POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 4th QUARTER 2018

The Polaris Global Value UCITS Fund ("the Fund") returned -13.56% for the fourth quarter of 2018, lagging the MSCI World Index, which returned -13.31%. Macro-economic pressures overrode company fundamentals, leading to a depressed global market. Materials sector returns were far worse than the commentary received from companies. Most of the portfolio's materials companies had strong third quarter earnings, offering guardedly optimistic guidance. However, U.S.-China trade tensions started to impact industrial production at quarter end, with sluggish manufacturing output reported in China, the Euro Zone and the U.S. The resultant weaker demand for materials, industrials and commodities caused pricing softness. In particular, oil prices were sharply down, impacted by higher U.S. production volumes due to continued technology-driven reductions and productivity. Other cyclical sectors, including financials and consumer discretionary, posted losses. Not surprisingly, defensive holdings in utilities, communication services and consumer staples mitigated declines.

At the country level, U.S. holdings detracted most from performance during the quarter. The Fund was underweight U.S. at 32% vs. 62% for the benchmark, so the impact was lessened. Weakness in the materials sector was responsible for poor results in Belgium, Canada and Norway, while ongoing BREXIT concerns affected U.K. holdings. South Korea and Puerto Rico, two countries not in the MSCI World Index, performed markedly better than the total benchmark return. Starting in 2016, we began to overweight South Korea, investing in companies that appeared to be lower risk and might hold up in a possible bear market. This strategy proved helpful this quarter. Foreign exchange impact was minimal.

PERFORMANCE ANALYSIS

Fund performance in financials was better than the benchmark, although the combination of absolute negative returns with a substantial overweight position resulted in financials being the largest detractor in the quarter. External factors weighed on the sector, ranging from the aforementioned trade wars to interest rate posturing within the Federal Reserve. U.S. based International Bancshares had strong third-quarter earnings, reporting higher EPS, higher loan growth, higher yields and lower loan loss provisions; yet the stock saw a double-digit decline. Similarly, Ameris Bancorp had robust third-quarter earnings and contained expense ratios. Shortly after Ameris placed a moratorium on M&A, the company announced the $750 million acquisition of Fidelity Southern Corporation. The in-market deal with prized branch locations in Atlanta proved irresistible to Ameris, but surprised shareholders who sold off the stock. Among the few bright spots in the financial sector were German reinsurers, Hannover Re and Munich Re, as well as Swiss insurance company Chubb Ltd. Asset manager Franklin Resources entered the $67 billion Israeli retail market, and added Canadian investment strategies.

The three worst performing stocks in the portfolio came from the materials sector: Methanex Corp., LANXESS AG and Imerys SA. Methanex noted solid quarterly earnings, citing higher volumes and average realized prices. The Canadian methanol producer re-opened its Chile IV plant, completed within the stated timeframe and budget. Yet, the stock was down in anticipation of weaker methanol prices due to lower oil prices. LANXESS, the German specialty chemical company, reported good quarterly results backed by higher selling prices, acquisition synergies and contributions from its U.S. phosphorus additives business. Guidance was equally compelling, but the stock faltered on industry-wide pricing softness in chemicals. Imerys reported solid third-quarter revenues, increasing operating income and a favorable price-mix in the market, none of which could overcome concerns about ongoing U.S. talc lawsuits. One positive was the long-expected Linde-Praxair merger, which closed at the end of October. We supported this merger and continue to have an optimistic outlook on the industrial gas industry and the newly formed company, Linde PLC.

BREXIT concerns hampered consumer discretionary stocks, with three underperformers from the U.K. Unusually warm weather, competitors' sales warnings and the proposition of new import tariffs dragged down U.K. retailers. NEXT PLC fell in line with the broader retail market, but NEXT's results were decidedly more upbeat. The Christmas holiday trading update was better than expected, with healthy retail and online sales. The stock is up strongly in early 2019 trading. U.K. home builders, Taylor Wimpey and Bellway, published strong trading updates, with rising sales rates and healthy order books. Yet Taylor Wimpey warned that the March BREXIT deadline may weigh on consumer confidence; both stocks dropped on the news. South Korea's Kia Motors was a highlight in the sector, as the company guided for higher auto shipments in 2019 and is expected to refresh its model lineup.

Babcock International was penalized by an unverified and poorly-researched short-seller report. This report, from an unidentifiable source, held more sway with investors than actual performance metrics supplied by Babcock, including 1) a new 15-year agreement with the U.K. Ministry of Defense, 2) third quarter 2018 results in line with expectations and 3) divestiture of non-core businesses.

In healthcare, Allergan's core business grew +6% in the third quarter, as aggressive sales efforts sought to offset the loss of exclusivity of some of its brands. Yet the stock was under pressure, as Allergan has yet to sell its Women's Health and infectious disease businesses. When Israel-based Teva Pharmaceutical publicized the limited release of generic versions of the EpiPen, the stock price rebounded. However, an investigation for price-fixing and opioid lawsuits eroded those gains during the quarter.

U.S. utilities, namely NextEra Energy and ALLETE, Inc., held their value in a tumultuous period. NextEra announced positive quarterly earnings with an increase in net income as well as its renewable project backlog and the completion of an acquisition in Florida. Telecom companies, Verizon Communications and Deutsche Telekom, proved to be defensive safe havens. Verizon posted solid third-quarter results, highlighting continued growth in Verizon Wireless, strong cash flows and new 5G commercial products. Deutsche Telekom reported a strong third quarter, with customer growth and higher earnings across all operating segments. The company went on to raise guidance.

2018 PERFORMANCE ANALYSIS

The year 2018 was one of contrasts, with the MSCI World Index producing modest single-digit gains or losses in the first three quarters, followed by a precipitous drop in the fourth quarter. Fund returns for the year were -12.98% vs. the benchmark's -8.20%. The portfolio's non-U.S. holdings performed relatively better than most international indices, but overall results were impacted by the portfolio's low weighting in a generally positive U.S. market. However, many U.S. performance drivers lost ground in the fourth quarter of 2018, and the underweight position helped. The portfolio was overweight and underperformed in a number of cyclical sectors, including consumer discretionary, materials and industrials.

INVESTMENT ENVIRONMENT AND STRATEGY

In early 2018, Fund management noted a favorable supply-demand balance in sectors like materials and industrials. Now, trade tensions have started to impact actual industrial activity. Our research is identifying anecdotal evidence of Chinese factory workers sent home for weeks without pay. Activity in the U.S. manufacturing sector expanded at a much slower pace than expected in December, according to the Institute for Supply Management. The silver lining to this situation: the more near-term pain inflicted on various parties, the more likely will be compromises in trade and political negotiations globally. When and if a favorable compromise is reached, investors may anticipate a new period of global economic cooperation. It would be less beneficial to economic growth and investor returns if the world entered a long period wherein policies favor protectionism and strict self-interest. Even in that environment, companies could likely adapt to operate under the local rules and practices in place. Meanwhile, volatility will likely continue and we could see more declines in global markets before conditions improve. In this environment, companies are trading at single-digit multiples to earnings and many stocks are down 20% to 50%. This is an opportune time to purchase watch list stocks at attractive prices.

Regards,
Polaris Capital Management, LLC