POLARIS CAPITAL MANAGEMENT, LLC

Information presented is supplemental to the annual composite report.
To view, please visit: www.polariscapital.com/international-equity/

# INTERNATIONAL EQUITY COMPOSITE COMMENTARY

| | 2024 | | | | | Annualized as of December 31, 2024 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | YTD | QIV | QIII | QII | QI | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since 6/30/1984 |
| ***Polaris Intl. Equity Composite (net of fees)*** | **0.48%** | **-8.70%** | **5.75%** | **0.29%** | **3.78%** | **0.48%** | **0.79%** | **3.01%** | **5.02%** | **9.82%** |
| ***Polaris Intl. Equity Composite (gross of fees)*** | **0.97%** | **-8.59%** | **5.88%** | **0.41%** | **3.90%** | **0.97%** | **1.28%** | **3.52%** | **5.56%** | **10.62%** |
| MSCI EAFE Index, gross dividends reinvested | 4.35% | -8.06% | 7.33% | -0.17% | 5.93% | 4.35% | 2.16% | 5.23% | 5.70% | 8.52% |

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

Global markets experienced a quarter of volatility and general malaise, ending a strong rally observed in the preceding months. The period was marked by substantial geopolitical tensions in France, South Korea and other global economies, along with the protracted Ukraine-Russia and Israel-Hamas conflicts. The U.S. was one of the bright spots, as election results heralded a period of potential tax cuts, deregulation and policy shifts expected to boost corporate activity. This comes on the backdrop of a robust U.S. labor market and healthy holiday season spending trends.

Cognizant of these inflationary signals, the Federal Reserve took a hawkish stance to rate cuts, expected to keep interest rates higher than other central bank peers going into 2025. As a result, the U.S. dollar hit a two-year high and posted an annual gain against almost all major currencies. Protectionist trade policies and tariffs being bandied about by the incoming U.S. administration piled on to the USD's strength. The differential was especially prominent against the South Korean Won, Canadian Dollar, Swedish Krona and Norwegian Krone – all geographies where the Polaris International Equity Composite was heavily weighted. As a result, the MSCI EAFE Index returned -8.06% for the quarter, while the Polaris International Equity Composite slightly lagged at -8.70% (net of fees).

Outperformance was noted in communication services, health care and materials; consumer discretionary, financials and information technology were the main detractors. At the country level, the portfolio was weighed down by double-digit losses in South Korea, France, U.K. and Switzerland, modestly offset by outperformance in Ireland, Singapore and Belgium, along with heady gains from holdings in out-of-benchmark Colombia and Chile.

## FOURTH QUARTER 2024 PERFORMANCE ANALYSIS

Consumer spending kept pace in the fourth quarter of 2024, but trended toward holiday spends versus higher-ticket items. LG Electronics was down on disappointing third-quarter earnings, resulting from weaker appliance sales and lower operating profit margins in its auto parts division. France-based Michelin faced headwinds, as consumers traded down to lower priced tires, impacting the business mix. Investors also became concerned over the possibility around increased local taxes. One sector standout was Sony Group Corp., as the company gained more than 10% on the back of solid gaming and music revenues. The company also announced a strategic business and capital alliance with Kadokawa Corporation. In consumer staples, shares of chocolatier Barry Callebaut declined as it faced higher raw material costs, with cocoa bean prices at an all-time high in September, due to a global shortage and chronic underinvestment in cocoa farms. Continued constraints on overall cocoa bean production weighed on future volume growth.

Among financials, German reinsurers underperformed due to elevated insured natural catastrophe losses, including Hurricanes Milton and Helene. South Korea-based Shinhan Financial posted lower-than-expected third quarter results, with net profit falling short of forecasts due to derivative trading losses. However, the sector did have some stellar performers. United Overseas Bank Limited in Singapore announced impressive earnings, with stable net interest income, strong trading income, wealth management fee hike, and better than expected loan growth progress for 2024. German discount brokerage, flatexDEGIRO, launched trading for 20 cryptocurrencies, marking the first local broker with full cost transparency for order fees and spreads ahead of upcoming European Union regulations. Sparebanken Vest's stock price climbed after the Norwegian government eased restrictions on mortgage lending requirements with aims to stimulate demand in the housing market.

Information technology results were skewed by geopolitical concerns in both the U.S. and South Korea. SK Hynix and Samsung Electronics, South Korean memory makers, declined on the concerns that the incoming Trump administration may impose chip trade restrictions. In December, the President of South Korean declared martial law, whereafter the opposition party began impeachment proceedings. Investors sold off the South Korean market, impacting the likes of SK Hynix, Samsung Electronics and even the aforementioned LG Electronics. Thankfully, the Korean stock market has begun to rebound in early 2025, with the semiconductor industry leading the way. It is worth noting that the sell-off was a knee-jerk reaction; both Samsung and SK Hynix are fundamentally sound, with globalized businesses capitalizing on the advent of artificial intelligence.

We must also highlight a number of standout performers for the quarter: Irish biopharma company, Jazz Pharmaceuticals, received accelerated FDA approval of Ziihera for HER2 positive biliary tract carcinoma; expectations ran high that Ziihera may be approved for HER2 breast cancer treatment. The stock ticked up 10% on the quarter. Among industrials, Tecnoglass Inc. had strong earnings, pointing to organic growth, geographic expansion (Texas and U.S. East Coast) and room for margin improvement. The company also announced a 36% increase in its quarterly dividend (a special dividend), resulting from the company's strong cash flow position.

In materials, Canadian methanol producer Methanex Corp. affirmed its fourth quarter outlook, capitalizing on a fully operational Geismar 3, higher sales volumes, and a firmer pricing environment. Methanex's pending acquisition of OCI Global's methanol business creates incremental capacity to come online when demand is expected to pick up substantially. Smurfit Westrock had impressive third-quarter financial results that highlighted revenue and earnings growth. Notably, Smurfit Westrock surpassed its merger synergy targets by $400 million. Materials sector performance would have been higher if not for Lundin Mining and Yara International. Shares of Lundin Mining fell amidst copper price volatility and global output. Aside from commodity fluctuations, the company's efforts to improve shareholder capital were notable. The company optimized its asset portfolio, divesting its European Neves-Corvo and Zinkgruvan mines for over $1.5 billion to free up capital for higher-growth opportunities. At the same time, Lundin executed the initial phase of its share buyback program. Yara guided conservatively for 2025, pointing to more balanced supply-demand metrics and higher natural gas costs wrought from the protracted Russia-Ukraine conflict.

During the quarter, we exited Antofagasta, Daito Trust and Bellway PLC at a healthy profit, as all three reached the upper valuation thresholds. To add color: the Polaris team ran various bull and bear case scenarios on Bellway and believed the valuation on the decision date had priced in a very bullish scenario for the company.

Capital was redeployed to purchase four new holdings: LATAM Airlines Group, Sanofi SA, Chailease Holding and Vipshop Holdings. LATAM Airlines stands as the preeminent airline conglomerate in South America, with market dominance and strategic positioning across the region. France's Sanofi is a leading global biopharmaceutical company with a robust portfolio of oncology and immunology treatments protected by long-term intellectual property rights. Chailease Holding Co. offers financial services to small and medium businesses, including leasing, installment sales, factoring, and direct financing in a burgeoning Taiwanese economy. Vipshop is the only discounted apparel online platform in China with a strong affinity from both brands and customers. They have over 50% exposure to tier 2-3 cities, which are more resilient given a weaker macro backdrop in China. Attractive valuation aside, Vipshop rewards shareholders via buybacks and dividends, which are a rare combination among Chinese companies.

The following table reflects the sector and regional allocation for the Polaris International Equity Composite as of December 31, 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%* | 12.0% | 0.0% | 0.0% | 4.2% | 0.0% | 3.9% | 0.0% | 0.0% | 2.2% | 1.7% | 0.0% | 0.0% | 0.0% |
| Japan | *23.2%* | 13.9% | 0.0% | 0.0% | 0.8% | 4.2% | 2.5% | 0.0% | 2.0% | 2.0% | 0.3% | 2.1% | 0.0% | 0.0% |
| Other Asia | *11.2%* | 15.2% | 0.0% | 0.0% | 0.0% | 0.0% | 4.8% | 0.0% | 0.0% | 6.4% | 3.9% | 0.0% | 0.0% | 0.0% |
| Europe | *57.5%* | 44.3% | 3.7% | 0.0% | 6.2% | 5.7% | 6.2% | 5.6% | 6.2% | 5.1% | 0.0% | 5.5% | 0.0% | 0.0% |
| Scandinavia | *8.0%* | 10.1% | 0.0% | 0.0% | 1.8% | 3.2% | 0.5% | 0.0% | 0.0% | 4.6% | 0.0% | 0.0% | 0.0% | 0.0% |
| Africa & South America | *0.0%* | 1.2% | 0.0% | 0.0% | 0.0% | 1.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Cash | *0.0%* | 3.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 3.3% |
| Portfolio Totals | | 100.0% | 3.7% | 0.0% | 12.9% | 14.3% | 17.9% | 5.6% | 8.2% | 20.4% | 6.0% | 7.5% | 0.0% | 3.3% |
| *MSCI EAFE Weight* | *100.0%* | | *3.5%* | *3.2%* | *6.1%* | *17.8%* | *11.3%* | *8.3%* | *12.4%* | *21.9%* | *8.8%* | *4.8%* | *2.0%* | *0.0%* |

*Table may not cross foot due to rounding.*

## 2024 YEAR IN REVIEW

Fourth quarter results sought to undo strong market gains, yet the MSCI EAFE Index persevered, up 4.35% for the year. Performance was skewed to the larger-cap stocks in the Index (as the EAFE is comprised of about 70% large-cap companies, and mid-caps make up the balance), with some of the top names including tech specialists (ASML Holdings and SAP) and consumer stocks (Nestle, Toyota Motor Corp. and LVMH Moet Hennessy). The Polaris International Equity Composite is more evenly balanced across market cap, and even sways slightly to small- and mid-cap stocks, where more value opportunities traditionally exist. As a result, the Composite underperformed for the year at 0.48% (net of fees).

At the sector level, the Composite had absolute gains from financials, communication services, materials and consumer staples, partially offset by double-digit losses in energy and information technology. From a country perspective, holdings in Germany, Ireland, Singapore, Netherlands and a slate of out-of-benchmark countries posted double-digit gains. Holdings declined in countries suffering significant geopolitical turmoil.

## INVESTMENT ENVIRONMENT AND STRATEGY

Inflation, interest rates and tariffs mean 2025 is shaping up to be an interesting year for the global economy. Growth is expected to remain at a stable 3.2%, according to the International Monetary Fund, but may be stymied by the slowdown in interest rate cuts. Why? Inflation pushed up in the U.S., U.K. and Eurozone in November, outside of the 2% target of central banks. Concerns are mounting about European energy production pressures amidst the Ukraine-Russia conflict. In the U.S., Federal Reserve has yet to tamp down baseline inflation, while pondering the inflationary impact of proposed economic policies (promises of higher tariffs, onshoring, tax cuts and immigration policies). In the case of the U.K., inflation ticked up to 2.6% in November on the back of higher prices for fuel and clothing. We do believe the "higher-for-longer" stance cuts the right balance in the economy, which is no longer subjected to the artificially low rates that created liquidity traps and asset bubbles. Such environment should favor value stocks with strong current earnings and cash flows vs. growth stocks with longer-dated earnings.

The biggest difficulty for global growth is geopolitical uncertainty, with the new U.S. administration pushing for tariffs, while the governments of France, Canada and South Korea (to name a few) are facing a transition of power. Traditional engines of economic growth, Germany and France, suffered poor performance amid political instability over the past year. China's domestic struggles are slowly being addressed, focused on the property sector and governmental stimulus plans; yet tariffs could impact China's export-based economy.

Market volatility should help boost our value portfolio, as we are finding and adding attractively priced companies to supplement an already compelling valuation profile. We continue to rotate into specific sectors and countries, making adjustments as needed, while giving current portfolio companies opportunity to shine.

*IMPORTANT INFORMATION: The Polaris International Equity Composite was established on April 1, 1995 with a performance inception date of June 30, 1984. Performance from the inception date through March 31, 1995 represents the portfolio track record established by Portfolio Manager Bernard Horn while affiliated with a prior firm. The information presented is supplemental. It should not be considered as a recommendation to purchase or sell a particular security mentioned, may change at any time and may not represent current or future investments. References to individual securities throughout this document are intended to illustrate contributors to recent performance or market trends and to provide examples of thematic or security-specific catalysts identified by the investment team as part of its investment process. References to specific securities should not be viewed as representative of an entire portfolio, nor should the performance of any particular security be viewed as representative of the performance experienced by any other security or portfolio. Please refer to the annual disclosure presentation. Past performance is not indicative of future results. The MSCI EAFE Index, gross dividends reinvested, is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. One cannot invest directly in an index.*