POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 4th QUARTER 2019

Global equity markets ended the year on a bullish note, with the MSCI World and MSCI ACWI Indices up 8.68% and 9.07% respectively in the fourth quarter of 2019. The Polaris Global Value UCITS Fund gained 8.62%. Although slightly lagging the benchmarks, the Fund posted sizeable returns on the back of U.K. market gains. This was a welcome reversal from the past few years, when overweight positions in the U.K. and other European countries paled in comparison to robust returns in the United States, where the Fund is underweight.

In October, the U.K. and European Union reached an agreement on the conditions of the U.K.'s departure from the EU (BREXIT). Then in December, U.K. Prime Minister Boris Johnson won the general election in a resounding victory; years of BREXIT uncertainty gave way to inevitability. A revaluation of British stocks followed, as investors renewed interest in fundamentally strong companies. Stock prices of U.K.-based Bellway PLC, Taylor Wimpey PLC, Babcock International Group, Next PLC and Mondi PLC rose in excess of 20% for the quarter. Holdings in Sweden, Ireland, Colombia, Finland and Belgium also had double-digit gains. The Fund's sole holding in India, Infosys Ltd., declined on whistleblower claims.

Cyclical sectors drove performance: financials, consumer discretionary, industrials and health care added measurably. Detractors were relegated to information technology (IT) and communication services where sector returns were positive but lagged the benchmarks. Strength in most foreign currencies relative to the United States Dollar helped during the quarter.

FOURTH QUARTER 2019 PERFORMANCE ANALYSIS

Financials contributed most to Fund performance due to a substantial overweight relative to the benchmarks. JPMorgan Chase & Co. announced outsized quarterly earnings, with third-quarter profits up 8% and record revenue on the strength of its consumer lending and corporate investment banking divisions. German reinsurer, Munich Re, posted good results despite some catastrophe losses. At Hannover Re's capital markets day, the reinsurer emphasized its cost leadership and explained investment portfolio risk mitigation in a low interest rate environment. Bancolombia SA moved higher on steady net interest income, good cost control, low credit costs and expanding non-interest income. Conversely, Franklin Resources, Inc. declined on net asset outflows and lackluster performance due to Argentinian bond market exposure. Yet, Franklin achieved decent earnings, reporting higher income on lower expenses and taxes. Chubb Ltd.'s net income decreased due to realized losses in its variable annuity portfolio; otherwise, the Swiss property and casualty insurer's net premiums and underwriting income increased.

U.K. stocks dominated the consumer discretionary sector. At a granular level, retailer Next reported strong online sales and growth in overseas business, guiding up for January 2020 ended sales. Homebuilder Taylor Wimpey released a solid trading update after reporting slightly higher volumes in home sales albeit slightly lower operating margins. In the U.S., Carter's Inc. advanced after third quarter earnings. Although the children's apparel manufacturer wrote down its investment in Skip Hop, which lost key customer Toys "R" Us, the underlying sales, earnings, and margins all increased.

In industrials, Babcock International had a tangential bump after the U.K. elections, and rose markedly on earnings news. Babcock confirmed full year guidance, pointing to a strong order book that included a new $1.6 billion ship building contract with the U.K. Ministry of Defense. SKF AB's third quarter results were lackluster, but the market lauded the company's resilience when compared to other bearings/seal manufacturing competitors. U.S.-based WESCO International gained more than 20%, after bidding to acquire rival wholesale distributor Anixter.

Rallies from two managed care organizations boosted the health care sector. UnitedHealth Group (UNH) was the single best contributor in the Fund portfolio, up 35% for the quarter, after releasing conservative but robust 2020 guidance. In December, UNH's OptumRx announced a $304 million cash acquisition of Diplomat, a specialty pharmacy/home infusion service. Despite a higher medical loss ratio, Anthem Inc.'s Medicaid business improved, medical enrollment increased and SG&A expenses declined.

Within the consumer staples sector, Greencore Group gained ~25% while JM Smucker and Asahi Group lagged. Greencore hosted a capital markets day in September, where management boasted of new customer wins while managing its acquisition of salad/snacking manufacturer, Freshtime UK. Conversely, Asahi declined after reporting lower fiscal year sales and profits due to unfavorable foreign exchange and slowing domestic liquor and soft drinks business. Monopoly questions surrounded Asahi's acquisition of Australia's Carlton & United Breweries.

In IT, double-digit returns from Microsoft Corp., Western Union, Samsung Electronics and SK Hynix offset modest losses from Infosys and Avnet Inc. Western Union continued to trade positively after the company announced cost-cutting measures. Samsung gained on expectations that the highly-cyclical semiconductor market will ramp up again in 2020, especially in DRAM and NAND memory. Indian-based Infosys declined as whistleblowers accused the CEO and other executives of unethical practices to boost revenue and profits in the short-term. Management denied these claims, welcoming an independent audit. The stock price of Avnet, Inc. dropped after Texas Instruments (TI) announced it will end its relationship with Avnet in December 2020; TI accounted for 10% of Avnet's sales.

With the vast majority of Fund holdings in absolute positive territory, the negative outliers were few and far between. French advertising company, Publicis, and South Korean tobacco manufacturer, KT&G, declined. Publicis reported weak organic growth and implied flat to negative organic growth for 2020. The advertising agency, which struggled with client attrition, acquired Epsilon in an attempt to improve its product offerings. KT&G Corp.'s operating profits fell in the third quarter amid waning sales of e-cigarettes due to health hazard concerns.

2019: YEAR IN REVIEW

Global markets closed the decade on a bullish note, with fourth-quarter gains marking a year of unexpected strength given the considerable trade headwinds faced. Yet, the combination of low interest rates, continued resilience of the U.S. consumer, and strong election results in the U.K. fueled higher equity prices. The growth vs. value disparity loomed large, with the MSCI World Growth Index up 34.14% vs. 22.74% for the MSCI World Value Index in calendar year 2019. The gap was equally pronounced in the ACWI Indices: ACWI Growth up 33.17% vs. 21.52% for the ACWI Value Index. However, that trend may be at an end if the WeWork IPO was any indication. In September, the IPO was valued at close to $40 billion; by the time it was cancelled, the valuation dropped to $8 billion. Public markets were unwilling to support the heated venture-capitalist valuations. Since that time, growth momentum started to slow. Whether this was the turning point in an unusually long growth/value cycle has yet to be determined, but we welcomed more valuation-based investment behavior.

Modest underperformance throughout the year was attributable to the portfolio underweight in the U.S. market, which continued to outpace most non-U.S. markets. We were overweight and outperformed in the vast majority of other countries, including European developed regions of the U.K., Germany, Sweden, Norway, Ireland and Finland. At the sector level, contributions came from financials, consumer discretionary, IT and industrials, keeping trend with cyclicals that typically do well in a high-growth economy. Communications services and energy lagged; we were underweight these sectors.

INVESTMENT ENVIRONMENT AND STRATEGY

Competing trends continue to muddle the direction of the global economy. Industrial production figures are slowing down, which indicates that industrials and similarly-positioned sectors (like materials and construction) could get weaker. Yet the service sectors, which comprise up to 75% of gross domestic product in many countries, show considerable strength. Corporate capital spending has slowed, as companies are wary of on-going U.S.-China trade frictions and weak bellwether industry metrics like industrial production and trade flow data. Yet retail spending has continued unabated, with consumers seemingly unfazed by the trade tensions. With no clear trajectory, markets may experience volatility in coming quarters, and we hope to capitalize on downturns to purchase watch list stocks.

As we enter a new decade, we are excited about the changes in technology, advances in healthcare, continued emerging market growth, and all the opportunities and disruptions that will ensue. We are also mindful of the headwinds we may face: excessive deficit spending, geopolitical upheaval, potential asset bubbles and liquidity crises to name a few. At Polaris, we remain committed to our value discipline and believe that buying good companies at attractive valuations continues to be a prudent strategy for the decades.

Regards,
Polaris Capital Management, LLC