POLARIS
CAPITAL MANAGEMENT, LLC

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INTERNATIONAL EQUITY COMPOSITE COMMENTARY

	2024				Annualized as of September 30, 2024				
	YTD	QIII	QII	QI	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since 6/30/1984
Polaris Intl. Equity Composite (net of fees)	10.06%	5.75%	0.29%	3.78%	23.19%	4.31%	6.93%	5.80%	10.13%
Polaris Intl. Equity Composite (gross of fees)	10.46%	5.88%	0.41%	3.90%	23.79%	4.83%	7.46%	6.35%	10.93%
MSCI EAFE Index, gross dividends reinvested	13.50%	7.33%	-0.17%	5.93%	25.38%	6.02%	8.71%	6.21%	8.80%

Composite returns are preliminary. Past performance is not indicative of future results.

Global markets were in solidly positive territory for the third consecutive quarter of 2024, despite macro-economic volatility due to geopolitics, a "flash crash" in Japan, and concerns over an artificial intelligence (AI) bubble that disproportionally impacted South Korea. Much of the optimism surrounded lower headline inflation and the ensuing interest rate cuts, with markets pricing in a "soft landing" scenario at least in the near term.

In June, July and September 2024, the Bank of Canada made three back-to-back rate cuts, each at 25 basis points (bps); on August 1st, the Bank of England (BoE) made an introductory cut by 25 bps to 5%, the first interest rate drop in four years; and in early September, the European Central Bank lowered its deposit rate by 25 bps to 3.50%, following up on a similar cut in June. And in mid-September, the U.S. Federal Reserve slashed its benchmark interest rate by half a percentage point, the first and the biggest cut since March 2020 when COVID-19 was hammering the economy.

Over the past year, the headwind of higher interest rates weighed on more economically-sensitive cyclical sectors as well as small- and mid-cap stocks. With a more benign rate environment this quarter, we saw rotation out of tech companies and into tried-and-true cyclicals and a few defensives, where Polaris is more heavily weighted. However, information technology (IT) was still the biggest deterrent to performance, as the Composite was down much more than the benchmark. As a result, the Polaris International Equity Composite returned 5.75% (net of fees), while the MSCI EAFE Index was at 7.33%.

At the sector level, the international portfolio outperformed the benchmark in financials, both consumer sectors, communication services, health care, real estate and energy. IT hampered results, as did underperformance in industrials and materials. On a regional basis, the portfolio outperformed in the United Kingdom, Japan, Switzerland, Netherlands and Norway. Holdings in South Korea declined, with semiconductor companies SK Hynix and Samsung Electronics hurt by Nvidia's weaker-than-expected quarterly earnings. Italy and Belgium also detracted.

THIRD QUARTER 2024 PERFORMANCE ANALYSIS

On the backdrop of interest rate cuts, financials shined on expectations for loan demand and cheaper cost of capital; in fact, all sector holdings were in absolute positive territory. Shinhan Financial Group was the top contributor, with a second quarter earnings beat on better non-interest income with credit costs under control. An enhanced shareholder return policy was a pleasant upside surprise, as Shinhan committed to returning 50% of earnings to investors through dividends and share buybacks by 2027. Puerto Rican institution, Popular Inc., surprised the market with an aggressive capital return plan, raising the dividend and establishing a share buyback plan equivalent to 7% of the shares outstanding. German reinsurer Hannover Re reported net investment income that beat second quarter estimates, while the mid-year renewal price was strong. Fellow reinsurer, Munich Re, reported better than expected results in advance of the hurricane season.

Among consumer discretionary stocks, U.K. housebuilder Bellway PLC was up more than 30% after reporting better-than-expected annual results, while proffering an upbeat outlook for the housing sector on the back of BoE rate cuts. The U.K. government plan to increase home supply and reform the planning system was also encouraging. Investors lauded Bellway's organic growth objectives, which trumped acquisitive growth as it ended its bid to buy Crest Nicholson. Another U.K. company, clothing retailer Next PLC, raised profit guidance for the year after pointing to strong quarterly results with better full-price sales especially overseas. Canadian Tire Corp. (CT), which operates a diversified network of automotive, hardware, sports, leisure and houseware brands, posted better-than-expected quarterly results, pointing to gross margin strength and cost controls. Importantly, CT commented on stabilizing volumes and revenues within a customer base spending on essentials vs. discretionary items. The notable sector decliner was Kia Corp. The South Korean auto maker delivered record quarterly results; however, the market was concerned about Kia's ability to maintain peak margins on the back of decelerating raw material benefits, rising wage costs, rising incentives and lower unit sales volumes. U.S. presidential election banter on imported car tariffs also hurt expectations.

Swedish cash management company Loomis AB delivered robust organic sales growth while increasing margins. Its U.S. business topped the market, while European operations improved in a difficult economic environment. Other industrials didn't fare as well. Trading house Marubeni Corp. has yet to recover from the August 5th "flash crash" in the Japanese stock market. Weak demand in agricultural products (due in part to heavy rains delaying crop planting) didn't help, nor did the sharp increase in Japanese yen vs. U.S. dollar, as the Bank of Japan raised interest rates earlier in the summer. Germany's Daimler Truck Holding cut unit sales guidance in Europe and Asia, with the soft local market being the largest drag in Europe.

All consumer staples holdings had double-digit gains, led by Koninklijke Ahold Delhaize and Barry Callebaut. Ahold had robust quarterly earnings and held firm to its 2024 guidance. The Netherlands-based grocery chain expanded its branded products, introduced cost savings initiatives and pushed sales in European stores. Last quarter purchase, chocolatier Barry Callebaut, was up as investors looked past the current supply challenges with the cocoa crop, while Greencore Group boosted annual profit guidance after reporting higher like-for-like sales along with profit conversion improvements in its third fiscal quarter.

KDDI Corp. and Deutsche Telekom topped communication services sector gains. Following the August 5 Japanese stock market "flash crash", investors flocked to defensive names like KDDI Corp. The telecom reported decent quarterly results, highlighting acquisitive gains from the Lawson deal and organic growth in its enterprise, digital transformation, IoT, data center businesses. Deutsche Telekom added new U.S. customers in the second quarter of 2024 via its U.S. subsidiary, T-Mobile; the U.S. business broke the 100 million post-paid mobile customer mark for the first time. The company raised its full year free cash flow estimates, indicating improved profitability and revenue while not skimping on network improvements or expansion partnerships.

Barbell returns defined the materials sector, with gains from Linde PLC, Yara International, Smurfit Kappa (now Smurfit Westrock) and Antofagasta PLC offset by two Canadian companies, Methanex Corp. and Lundin Mining. Methanex shares fell after the company agreed to acquire the methanol business of OCI Global for a little more than $2 billion. Methanex is slated to get OCI's interest in two methanol facilities in Texas as well as a low-carbon methanol production business and idled facility in the Netherlands. Following the news, Barclays downgraded the stock, citing concerns about operating reliability, increased leverage and investor rotation. Lundin Mining followed the copper price lower in the third quarter, slumping after a substantial runup in in the preceding months. However, the Lundin-BHP joint venture looks promising, as the group intends to operate a number of copper rich assets in the Vincuna district of Argentina.

South Korean chip companies, Samsung Electronics and SK Hynix Inc., sunk as industry sentiment was hampered by Nvidia Corp.'s second quarter results. Perennial all-star Nvidia (with a $2.5 trillion market cap) beat estimates and revenues, but those beats have been getting smaller; concerns arose about margins and lower growth rates in upcoming quarters, while Nvidia faces an antitrust probe. Other factors also contributed to the South Korean companies' steep stock drop: 1) declining commodity dynamic random-access memory (DRAM) prices due to weak demand, 2) DRAM competition from China and 3) an oversupply of inventory in both DRAM and high bandwidth memory (HBM) on the narrative of an AI slowdown and new memory supplies entering the market in the next couple of years. Struggles at Samsung were compounded by a delayed HBM qualification at Nvidia and lagging foundry business.

During the quarter, Polaris sold Toronto-Dominion Bank given the ongoing anti-money laundering investigation, which may hamper the future profitability and growth of the Canadian bank. Capital was re-allocated to two Japanese companies: ORIX Corp., a diversified financial services group and Macnica Holdings Inc., a semiconductor chip distributor. Both were purchased at attractive prices following the August 5th crash. Since the purchase date, Macnica has already jumped 15% (through 09/30/24), while ORIX should benefit from a normalized yield curve under a directive from new Prime Minister Shigeru Ishiba.

The following table reflects the sector and regional allocation for the Polaris International Equity Composite as of September 30, 2024.

	MSCI EAFE Weight	Portfolio Weight	Energy	Utilities	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Comm. Services	Real Estate	Cash
N. America	*0.0%*	11.7%	0.0%	0.0%	3.8%	0.0%	3.9%	0.0%	0.0%	2.2%	1.8%	0.0%	0.0%	0.0%
Japan	*22.3%*	15.3%	0.0%	0.0%	0.8%	4.2%	2.2%	0.0%	2.0%	2.0%	0.3%	1.9%	1.9%	0.0%
Other Asia	*11.4%*	13.1%	0.0%	0.0%	0.0%	0.0%	4.4%	0.0%	0.0%	5.0%	3.6%	0.0%	0.0%	0.0%
Europe	*57.9%*	46.5%	3.9%	0.0%	6.4%	5.7%	9.2%	6.3%	4.1%	5.4%	0.0%	5.6%	0.0%	0.0%
Scandinavia	*8.3%*	9.9%	0.0%	0.0%	2.0%	3.2%	0.5%	0.0%	0.0%	4.2%	0.0%	0.0%	0.0%	0.0%
Africa & South America	*0.0%*	0.8%	0.0%	0.0%	0.5%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	*0.0%*	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%
Portfolio Totals		100.0%	3.9%	0.0%	13.4%	13.5%	20.2%	6.3%	6.1%	18.8%	5.7%	7.5%	1.9%	2.7%
MSCI EAFE Weight	*100.0%*		*3.6%*	*3.4%*	*6.9%*	*17.3%*	*11.0%*	*8.7%*	*13.3%*	*20.6%*	*8.7%*	*4.3%*	*2.2%*	*0.0%*

Table may not cross foot due to rounding.

INVESTMENT ENVIRONMENT AND STRATEGY

Interest rates finally peaked, with most central banks globally now initiating an interest rate easing cycle. The cuts that started in the third quarter (as discussed above) are not likely the last batch, dependent on job reports and other macro metrics. That is not to say that rates will drop to untenably low levels again; in fact, we think rates collectively will be higher than the prior rate cycle. In essence, the era of 0% interest and "free money" has ended. Our view is supported by a recent paper from the Richmond Fed in which senior economist Felipe Schwartzman points to a neutral interest rate for the economy at 1.2% to 1.4% higher than it was before the pandemic.

Keeping rates at more stabilized levels especially in real, after-inflation terms ensures more appropriately priced cost of capital. In basic terms, it now matters what you pay for things. This bodes well for value stocks, as investors turn their attention to fundamentally-strong, profitable companies that often trade at a discount to intrinsic worth. Current earnings and dividend payments become more valuable, while future earnings projections tagged to growth stocks become less so.

In a normalized rate environment, global economies should start to recover. We are already seeing signs of that in most of the developed world. China is also on the recovery tract, pushing aggressive fiscal stimulus measures to boost its local economy, although ongoing trade tensions may limit growth potential.

In general, global economic recovery will be especially helpful for cyclical stocks, where the portfolio is typically overweight. Our research pipeline continues to pinpoint a number of cyclicals, and a few defensives, that look promising. We will be adding a select number of names in the coming quarters, with the intent of enhancing the risk/return profile of the portfolio.