POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 2nd QUARTER 2019

The Polaris Global Value UCITS Fund ("the Fund") returned +2.96% in the second quarter of 2019, underperforming the MSCI World and ACWI Indices, which rose +4.20% and +3.80% respectively. Despite weakening consumer and business sentiment in Europe, stock performance for the quarter was upbeat. The Fund's cyclical sector holdings generally performed better than defensives, led by financials, materials and industrials. Stock declines in Kansai Electric Power (utilities) and Teva Pharmaceutical (health care) accounted for their respective sector underperformance. The Fund's U.S. holdings outpaced the benchmark; however, the Fund's underweight position held back returns. Foreign exchange was favorable to performance, as the U.S. dollar weakened against many currencies for the quarter. Year-to-date, the Fund was up +13.39%, while the MSCI World and ACWI Indices gained +17.38% and +16.60% respectively.

It is worth noting the continued gap between growth and value sub-indexes. For the quarter, the MSCI World Growth Index was up +5.63% while the MSCI World Value Index was up +2.72%. The year-to-date performance was more dramatic with the Growth Index up +21.38% and Value Index up +13.41%.

PERFORMANCE ANALYSIS

The Fund was in absolute positive territory, but slightly lagged the benchmark. Financials contributed half of the +2.96% gain, with six holdings posting double-digit returns. Two German reinsurers, Hannover Re and Munich Re, reported better-than-anticipated pricing on annual renewals, while catastrophic losses were limited in the 2019 first quarter. Standard Chartered, an international banking group, announced a $1 billion share buyback and a 10% jump in profits due to a surge in corporate banking income and a drop in expenses. JPMorgan Chase had solid quarterly results, with 5% net revenue growth year-over-year driven by its consumer divisions.

The second largest sector contributor was materials, where the Fund was both overweight and outperformed. Yara International, rose 20% as the company reported good quarterly revenues on the back of increased nitrate/urea product pricing. Yara's fertilizers were in high demand, as recent drier weather trends proved promising for U.S. farmers. A U.S-China agricultural deal may further hasten the crop planting process. Yara also curtailed its capital expenditure cycle; the resultant heavy free cash flow should be allocated to dividends over the next few years. Linde PLC recorded better profitability due to synergies achieved as a combined organization (Praxair-Linde). On June 25th, Linde signed a deal to supply gas to ExxonMobil's Singapore manufacturing complex, marking the largest gas contract in Linde's history. The Linde Board approved and executed a substantial stock buyback program, signaling that the company was comfortable with its debt and cash position. Canada's Methanex Corp. was the only detractor of note in the materials sector, as methanol prices were weak. The company faced a proxy fight with one of its largest investors who opposed a large expansion project and demanded a board shakeup.

Industrial sector results were solid, with Kone Oyj, SKF AB and BBA Aviation each advancing more than 10% during the quarter. In late April, Finnish elevator/escalator maker Kone reported first quarter earnings that met sales growth expectations. The stock price jumped higher on news that Kone may bid on ThyssenKrupp's $15 billion elevator division. Acquisition rumors held merit, as Kone had gone on record with its intent to become an industry consolidator. SKF, the Swedish ball bearing manufacturer, demonstrated the resiliency of its diversified business model. While automotive bearing sales were modestly lower, the company still delivered organic growth due to industrial bearings. Conversely, Andritz AG's metals stamping segment was pressured by weak auto industry demand. Strong pulp demand may lead to continued demand for its pulp and paper capital equipment. The company revised down its full year outlook, while announcing more restructuring from the Schuler metal division.

Consumer discretionary sector results were middle of the road, with Kia Motors and Duni AB among the top contributors, offset by British homebuilders relegated to the bottom of the portfolio. Kia, the South Korean automobile manufacturer, posted robust quarterly results, led by a recovery in the U.S. auto market and launch of new sport utility vehicles (SUVs). Hyundai Motors and Kia Motors sold a combined 155,082 SUV units in the U.S. in the first quarter of 2019, taking up 8% of total U.S. SUV sales, the highest level since 2011. Duni's sustainable tabletop products showed stronger growth as the company will phase out plastic products by year-end. Homebuilder Bellway provided a trading update with rising reservations and orders. The company also maintained its margin outlook, pointing to cost-cutting efforts. Yet Bellway, and competitor Taylor Wimpey, declined on building supplier reports suggesting volume weakness and build cost inflation. Bellway also dealt with the fallout as the builder of a six-story building that succumbed to fire (20 flats destroyed; no loss of life), started by a resident's barbecue.

The Fund was overweight and underperformed in the utilities sector mainly due to the stock decline of Japanese electricity supplier Kansai Electric Power. The Japan Nuclear Regulation Authority imposed strict anti-terrorism guidelines, likely cowing to the pressures of local anti-nuclear activists. The Authority was resolute in not issuing extensions for retrofitting nuclear reactors; the industry may struggle to meet the aggressive deadlines, resulting in nuclear facility shutdowns.

Double-digit gains from Quest Diagnostics and Allergan PLC helped temper losses in health care, which were entirely attributable to Teva Pharmaceutical. The Israeli-based generic drug manufacturer faced multiple legal battles. The Connecticut Attorney General led more than 40 states in a 500+ page lawsuit against Teva and competitors for generic drug price fixing. A separate generic price fixing criminal investigation may be filed by the Justice Department. Furthermore, Teva settled one of its outstanding opioid lawsuits with Oklahoma for $85 million. Investors extrapolated this settlement figure to other pending opioid lawsuits; Teva management refuted this calculation. Nevertheless, the stock dropped precipitously during the quarter. The position was in the process of being liquidated, which is now complete.

Three of the 10 largest detractors came from communication services, namely Japanese video game developer Nexon Co., U.K. listed movie theater operator Cineworld Group and South Korean telecommunications operator LG Uplus Corp. Nexon shares came under pressure after an offer from Nexon's founder to sell his NXC stake came to a halt with potential suitors over price disagreement. Nexon, however, remains fundamentally strong as evidenced by increasing mobile game sales of Dungeon & Fighter in China and MapleStory in Korea. After the end of a Marvel Avengers franchise era and more streaming movie options, investors are skeptical of Cineworld's ability to drive attendance to the theatre. The company also reported delays in its theater refurbishment plans. LG Uplus waned due to slower than expected benefits from 5G offerings and higher costs related to 5G expenses. On a positive note, Japanese telecom KDDI Corporation rebounded as it launched a rollout of new non-subsidized cell phone plans.

INVESTMENT ENVIRONMENT AND STRATEGY

Geo-political risks have dominated headline news for more than a year, with more recent worries over U.S.-China trade frictions, threatened Mexico tariffs and the ouster of U.K. Prime Minister Theresa May for failing to finalize a Brexit agreement with Parliament. Technology and materials stocks are sensitive to trade frictions. Signs of declining demand and new product postponements are already noticeable in technology. Year-to-date, the materials sector has been fairly impervious to the macro-economic threats, with decent volumes and pricing. Materials may still experience a downdraft; at that point, we intend to buy attractively-valued stocks that have been prominently featured in our screens. As value managers who have endured an outsized growth decade, we welcome markets that display a bit of stress; such periods typically present some of the best value opportunities.

Regards,
Polaris Capital Management, LLC