POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 1st QUARTER 2020

While markets were on relatively stable footing at the beginning of 2020, the months of February and March dramatically skewed returns. The Polaris Global Value UCITS Fund ("the Fund") returned -31.59%, underperforming the MSCI World and ACWI Indices, which declined -20.93% and -21.37% respectively. Measures to prevent the spread of the novel coronavirus (COVID-19) resulted in the shutdown of the global economy, never before seen in modern economic history. Oil prices also collapsed in March, resulting in a "perfect storm" of oversupply with falling demand. In such unprecedented times, the stock market declined in excess of -20% from its peak, defined as a bear market. After global policy measures were announced, and glimmers of hope shone in China and South Korea, the market rebounded from its March 23rd trough, stabilizing at a low level through the end of the quarter.

The Fund underperformed the benchmark partially due to weakness in foreign currencies relative to the United States Dollar. This was primarily centered around energy- and resource-related countries such as Norway, Colombia and Canada, where the Fund was overweight relative to the benchmark. Additionally, some defensive sector holdings did not act as intended. However, portfolio risk was reduced at the beginning of March by substantially increasing cash, as management trimmed certain cyclical positions to model or half weight in anticipation of the pending COVID-19 crisis. Beginning on the March 23rd market low, management began to quickly redeploy cash to buy companies at attractive valuations and diversified the Fund's portfolio further by increasing the number of securities.

FIRST QUARTER 2020 PERFORMANCE ANALYSIS

Although we trimmed cyclicals in February and early March, the Fund remained overweight in financials, consumer discretionary and materials. These sectors detracted most from absolute returns. Utilities and healthcare fared better during the quarter.

Substantial flows into the safest debt instruments drove interest rates, from Treasury bills to 30-year government bonds, to less than 1% on March 9, 2020. In an effort to coordinate central bank rates with these extreme market rates, the U.S. Federal Reserve cut interest rates to essentially zero and launched a purchase program, buying Treasuries and mortgage-backed securities whose prices were subject to potential drops in value. Bank stocks declined sharply on expectations of lower interest margins and higher credit losses due to higher unemployment and companies likely entering financial distress. Capital One Financial Corp. declined on market projections for consumer credit losses. Webster Financial noted contracting net interest margins and higher provisions for loan losses despite a solid loan portfolio. JP Morgan Chase is among the largest banks in the world, with the highest profitability in its peer group. The company faced pressure on the asset side due to lower fee-based wealth management services, but may gain some of it back on the banking side due to market volatility and trading.

One positive industry trend is that many companies are drawing down approved credit lines, which will increase loan balances. Higher loan balances will increase banks' interest income, while increased refinance activity will help some banks' fee income. It is also worth noting that the vast majority of U.S. banks are better capitalized and less reliant on short-term funding than in 2008; therefore, banks will likely withstand this event-driven recession.

While lower interest rates hurt U.S. banks, lower oil prices hampered a number of other banks in the portfolio. Banks from oil exporting countries, such as SpareBank 1 SR and DNB ASA from Norway, and Bancolombia in Colombia, declined. This trend will likely reverse on a return to higher oil prices when demand eventually normalizes; the Fund's bank holdings have strong capital ratios and experienced management teams with which to withstand this downturn.

The reverberations from low oil prices were felt in many sectors, like energy and materials. U.S. refiner Marathon Petroleum declined initially due to a refinery fire, followed by projections of minimal fuel demand. The $22 billion sale of Marathon's Speedway gas station business to Seven & i Holdings was also cancelled. Canadian methanol producer, Methanex, reduced output as demand for methanol declined. The company stopped production at two plants in Trinidad and Chile; the company also halted its Geismer 3 expansion project and other capital expenditures.

U.K. consumer discretionary companies topped Fund performance in the fourth quarter of 2019 but were among the worst performers in the first quarter of 2020. U.K. homebuilders, Taylor Wimpey PLC and Bellway PLC, went into the crisis in great shape, with good control of inventory, build rates, selling prices and financing. But the subsequent U.K. lockdown shut down construction sites and home sales; both homebuilders withdrew guidance and cancelled dividends. Apparel retailer Next PLC closed stores temporarily, in line with all other retailers; the company also shut down its online, warehouse and distribution operations to protect staff. During the quarter, specialty U.S. retailer L Brands announced the sale of 55% of the Victoria's Secret division. Yet, the stock declined as L Brands was forced to close all its retail shops for Bath & Body Works, Victoria's and PINK in North America for the near term.

When "black swan" (simplistically defined as a statistically extreme unpredictable event with severe impacts) events happen, there are always some companies left flatfooted. Typically, companies that have levered up to complete a merger or a large expansion project bear the brunt. This time was no different. Of all the companies in the Fund portfolio, only three had recently elevated debt-inducing activities: U.S. distributor, Wesco International, bid to purchase Anixter; U.K. theater operator, Cineworld Group, announced the acquisition of Cineplex; and Canadian methanol producer, Methanex, readied to launch the Geismer 3 project. These three were among the worst performers.

Some of the Fund's defensive sector holdings offered stability in a volatile market. Consumer staples company, J.M. Smucker, was up 6% on the quarter as sales rose for shelf-stable food items like peanut butter, jelly and coffee. Smucker's Big Heart Pet Brands division had strong sales as consumers stocked up on a month's supply of pet food. Also capitalizing on changing global dynamics, Microsoft Corp. saw increased demand for fee-based software and cloud services (Azure) in the work-at-home/online education movement. Performance in the utilities sector was led by Japan's Kansai Electric Power and U.S. renewable energy forerunner, NextEra Energy Inc. Kansai benefitted from a management shakeup and corporate governance improvements. NextEra had good fourth quarter 2019 performance, and raised equity to fund renewable energy and power projects early in the first quarter of 2020.

In healthcare, the relative outperformance of Allergan came from the expected close of the buyout from AbbVie. Allergan also reported higher-than-expected sales from dry eye medication Restasis, as the company dodged U.S. competition – even after patents expired – due to regulatory struggles for generic companies. Novartis AG unit, Sandoz, produces hydroxychloroquine, which was reported in some countries as a beneficial drug in the fight against COVID-19. Novartis started clinical trials, willing to donate up to 130 million doses of hydroxychloroquine as a possible "game changer".

During the quarter, Fund management initiated more than a dozen new positions. Investments trended thematically into: 1) stocks down substantially that might rebound strongly within 12 to 24 months, many of which were in the travel or tourism sectors or 2) defensive names typically defined as "recession resistant". Based on the second premise, Polaris purchased two healthcare companies, Laboratory Corp. of America and Fresenius SE, a European hospital group; industrials Bunzl PLC, a British commercial distributor, and Finnish pulp/paper capital equipment supplier, Valmet OYJ; and U.S. tax specialist, H&R Block, among others. New tourism/travel stocks included U.S.-based Delta Airlines; Irish budget airline, Ryanair Holding; and Darden Restaurants. The majority of new holdings already showed promise, with stock prices ticking higher after purchase.

INVESTMENT ENVIRONMENT AND STRATEGY

We believe that the market bottomed out in the third week of March, with substantial volatility expected in ensuing months. While the market sell-off was quick and sharp, a recovery may be more protracted. The same could be said for the global economy. Recessions (two quarters of GDP decline) are likely in many countries; the timeline might extend as conditions normalize in the U.S. and Europe at a far slower pace than in China and South Korea.

However, conventional wisdom suggests that markets recover far in advance of broader economic trends. If the market has already troughed, we may see fits and spurts of growth and retraction in the coming months. Rapid portfolio adjustments may help reduce negative returns and reposition the Fund for a market recovery. We have already executed on this strategy, making opportunistic purchases after a late March low. We bought companies that declined 50% or more, which we believe are ripe for a rebound, especially when COVID-19 concerns diminish (on either a proven treatment or vaccine). While volatility may persist in the coming quarters, we will continue making adjustments, increasing and diversifying holdings, and deploying cash to maintain the Polaris discipline. Doing so may allow the Fund to more broadly participate in a sharp recovery. As fellow shareholders, we are disappointed by recent underperformance but are encouraged by early results of recent portfolio changes.

Regards,

Polaris Capital Management, LLC