POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 1st QUARTER 2018

Global markets were volatile during the first quarter of 2018. Markets rose in January on the back of tax reform, synchronized global growth and consumer spending. By February, U.S. stock indices experienced the largest decline since August 2011. Investors were concerned that rising inflation would force interest rates higher, and erode profitability for companies already trading at elevated valuations. Fiscal tightening was signaled by the European Central Bank and Bank of Japan, leading to similar company-level worries. In March, trade wars between the U.S. and China shifted sentiment, with tariffs exacted by both countries. Amid these geopolitical risks, the Polaris Global Value UCITS Fund ("the Fund") returned -2.16% for the quarter, lagging the MSCI World and ACWI Indices, which dropped -1.15% and -0.84% respectively.

Gains in financials, information technology (IT), utilities and energy were offset by losses attributable to consumer-driven sectors. Puerto Rican bank Popular Inc. had double digits returns, showing resilience in the wake of Hurricanes Irma and Maria. U.S. bank Ameris Bancorp announced good results, with new loan originations, more deposits and improved asset quality. Standouts in IT included Nexon Co., Ltd, Infosys Ltd., Hewlett Packard Enterprise (HPE) and Microsoft Corp. Marathon Petroleum Corp. noted improving gross refining margins on the back of robust U.S. fuel demand. Positive developments at Japanese brewer Asahi Group Holdings Ltd. couldn't mitigate declines among other consumer staples stocks, namely Greencore Group PLC. U.K. homebuilders, Bellway and Taylor Wimpey, and U.S. clothing/fashion retailers, Carter's Inc. and L Brands Inc., hindered consumer discretionary performance.

PERFORMANCE ANALYSIS

Japanese video game company, Nexon, rose more than 13% after posting its highest-ever quarterly sales, leading to good year-end results. Nexon upped its sales and operating profit forecast for the first quarter of 2018, as the company expects high margin business from its widely-popular Chinese game, Dungeon & Fighter. Nexon also improved the monetization of its subscriber base. IT consulting company, Infosys, continued its turnaround by posting stable quarterly earnings under the watchful eye of new CEO Salil Parekh. Infosys' employee utilization increased to an all-time high, and attrition rates decreased as Mr. Parekh promoted professionals internally.

U.S. conglomerates, Microsoft and HPE, also boosted IT sector gains. Commercial cloud offerings fueled growth, as Microsoft posted greater revenues and operating income. The company's various platforms, including Azure, LinkedIn, Microsoft 365 and Dynamics 365, are also advancing. Strategic initiatives were broadcast at quarter end, as Microsoft sought to unify its artificial intelligence and core Windows into one team; a similar combination was expected between product and office business solutions. HPE ticked up more than 22% on robust sales and profits, with surprising expansion in its server business. The company posted optimistic 2018 guidance, with plans for $7 billion in buybacks and a 50% dividend increase. Japanese online social networking company, Mixi Inc., and U.S.-based Web.com Group Inc. were the only notable sector detractors. Mixi's net sales and operating income declined on a quarterly and yearly basis, with fewer growth drivers in play. Sales of flagship game, Monster Strike, were lackluster and the Ticket Camp business was closed after the government effectively outlawed secondary ticket sales. Web.com Group noted solid fiscal year results in line with expectations; however, this news was muted by ongoing subscriber losses in the retail segment yet to be offset by full-suite solution sales to corporate accounts.

Puerto Rico continued to navigate through the hurricane aftermath, restoring power to nearly 70% of residents. Monetary stimulus, in the form of Federal aid and insurance proceeds, also helped the Commonwealth. In this environment, banking firm Popular Inc. delivered upbeat quarterly results. Consumer loans picked up on the back of auto demand (some replacement from the hurricanes) and provisions were halved from the third quarter of 2017. Additionally, Popular acquired Wells Fargo's auto finance business in Puerto Rico for $1.7 billion, procuring a high-yielding portfolio with modest credit quality risk.

Hannover Re declared solid earnings, with premium volumes and prices surpassing previous year metrics. The German reinsurer had limited exposure to catastrophe claims from the spate of hurricanes in the Caribbean and U.S. The stock was up more than 8%, as the street speculated about issuance of a special dividend in 2018. Fellow reinsurer Munich Re reported earnings that bested guidance, but were generally unremarkable. True recovery may depend on Munich Re's execution of restructuring plans. In the U.S., Ameris Bancorp announced good results, with 20% organic loan growth, greater deposit base and improved asset quality. Ameris' acquisition of Hamilton State Bancshares also met with investor approval, as this deal will enlarge Ameris' footprint in Atlanta. Conversely, Franklin Resources declined after declaring a special dividend that failed to impress the market. At $3.00 per share, this was a 10% yield payout on a dividend basis; however Franklin could have realistically paid 3x to 4x that amount. Speculation was rampant as to why the financial services firm didn't execute a more robust payout.

In energy, U.S. oil refiner Marathon Petroleum improved gross refining margins, due in part to rampant U.S. fuel demand, buoyant exports and planned maintenance shutdowns of competitor refineries. The company also completed the dropdown of refining logistics assets and fuel distribution services to its general partner, MPLX, in exchange for $8.1 billion.

Shares of Japanese beer brewer Asahi Group Holdings were up after the company released 2017 numbers that showed strong operating profit. The company noted strong volumes in Europe and good headway in the domestic market, as consumers adjusted to price hikes. In contrast, Irish convenience food producer, Greencore Group, plunged during the quarter. Although the company's fourth quarter 2017 sales grew in both the U.K. and U.S., concerns arose about the U.S. business. Greencore was unable to cultivate new U.S. customer relationships, as evidenced by single-digit volume growth and underutilized facilities in Rhode Island.

U.K. clothing/accessories retailer NEXT PLC was a recent consumer discretionary portfolio addition. The stock gained ground after a positive trading update. Management quickly migrated to a multichannel strategy with a substantial emphasis on online sales; NEXT now leads the industry relative to peers in this customer channel. L Brands, owner of Victoria's Secret (VS) and Bath and Body Works, noted positive year-on-year comparable sales growth. Yet gross margins at their brick-and-mortar VS stores were lower than expected due to product mix and promotional activity. Carter's Inc. was up almost 40% in 2017 on the back of huge sales increases. The company promised to share the benefits from tax cuts with employees, authorized a $500 million share repurchase program and upped its quarterly dividend by 22%. Yet, the stock fell after 2018 profit guidance fell short of market estimates. U.K. homebuilders dropped during the quarter, although all indications were positive. Recent trading updates alluded to higher revenues/volumes, attractive average selling prices and new land plots under contract. Declines were likely due to profit taking, after homebuilder stock prices rose markedly in recent quarters.

German telecommunication reseller Freenet AG reported mid-single digit increases in both sales and profitability within its TV and media business. Average revenue-per-subscriber was stable in its core mobile communication business, which added subscribers at the margin. Yet, analysts were skeptical about the momentum of the core mobile business, due to longer handset life cycles and lower market churn. The stock trended down nearly 18% during the quarter.

INVESTMENT ENVIRONMENT AND STRATEGY

Positive momentum continues in nearly all global economies, both developed and emerging. Recent company meetings echoed this drive, pointing to good business demand, inventory restocking and new purchasing trends. Raw material/commodity prices are rising, and supply-demand metrics are proving favorable, especially in electronics and tech components. As a result, select IT companies remain on our radar, as do financial, consumer discretionary and industrial sector stocks. Generally speaking, we already have a healthy weighting in many of these named sectors or applicable sub-sectors; therefore, we may seek to replace current portfolio holdings with more attractively-valued companies at opportune periods. Regardless of sector, the majority of undervalued, but fundamentally strong, companies remain centralized in Asia (China, Japan, Korea, Taiwan) and the U.S. We benefit from a globally diverse analyst team, all of whom conduct on-the-ground research, meet with companies/competitors, visit manufacturing plants, and carefully analyze prospective companies using local and global accounting standards. We continue to believe in the merits of this bottom-up investment philosophy, and strive to improve the valuation and risk profile of the Fund. As always, we welcome your comments and questions.

Regards,

Polaris Capital Management, LLC