POLARIS
GLOBAL VALUE UCITS FUND

An umbrella fund with segregated liability between sub-funds

Registration number C142346

COMMENTARY – 2nd QUARTER 2020

The Polaris Global Value UCITS Fund ("the Fund") gained 17.33% in the second quarter of 2020, while the MSCI World and ACWI Indices returned 19.54% and 19.39% respectively. Although underperforming the benchmark, the Composite had admirable results considering the underweight exposure relative to a strong U.S. market. The portfolio's heavily weighted non-U.S. equities in the U.K., Germany, Sweden, Italy, Finland, France and others, outperformed country benchmarks. At the sector level, consumer discretionary, materials and industrials topped results, while utilities and consumer staples lagged.

Portfolio performance was buoyed by a slate of new stocks, purchased in the past four months. At the beginning of the COVID-19 crisis, management conducted an intensive research effort, selling richly valued companies and raising cash in anticipation of a market downturn. Cash was redeployed starting in late March to invest in higher quality companies on Polaris' watchlist; immense volatility brought the likes of Crocs Inc., Darden Restaurants and Laboratory Corp. of America into the "value" price range. These additions proved fruitful in the second quarter, with each up in excess of 30%. In total, more than a third of portfolio holdings posted returns in excess of 20% for the quarter, with detractors limited to Greencore Group, Babcock International, Allete and some U.S. financials.

Year-to-date performance has been lackluster, with Fund returns down -19.73% versus the MSCI World and ACWI Indices at -5.48% and -5.99%. Much of this attrition was due to a few holdings, such as the U.K. homebuilders and oil refiners, that declined precipitously in the first quarter only to recover some ground in the second. During the six-month period, we reduced portfolio weightings in companies more sensitive to the downturn. Companies deemed less susceptible to market volatility were not reduced during this period; yet many of these did not prove to be defensive safe havens as expected.

SECOND QUARTER 2020 PERFORMANCE ANALYSIS

The portfolio's consumer discretionary holdings contributed most to second quarter performance, with the vast majority posting double-digit gains. Crocs was the best contributor to overall portfolio performance, up more than 100% as management indicated a faster than anticipated recovery in certain regional stores, while digital sales were robust. Diversification among products, geographies and customers was key to auto part supplier Magna International's resilience during the downturn. Darden Restaurants raised equity to weather the downturn, providing updates on improving weekly cash burn rates and better sales trend in its "To-Go only" dining.

Industrials sector leader was Italian engineering and foundation driller, Trevi Finanziaria. This long-standing investment struggled in recent years due to weakness in end markets and an ill-fated venture into the oil drilling sector. The company underwent a complete financial and operational restructuring, in which Polaris played an instrumental role. SKF rallied on prospects for a quicker recovery that could help stabilize margins and volumes. The Swedish bearings and seals manufacturer reported favorable quarterly results, and announced cost-cutting steps in light of current macro conditions. Babcock International's divisions were declared COVID-19 critical; however, profits declined due to new distancing requirements on worksites. Concerns also arose about Babcock's forward orders considering an anemic British defense budget for 2021.

With inklings of a COVID-19 crisis unfolding in the months of December 2019 and January 2020, Polaris identified medical testing companies as critical in diagnosing potential spread of the virus. The portfolio added to our long-standing investment, Quest Diagnostics, and purchased Laboratory Corp of America early in the first quarter of 2020. These investments advanced 30%+ in the second quarter. Another recent addition, Germany's Fresenius SE generated robust returns as the company increased its supply of essential drugs through Fresenius Kabi, and hospital chain Fresenius Helios shared mask purification methods.

Oil refiner Marathon Petroleum Corp. jumped more than 60%, recouping most of its losses from the first quarter. The company capitalized on a recovery in oil and energy prices from the depths of April, while also continuing its efforts to spin-off its Speedway gas stations business.

Utilities were hampered by Allete and Kansai Electric, the latter of which was exited during the quarter. Allete stock sold off as concerns swirled about industrial customer demand, which consumes 46% of Allete's power production. Many industrial customers are operating below capacity due to COVID-19, leading to conjecture for smaller contract renewals in August. However, Allete management intimated that large industrial consumers will continue to nominate for stable levels of power in anticipation of a recovery. The residential and commercial businesses appeared to be on track with improving renewable wind economics.

Greencore Group, the Irish/U.K. sandwich maker, was the main detractor in the consumer staples sector. Greencore announced first half results, noting a material decline in the food-to-go category as most of their output is sold near offices where people are not currently working. The company offered some insight into improving sales and volumes month over month; however, it will be a slightly longer recovery than anticipated.

During the quarter, six stocks were sold in favor of companies with better valuations. Kone was one of Polaris' longest and most favored companies with a great management team; however, the stock valuation was more than Polaris' fair value metric, so it was sold. The same premise applied to BHP Holdings, which was sold at a healthy profit on continued strong results, but an uncertain outlook due to moderating steel production in China. Kansai Electric Power was exited due to high leverage and extensive spending necessary to meet the ever-changing Japanese safety regulations for nuclear reactors. JM Smucker, the U.S. peanut butter/jam manufacturer, was sold on valuation. British multinational banking and financial services company, Standard Chartered, was exited due to valuation concerns and increased emerging market credit risks. Western Union was sold on continued regulatory issues.

Cash was opportunistically redeployed to buy new companies, including: U.S.-based Arrow Electronics, which noted positive demand trends in Asia and overall business stability; Capri Holdings, which houses Michael Kors as well as Versace and Jimmy Choo luxury brands; Dometic Group, an equipment supplier for the RV and marine markets, which has seen strong demand as people look for alternative ways to vacation; Zhongsheng Group, one of the largest Chinese car dealership with great secular tailwinds in luxury car sales, aftermarket products and dealer services; Coca-Cola European Partners, the European bottling and distribution company for Coca-Cola products; and Sony, the Japanese electronics and entertainment group, which has shed its staid image to become a top global player in console gaming, image sensors and music publishing.

INVESTMENT ENVIRONMENT AND STRATEGY

At the beginning of the COVID-19 crisis, we pro-actively increased our cash position, quickly disbursing that money to new investments that further diversify the portfolio. We purchased fundamentally-strong, but severely depressed companies, some down 50% or more, that we believe might recover and advance over a two- to four-year time horizon. Returns of that nature would likely meet Polaris' investment objectives. The lion's share of new investments was made in sectors like retail and healthcare, which may rebound in the near term, thereby balancing the portfolio for potential short-term and long-term gains.

Much will depend on the path of the coronavirus, as we expect two or three waves of infection in the coming months. Preparedness is on the rise, with greater ability and capacity within the healthcare and immunology systems worldwide. We must also consider human behavior in estimating any recovery; can the coronavirus mandated work-from-home habits and consumption patterns, formed over these past months, revert back to the norm? How long will that take?

While we can't predict the macro-economic impact as we enter each new wave of the coronavirus pandemic, we can prepare for it and work through it with careful stock research, cash generation and opportunistic buys. We expect that portfolio turnover could be higher than normal over this period, as our research screens and subsequent due diligence lead us to invest in companies that have long been on our watchlist, but out of reach due to valuation. Simultaneously, we will be keeping a close eye on certain industries (i.e. global insurers, U.S. banks) that may face potential headwinds in the COVID-19 era.

Although the news of an effective vaccine could dramatically shift the new economic demand and supply curves, absent this, we expect the global economy to re-open slowly, in measured phases, a subsequent recession and eventual recovery beginning in 2021. As such, we are being nimble in our approach, structuring the Fund accordingly.

Regards, Polaris Capital Management, LLC