; the state has a mandate to reach 100% electrification of its governmental fleet by 2035.

Crocs, Inc. was the top contributor in the Fund portfolio, spearheading consumer discretionary gains. The U.S. footwear manufacturer was up more than 50% on strong earnings and upbeat guidance. The market sees significant upside to Crocs' story as margins improve, international expansion continues and the Hey Dude acquisition gains traction. Next PLC announced preliminary results for its fiscal year end, reporting a 5% rise in annual profits driven by online sales. The U.K. clothing retailer expects profits to expand to nearly $1.3 billion in 2024, as rising wages free up British shoppers to spend on fashion. Conversely, Japan's Sony Group Corp. saw a decline on earnings, with lower-than-expected results from their gaming division and flagship PlayStation consoles. LG Electronics reported inline sales, but operating profits disappointed on higher marketing costs and expenses. Sentiment was upended by appliance competitor, Whirlpool, which offered downbeat guidance for 2024.

For the past few years, information technology was a leading driver of U.S. markets, catapulted forward by the "Magnificent 7". However, that outsized growth story has started to decline with the first quarter losses at Tesla and Apple. At Polaris, we first purchased Microsoft in 2012, when it was very much out of favor; it has since reached the heights of the Mag 7 and continues to drive forward on the back of AI demand. While it is no longer the cheapest stock in the Fund, it provides great exposure to a heated industry. Other Fund holdings, SK Hynix, Samsung Electronics and MKS Instruments, could be considered "AI derivatives", capitalizing on the space without the high price tag. Each sits in the fiercely competitive environment amongst semiconductor chip suppliers and chip component manufacturers.

On the opposite end of the spectrum, OpenText Corp. declined as investors took profits following a stock rebound in December and January. The company released solid earnings, citing healthy cloud bookings in enterprise content. However, tepid organic growth and the complexity regarding OpenText's AMC divestiture left investors underwhelmed.

AI was the driving force behind very different results for two Fund holdings. Publicis Groupe was up markedly after announcing solid fiscal year-end results and promoting a new strategy to become the industry's first AI-powered Intelligent System to be built in-house. Teleperformance declined on renewed concerns that generative AI will disrupt the French call center's business. The drop followed an announcement from fledgling, pre-IPO Swedish fintech company, Klarna, which publicly released results from its AI customer service assistant, powered by Open AI, claiming to do the work of hundreds of employees.

The law of supply and demand played out in copper market prices. The "electrification of everything" and a resurgent Chinese economy drove demand, but supply side constraints were an equally, if not more important, determinant of pricing. Many of the most productive copper mines across the world are seeing declining production rates. Copper is produced in places like Chile and Peru, but also in some more politically and economically challenged countries in Africa and Asia; supply disruptions can result from political unrest. For example, Panama somewhat surprisingly halted development of First Quantum Minerals' new $10 billion Cobre mine. There are also globally-recognized issues in terms of water availability and drought, which are critical in the processing of copper. In summary, the number of new really productive projects coming online are fairly limited; as a result, the copper market should remain tight for the next decade. This will benefit the likes of pure copper players like Lundin Mining and Antofagasta PLC, both Fund companies that jumped more than 20% for the quarter. Elsewhere in the materials sector, Smurfit Kappa Group, the Irish paper and packaging supplier, rose ahead of its $20B merger deal with U.S. rival WestRock, expecting synergies and a rebound for durable goods in 2024. Other M&A activity, including Mondi PLC's bid for DS Smith, portends greater packaging industry consolidation in Europe.

Among material sector detractors, Canadian methanol producer Methanex reported a delay in the startup of its Geismer 3 project and repairs at its Egypt facility. In an interview with CNBC, Yara International's CEO stated "volatility is the new normal" in the food system; the stock consequently declined. However, the fertilizer market looks to have stabilized with pricing largely back to normalized levels, as the supply/demand balance is back in check.

Barbell returns typified the health care sector, with AbbVie Inc. and Elevance Health Inc. up more than 10%, offset by declines at Gilead Sciences Inc. and UnitedHealth Group Inc. Despite facing generics competition for its top-selling drug, Humira, AbbVie reported quarterly and annual results that exceeded analysts' estimates. The U.S. drug maker also raised its sales outlook for two of its biggest immunology drugs and announced acquisitions of ImmunoGen and Cerevel Therapeutics. U.S. biopharma Gilead's revenue decline came as lower sales of its COVID-19 and HIV products were only partially offset by higher oncology sales. A late stage-trial failure for Gilead's bladder cancer drug also impacted the stock price. Elevance Health forecasted 2024 profit above expectations after higher commercial insurance premiums helped keep medical costs controlled during the fourth quarter of 2023. In comparison, UnitedHealth flagged an increase in demand for medical care among older adults; UNH has greater exposure to the Medicare Advantage plans.

During the quarter, Avnet Inc. was exited on valuation, while Berry Global Group was sold due to a shift in fundamentals. Berry may face future cash flow impingement following its health/hygiene division spin-off and combination with Glatfelter Corp. via a Reverse Morris Trust transaction. LG Uplus Corp. was sold as competition weakened pricing power. New purchases included Takeda Pharmaceutical Co. Ltd., a Japanese-based global pharmaceutical company, with a diversified product portfolio that branches into gastroenterology, rare diseases, immunology and oncology; Korean retailer F&F Co. Ltd., which has licensing deals with Major League Baseball, Discovery and TaylorMade Golf brands; and LKQ Corporation, a salvage auto parts business that promotes sustainability by recycling and reusing vehicle components. The quarter also saw some substantial portfolio rebalancing, as we took profits from companies that did particularly well in 2023 and reinvested in those companies expected to capitalize on 2024 market trends.

INVESTMENT ENVIRONMENT AND STRATEGY

In 2024, we anticipate that the Fed (and other central banks) will begin lowering rates in small increments, but we will not see a return of artificially low rates. So far, most central banks are generally taking a cautious approach as economic growth appears resilient, sustaining higher inflation rates. Previous projections for rate cuts in March were pushed to the second quarter of 2024 and beyond.

Rates will be a determining factor in driving equity returns in 2024; not all equity returns will be equal, with specific parts of the investment spectrum showing more promise than others. In fact, we have seen a rolling wave of in- and out-of- favor sectors and industries. Companies are adjusting to the "new normal", with supply chain constraints, pricing/inflation balance, consumption trends, labor dynamics and post-pandemic routines.

High-flying tech stocks led the way in 2023, while defensive sectors languished. 2024 might see a reversal of those fortunes. We see opportunity in a number of areas, some cyclical and some defensive. If the U.S. decisively avoids a recession and manages a "soft landing", many other global economies will likely follow. In such a scenario, rate-sensitive cyclicals may dominate, and we have identified a number of value investing picks in this space.

The timing of rate adjustments remains in question; it will be a fine balance taking into account strong global GDP growth and employment rates, geopolitical risks and election year stimulus packages, among other metrics. At Polaris, we continue to perform fundamental bottom-up research, which we expect will ultimately drive differential equity returns.

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This is a marketing communication.

IMPORTANT INFORMATION

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. The MSCI World Index, 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 MSCI ACWI Index, gross dividends reinvested, captures large- and mid-cap representation across 23 developed markets and 24 emerging markets countries. One cannot invest directly in an index.

RISKS

Potential investors should be aware that an investment in a Fund may be exposed to other risks of an exceptional nature from time to time. Investment in the ICAV carries with it a degree of risk. There can be no assurance that a Fund will achieve its investment objective and there is potential for an investor to lose some or all of its investment in a Fund. Different risks may apply to different Funds and/or classes. Prospective investors should review the Prospectus carefully in its entirety and consult with their professional advisors before making an application for Shares.

The Fund is subject to the following risks, without limitation:

Equity Security Risk: the value of a company's equity securities is subject to changes in the company's financial condition and overall market and economic conditions.
FDI and Leverage Risk: FDI may fluctuate in value rapidly and leverage through FDI may cause losses that are greater than the original amount paid for the relevant FDI.
Emerging Markets Risk: emerging market securities may expose the Fund to more social, political, regulatory or currency risks than developed market securities and may be subject to heightened Liquidity Risk.
MLP Risk: MLPs expose the Fund to risks associated with the underlying assets of the MLPs and risks associated with pooled investment vehicles. There is also a risk that an MLP may not be treated as a partnership for U.S. federal income tax proposes, and the purpose of the Fund's investment in MLPs depends largely upon this.
Liquidity Risk: there may be insufficient buyers or sellers to allow the Fund to buy or sell certain types of securities readily, which may impact the Fund's performance or (in extreme circumstances) an investor's ability to redeem.
Counterparty Risk: a party with whom the Fund contracts for securities may fail to meet its obligations (e.g. fail to settle an FDI) or become bankrupt, which may expose the Fund to a financial loss.
Currency Risk: changes in exchange rates may reduce or increase the value of non-U.S. Dollar denominated assets held by the Fund. There can be no guarantee that currency hedging will be successful in mitigating such effects.

Operational Risk: material losses to the Fund may arise as a result of human error, system and/or process failures, inadequate procedures or controls.

For more information on these and other applicable risks see the sections "Investment Risks and Special Considerations" and “Investment Risks Applicable to each Fund” in the Prospectus.

DISCLOSURES

The Fund is actively managed and not constrained by any benchmark. The Fund invests in securities of foreign issuers, including issuers located in countries with emerging capital markets. Investments in such securities entail certain risks not associated with investments in domestic securities, such as volatility of currency exchange rates, and in some cases, political and economic instability and relatively illiquid markets. Options trading involves risk and is not suitable for all investors.

Before investing you should carefully consider the Fund’s investment objectives, risks, charges and expenses. This and other information is in the Prospectus and Key Investor Information Documents (KIIDs). Please read the Prospectus and KIIDs carefully before you invest. A Prospectus is available for PCM Global Funds ICAV (the ICAV) and KIIDs are available for each share class of the Fund. The ICAV’s Prospectus can be obtained from pcmglobalfundsicav.com and is available in English. The KIIDs can be obtained from pcmglobalfundsicav.com and are available in one of the official languages of each of the EU Member States into which the Fund has been notified for marketing under the Directive 2009/65/EC (the UCITS Directive). In addition, a summary of investor rights is available from pcmglobalfundsicav.com. The summary is available in English. The Fund is currently notified for marketing into a number of EU Member States under the UCITS Directive. The ICAV can terminate such notifications for any share class and/or the Fund at any time using the process contained in Article 93a of the UCITS Directive.

The Fund is offered solely to non-U.S. investors under the terms and conditions of the Fund’s current Prospectus. Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted.

The Fund is authorised in Ireland and regulated by the Central Bank of Ireland.

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