POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 3rd QUARTER 2019

Global equity markets had modest gains after considerable trade friction and geopolitical volatility during the third quarter of 2019. The Polaris Global Value UCITS Fund ("the Fund") returned -1.10% in the third quarter of 2019, underperforming the MSCI World and ACWI Indices, which rose +0.66% and +0.10% respectively.

The Fund's significant underweight in the U.S. relative to the benchmark continued to impact results, as the U.S. was one of the few developed countries in positive territory for the quarter. The United Kingdom, Austria, Germany and Israel had negative returns at the Index level; however, the Fund's holdings in those countries outperformed. In particular, U.K. consumer discretionary holdings, Bellway PLC and Next PLC, and British engineering services company Babcock International Group, exacted double-digit gains for the quarter. Overweight positions in Norway, France, Sweden and Canada detracted, as each of these countries saw their local stock markets slide during the quarter. Exposure to foreign currencies hampered results as the U.S. dollar appreciated against most major currencies. At the sector level, outperformance in information technology (IT), industrials, utilities and energy could not offset losses in materials and financials, which were overweight portfolio positions relative to the benchmark.

The top and bottom contributors to performers were an eclectic mix of companies. Detractors included Methanex Corp. (materials), Nexon Co. Ltd. (communication services), Franklin Resources Inc. (financials) and L Brands Inc. (consumer discretionary), while companies posting gains in excess of 10% included Babcock International (industrials), Western Union Co. (information technology), NextEra Energy Inc. (utilities), Asahi Group Holdings (consumer staples) and the two aforementioned consumer discretionary stocks.

PERFORMANCE ANALYSIS

Methanex, the Canadian based methanol producer, was impacted by lower realized methanol prices, due mainly to a large inventory build. The company also announced the construction of a third methanol facility in Geismar, Louisiana; investors were concerned about increased leverage as the company self-financed the project. Previously management expressed interest in a strategic financier of the project. French company, Imerys SA, slumped due to negative organic revenue growth in the first half of the year. The company forecasted a 10% profit decrease in 2019 due to deconsolidation of the North American talc subsidiaries and the temporary shutdown of the Willsboro plant due to asbestos contamination. Australian miner, BHP Group, declined due to weakening iron ore prices. Prices peaked in the second quarter of 2019 on the back of supply disruptions caused by the Vale dam disaster. In recent months, iron prices have moderated 25-30% as capacity came back online, while demand slackened in China. The materials sector is commonly considered a bellwether for global economic activity; negative results could suggest further economic weakness in the months ahead, for which we are prepared.

Investment management company Franklin Resources faced continued net fund outflows. Franklin also suffered losses due to large positions in the Argentina bond market, as the country's bonds plunged after election results. Central banks throughout Asia have cut interest rates as a pre-emptive move to support growth at a time when risks to the global economy are piling up. Share prices of South Korea's Shinhan Financial Group and Thailand's Siam Commercial Bank dropped in this environment, with expectations that further rate cuts will add pressure on net interest margins. One bright spot among financials was Chubb Ltd., which reported property & casualty insurance net premiums up 6%, with strong growth in its North America commercial insurance operations and overseas general division. The Fund made a new investment in Toronto-Dominion Bank, one of Canada's largest banks. The undervalued bank is an attractive buy due to its strong retail exposure, established banking footprint in the Northeast U.S. and part ownership of TD Ameritrade.

In communication services, gaming company Nexon Co. was down as its second quarter operating income missed street estimates due to lower traction in its flagship game, Dungeon & Fighter, in mainland China. Recent updates to the game did not resonate with customers, with weaker sales that may take a few quarters to redress. Theater operator Cineworld's pretax profit declined in the first half of the year, attributable to timing of blockbuster films when compared with the year before, but the company reported it was on track to meet full-year expectations. Cineworld has been actively refurbishing some of its high-traffic locations and introduced an unlimited movie pass within the U.S. market; both efforts are expected to help bolster Cineworld results regardless of the upcoming movie slate.

Most of the Fund's IT holdings were in absolute positive territory, leading to sector benchmark outperformance, as Western Union and SK Hynix generated double-digit gains. Western Union tackled top- and bottom-line growth with 1) an extensive multi-year $100 million cost reduction initiative, reducing manual processes in favor of technology; and 2) the introduction of a cross-border platform marketed to third parties. For example, Western Union signed an agreement with TD Bank of Canada whereby TD account holders can move money cross-border through the TD mobile app, effectively doing away with a more costly and lengthy wire transfer. Other pilot projects are in the works. Indian business consulting, IT and outsourcing firm, Infosys Ltd., gained traction in the cloud and digitization business, serving as the preferred cloud vendor for Microsoft. Quarterly results showed revenues up nearly 10% year-on-year, with digital revenue growth up 42%. The company also won a handful of new client accounts, including Finnish postal service Posti and Toyota Material Handling Europe. SK Hynix's stock was up as DRAM prices rose in June and July; the company also noted declining memory inventories due to better demand. The South Korean semiconductor supplier rose in line with industry competitors, Micron and TSMC, both of which projected strong industry demand in 2020.

Babcock International was the top overall contributor in the portfolio, up more than 20% during the quarter. The company recovered from a negative short seller research report rife with inaccuracies about future business prospects. Polaris research analysts conducted in-depth work on the company, visiting the Davenport facility in the U.K. and meeting with management. Polaris determined that concerns about a deteriorating relationship with the U.K.'s Ministry of Defense were unfounded. In a Babcock trading update, the company reported increased activity across the UK warship support program, and was the preferred bidder on a new warship build. Among other industrials, VINCI SA gained modestly after winning new airport and highway concessions, including the Gatwick expansion. VINCI was also shortlisted to acquire a majority stake in Australia's Hobart International Airport.

U.S. utilities led sector gains, with Florida-based NextEra Energy Resources up 14%, gaining momentum in renewable energy projects. Such projects have become quite profitable with lower costs and can operate on a stand-alone basis without governmental tax credits. With stable regulation for the Florida utility and a record pipeline for renewables, NextEra's aggressive growth targets will likely be reached.

Within the consumer staples sector, Japan's Asahi Group was up more than 10% after it reported mixed first half results with below target numbers in alcohol beverages but strong performance in soft drinks and food. The market has also warmed up to Asahi's strategy of diversifying outside Japan, mainly through key acquisitions. One such deal was consummated during the quarter, as Asahi paid $11.3 billion to buy Carlton & United Breweries, the Australian subsidiary of Anheuser-Busch InBev. In the U.S., Tyson Foods beat analyst expectations in its quarterly results. Volume growth in its core retail lines continued to outpace other large food companies, driven primarily by product innovation. Given the magnitude of the losses in China's pork supply due to African swine fever, global protein supply and demand fundamentals are expected to help processors like Tyson raise protein prices. Adversely, Tyson issued a profit warning for the fourth quarter of 2019, due to one-off operational issues at a few of its processing facilities.

INVESTMENT ENVIRONMENT AND STRATEGY

Continued trade tensions between the U.S. and China have weighed down the global economy; we do not see those fractious conditions resolving anytime soon. Our portfolio companies have responded to these events by cautiously exploring or even curtailing their investment and production plans. While we continue to seek defensive companies like VINCI SA, Loomis AB and BBA Aviation, our screens point to more companies in sectors like materials and industrials. New investments were being initiated at the start of the fourth quarter.

Regards,
Polaris Capital Management, LLC