An umbrella fund with segregated liability between sub-funds

Registration number C142346

PERFORMANCE COMMENTARY – THIRD QUARTER 2022

The third quarter began with a brief global market rally as bond yields declined amid hopes that inflation had passed its peak; August inflation numbers dispelled that optimism. Inflation remained stubbornly high across most goods, materials and commodities, exacerbated by the Russia-Ukraine conflict. European natural gas prices climbed to unsustainable levels, as Russia shut down the flow of gas via the Nord Stream 1 pipeline into Germany, while the G-7 vowed to cap prices on Russian oil purchases. Faced with decades-high inflation, the U.S., U.K. and South Korea raised key policy rates by 150, 50 and 25 basis points respectively during the quarter; the European Central Bank raised its interest rates by a historic 75 basis points. Earnings warnings from many companies across industries and geographies added to the data points of a slowing global economy.

These macro-economic data and interest differentials in the developed world resulted in foreign exchange (FX) market changes. The Euro, Japanese Yen, Korean Won, British Pound, and resource countries' currencies fell relative to the U.S. dollar, some by margins not seen in decades. Consequently, FX had a detrimental impact on performance, as the Fund was overweight the U.K., South Korea, Canada and the Nordic regions, and underweight the U.S. relative to the benchmark. As a result, the Polaris Global UCITS Fund ("the Fund") dropped -9.79%, while the MSCI World and ACWI Indices declined -6.08% and -6.71% respectively for the quarter.

Economically-sensitive sectors saw declines, specifically consumer discretionary, materials and industrials holdings. Defensive sectors performed better, with energy and utilities posting gains. Japanese real estate company, Daito Trust Construction Co., recorded double-digit returns and was among the top contributors to performance. Taiwan was the lone portfolio country to post positive gains on the back of Catcher Technology, followed by relative outperformance in select developed and emerging countries. The United States was the largest detractor to performance, followed by the U.K. and South Korea.

The majority of top 10 contributors were U.S. companies broadly diversified by industry, including Marathon Petroleum Corp., Crocs Inc., M&T Bank Corp., Webster Financial Corp., International Bancshares Corp. and CVS Health Corp. Higher interest rates thus far have favored the outlook for banks. At the same time, some of the worst 10 performers also hailed from the U.S.: FedEx Corp., Tyson Foods Inc., Intel Corp. and Arrow Electronics Inc. Lackluster returns were also noted in the U.K., where the new government mini-budget with tax cuts and higher spending caused U.K. interest rates to jump. This led to declines in homebuilders Bellway PLC and Taylor Wimpey PLC and retailer Next PLC.

THIRD QUARTER 2022 PERFORMANCE ANALYSIS

Marathon Petroleum was the top overall contributor to Fund performance for the quarter. Refining margins – the difference between the cost of a barrel of oil and the value of products made from it – reached multi-decade highs as supply of diesel and gasoline in a post-pandemic travel frenzy couldn't keep pace with demand. Global refining capacity declined in the past two years due to the pandemic, with less profitable operations shuttering. Sanctions on Russian oil tightened the market further. Marathon benefitted from this and reported record refining margins and profitability, using excess cash flow to buy back stock.

In July 2022, Daito Trust Construction Co. Ltd., the Japanese construction and real estate company, hiked the average selling price of its new construction buildings by 8%, the second such price hike of the year. Despite the price increase, orders have remained strong in the ensuing months, with order volumes up in August and September.

U.S.-based NextEra Energy Inc. was another top performer, boosting utility sector returns. The company reported good second quarter results, with adjusted earnings per share up 14% year over year as core divisions, Florida Power & Light and NextEra Energy Resources fired on all cylinders. NextEra subsequently announced a capital raise of $1.94 billion, intended for use to fund investments in new energy and power projects. In particular, the company is gearing up to boost renewable energy projects, which will be turbocharged by the clean energy tax credits introduced in the Inflation Reduction Act.

Publicis Groupe led the communication services sector, posting single-digit gains. The French marketing/advertising firm noted business momentum, with Sapient and Epsilon organic growth improvement. The company reported new client wins, as large consumer packaging companies amped up their advertising and promotion to compete for a more cost-sensitive consumer. Publicis upgraded its outlook for the end of 2022, pointing to top- and bottom-line growth.

The Fund was overweight and outperformed in the financials sector, led by three U.S. banks that were among the top 10 contributors for the quarter: M&T Bank, Webster Financial and International Bancshares. Webster released second quarter earnings, highlighting strong loan book growth (8-10% range). M&T also released earnings, and the management subsequently updated guidance with higher net interest income, but higher core expenses due to the People's United Bank integration.

In general, the U.S. bank industry is expected to benefit from rising interest rates, of which there were two 0.75% hikes in the quarter. Higher interest rates may lead to higher net interest margins. The markets have baked this expectation into company valuations at many of the smaller banks and thrifts in the portfolio. However, we remain cautious about rising rates, which can prove a double-edged sword – revenues may rise on loans and other investments, but funding cost increases and higher loan defaults may factor into the outlook.

German reinsurers, Hannover Re and Munich Re, also added to financials sector gains. Inflation, limited capacity and higher demand will likely drive price increases through 2023. Both reinsurers have expressed a bearish outlook on natural catastrophe reinsurance, lessening their exposure in certain geographies. Thankfully, the hurricane season had been relatively benign throughout most of 2022; Hurricane Ian, while costly, is not expected to exceed the budgeted losses. Higher interest rates will boost reinsurers' conservative investment portfolios, which had been under pressure for the past few years.

In health care, CVS Health posted robust results from all three business divisions (retail, health care benefits and pharmacy services) in the second quarter. The company subsequently raised guidance and announced the acquisition of Signify Health in a $8 billion transaction. CVS' stated intention to move into the primary care space will come to fruition with this acquisition. Returns from health insurers, Elevance Health Inc. and UnitedHealth Group Inc., also bested the sector benchmark. Conversely, United Therapeutics Corp. and Jazz Pharmaceuticals PLC declined, relinquishing some of their gains from the second quarter.

A traditionally defensive sector, consumer staples did not moderate overall declines. Greencore Group PLC, Nomad Foods Ltd. and Tyson Foods had double-digit losses. Greencore slid in tandem with a competitor that revised down its top- and bottom-line guidance. U.K. frozen foods company, Nomad, was downgraded by two credit rating agencies, which postured that operating performance would be impacted by input costs and declining consumer confidence in the European Union and U.K. Investors were concerned that consumers will trade down Nomad brands to cheaper private label products; however, we have yet to see this in our data. Tyson Foods reported solid quarterly results, but failed to keep pace with the record protein sales/volumes of the past year. The company offered more normalized guidance, pointing to consumer preference for cheaper protein (rotation from beef to chicken) in the current inflationary market.

In the information technology sector, OpenText Corp.'s stock slid after announcing the acquisition of Micro Focus, a U.K. software company that has struggled with profitability following its own acquisition of Hewlett Packard's software business in 2018. OpenText purchased Micro Focus, rolling up two of the largest software companies into one, for a relatively cheap valuation but assumed its debt. OpenText management expects its organizational platform will greatly facilitate Micro Focus' turnaround. Although Arrow Electronics' earnings beat analyst expectations, the market was singularly focused on what is next in the cycle. Buildup of inventory in the distribution channel became a key concern, as did the hardware supply chain issues handicapping its Enterprise Computing Solutions business. One sector highlight was Catcher Technology, the Taiwanese electronics casing manufacturer, which reported good second quarter results.

Among materials, Yara International reported impressive second quarter results, nearly tripling operating income from the prior comparable period on higher fertilizer prices and strong performance of its overseas assets, which more than offset higher European feedstock costs. Yara hurdled the European gas price issue with its overseas hedge, yet market worries hurt the stock. Methanol prices remained resilient, as Methanex Corp. reported strong results ending the second quarter with $878 million in cash and returning $109 million to shareholders. Operating rates improved and demand increased, especially in the methanol to olefins business.

Nevertheless, the stock dropped on higher U.S. natural gas prices, which have yet to materially impinge Methanex's net income. Methanex issued a September press release announcing a share buyback, taking advantage of its lower share price. Copper prices were down across the industry, with Lundin Mining Corp. falling in lock step with its competitors. However, the company took a big hit on news of a sinkhole near its Candelaria mine. From a production perspective, the impact is minimal; yet the fallout from a political and/or environmental perspective is much greater.

The industrial sector was dragged down by global shipper, Fed-Ex Corp., which missed August quarter end earnings expectations. The company raised prices to keep pace with cost inflation; the result was lower volumes across its three main divisions. Fed-Ex Express' operating profit fell by more than half on a year- over-year basis. The company offered a downbeat outlook for the rest of 2022. China's Weichai Power Co. declined as the heavy-duty truck market sales fell, along with its profits, on the back of continued lockdowns in China. Its overseas subsidiary, KION Group, also issued a profit warning. China's State Council rolled out 19 measures to tackle local economic challenges; a fresh injection of investment on infrastructure projects could benefit Weichai.

The consumer discretionary sector was the largest detractor to Fund results, with a smattering of stocks in the top and bottom 10 of the portfolio. Crocs Inc. gained in excess of 40% for the quarter, as the casual footwear company capitalized on myriad tailwinds: 1) the U.S. government is expected to reduce Chinese tariffs (China is a big importer of Crocs), 2) cheaper ocean shipping rates should improve Crocs' margins and 3) the HeyDude brand distribution channels are proving productive, with sales doubling in the second quarter. Another top contributor, Sally Beauty Holdings had higher margins, passing on higher material costs into consumer prices; sales remained resilient even with the price increases. Additionally, the company's e-commerce platform gained traction.

In contrast, British homebuilders Taylor Wimpey and Bellway each lost more than 25% during the quarter. The increase in U.K. interest rates raised concerns about future home buying. Next PLC announced strong first half results but guided down for the second half of the year. The U.K. retailer's stock price further declined on macro worries of rising inflation, higher mortgage rates and Pound weakness heading into 2023.

Three companies were sold during the quarter: Cineworld Group PLC, Bunzl PLC and Fresenius SE. Cineworld was sold on concerns of potential shareholder dilution or bankruptcy, the latter of which came true in September. Bunzl and Fresenius were sold to invest proceeds in more compelling valuations and defensive business models in today's economic environment. Bunzl was sold when it met Polaris' valuation target; the timing was fortuitous as we had concerns about Bunzl's forward operating margins due to higher operating costs and property cost inflation. Fresenius was sold amid the company's lowered top- and bottom-line guidance, as the German healthcare company cited short-term headwinds from material, supply chain and energy costs, staff shortages in dialysis clinics, higher wages from Fresenius Medical Care and fewer catalysts in its biosimilar pipeline.

Cash from sales was reallocated to more defensive companies with upside potential, including Smurfit Kappa Group PLC and Gilead Sciences Inc. With a reasonable debt load and risk profile, Smurfit is a different company than the one we owned more than a decade ago. The paper packaging company sits on the lower end of the cost curve thanks to its vertical integration and has proven its ability to raise prices in the current environment. Nearly 80% of Smurfit's customers are in the resilient, fast-moving consumer goods industry. Gilead is a U.S.-based diversified biopharmaceutical company with an emphasis on human immunodeficiency, HIV/AIDS, liver diseases, hepatitis C and oncology. The company's flagship product is Biktarv, a fixed-dose combination antiretroviral medication for treatment of HIV/AIDS, but Gilead has a number of products in the oncology pipeline that could lead to top-line growth.

INVESTMENT ENVIRONMENT AND STRATEGY

Higher interest rates have yet to tamp inflation. As rates rise, there is greater concern for economic growth. We have already seen downward revisions of gross domestic product throughout the world, and we expect tepid economic conditions for the next few quarters. Since the beginning of the year, we have been aligning the portfolio to adapt accordingly by adding more defensive and traditionally recession-proof stocks. We expect that such efforts will provide ballast against ongoing market volatility.

That said, markets have likely calculated the macro risks, pricing in the probability that a global recession is on the horizon. Year-to-date (through September 30, 2022), most global indices have teetered into bear market territory. As cautious value investors, we will continue to rebalance holdings as the economy progresses and seek to uncover companies that will benefit in the next three to five years.

This is a marketing communication.

IMPORTANT INFORMATION

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. The MSCI World Index, gross dividends reinvested, measures the performance of a diverse range of global stock markets in the United States, Canada, Europe, Australia, New Zealand and the Far East. The MSCI ACWI Index, gross dividends reinvested, captures large- and mid-cap representation across 23 developed markets and 24 emerging markets countries. One cannot invest directly in an index.

RISKS

Potential investors should be aware that an investment in a Fund may be exposed to other risks of an exceptional nature from time to time. Investment in the ICAV carries with it a degree of risk. There can be no assurance that a Fund will achieve its investment objective and there is potential for an investor to lose some or all of its investment in a Fund. Different risks may apply to different Funds and/or classes. Prospective investors should review the Prospectus carefully in its entirety and consult with their professional advisors before making an application for Shares.

The Fund is subject to the following risks, without limitation:

Equity Security Risk: the value of a company's equity securities is subject to changes in the company's financial condition and overall market and economic conditions.
FDI and Leverage Risk: FDI may fluctuate in value rapidly and leverage through FDI may cause losses that are greater than the original amount paid for the relevant FDI.
Emerging Markets Risk: emerging market securities may expose the Fund to more social, political, regulatory or currency risks than developed market securities and may be subject to heightened Liquidity Risk.
MLP Risk: MLPs expose the Fund to risks associated with the underlying assets of the MLPs and risks associated with pooled investment vehicles. There is also a risk that an MLP may not be treated as a partnership for U.S. federal income tax proposes, and the purpose of the Fund's investment in MLPs depends largely upon this.
Liquidity Risk: there may be insufficient buyers or sellers to allow the Fund to buy or sell certain types of securities readily, which may impact the Fund's performance or (in extreme circumstances) an investor's ability to redeem.
Counterparty Risk: a party with whom the Fund contracts for securities may fail to meet its obligations (e.g. fail to settle an FDI) or become bankrupt, which may expose the Fund to a financial loss.
Currency Risk: changes in exchange rates may reduce or increase the value of non-U.S. Dollar denominated assets held by the Fund. There can be no guarantee that currency hedging will be successful in mitigating such effects.
Operational Risk: material losses to the Fund may arise as a result of human error, system and/or process failures, inadequate procedures or controls.

For more information on these and other applicable risks see the sections "Investment Risks and Special Considerations" and "Investment Risks Applicable to each Fund" in the Prospectus.

DISCLOSURES

The Fund is actively managed and not constrained by any benchmark. The Fund invests in securities of foreign issuers, including issuers located in countries with emerging capital markets. Investments in such securities entail certain risks not associated with investments in domestic securities, such as volatility of currency exchange rates, and in some cases, political and economic instability and relatively illiquid markets. Options trading involves risk and is not suitable for all investors.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the Prospectus and Key Investor Information Documents (KIIDs). Please read the Prospectus and KIIDs carefully before you invest. A Prospectus is available for PCM Global Funds ICAV (the ICAV) and KIIDs are available for each share class of the Fund. The ICAV's Prospectus can be obtained from pcmglobalfundsicav.com and is available in English. The KIIDs can be obtained from pcmglobalfundsicav.com and are available in one of the official languages of each of the EU Member States into which the Fund has been notified for marketing under the Directive 2009/65/EC (the UCITS Directive). In addition, a summary of investor rights is available from pcmglobalfundsicav.com. The summary is available in English. The Fund is currently notified for marketing into a number of EU Member States under the UCITS Directive. The ICAV can terminate such notifications for any share class and/or the Fund at any time using the process contained in Article 93a of the UCITS Directive.

The Fund is offered solely to non-U.S. investors under the terms and conditions of the Fund's current Prospectus. Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted.

The Fund is authorised in Ireland and regulated by the Central Bank of Ireland.

The representative in Switzerland is ACOLIN Fund Services AG, succursale Genève, 6 Cours de Rive, CH-1204 Geneva, Switzerland. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de L'lle, 1204 Geneva, Switzerland. The Prospectus, the Instrument, the Key Investor Information Documents and the annual and semi-annual reports of the ICAV may be obtained upon request and free of charge from the representative in Switzerland. In respect of the shares distributed in and from Switzerland, the place of performance and jurisdiction is at the registered office of the representative in Switzerland. The shares of the ICAV shall be distributed in Switzerland exclusively to qualified investors.