An umbrella fund with segregated liability between sub-funds

Registration number C142346

PERFORMANCE COMMENTARY – THIRD QUARTER 2023

Investors entered the third quarter of 2023 optimistic that central banks orchestrated a soft landing for the global economy, with monetary tightening coming to an end. Initial signs supported this premise, as the U.S. Consumer Price Index cited the lowest core inflation marks in over two years, and labor markets cooled in July and August. Global markets similarly witnessed deceleration in the pace of economic growth, with European business activity contracting to its lowest level since November 2020. Inflation trickled down in the U.K. over the past two months, while Germany recorded a technical recession and China's stimulus efforts confronted financial distress among property developers.

Yet headline inflationary pressures persisted. The Ukraine-Russian conflict continued to push up energy and consumer goods prices; OPEC+ supply reductions increased oil/gas prices and downstream services; and supply-demand constraints increased across many industries from autos to apparel, transportation and health care. Labor costs and strike activity rose, while employee productivity gains remain in question. The U.S. economy generated a surprisingly strong 336,000 jobs in September, fueling higher inflation risks.

On this backdrop, central banks remained resolute on enforcing restrictive interest rate policies, with Fed officials suggesting another rate hike before the end of 2023. Recession concerns ramped up on the prospect of "higher-for-longer" rates, as consumer spending slowed and businesses deferred capital investments. Global equities dropped into negative territory, with the MSCI World and ACWI Indices at -3.36% and -3.30% respectively. There was no safe harbor in bonds either, with "yields up, prices down". The sell-off was led by intermediate- and long-term Treasuries; only very short-duration fixed income investments posted gains.

In a volatile macro environment, the institutional share class of the Polaris Global Value UCITS Fund ("the Fund") returned -2.49% at net asset value, outperforming the MSCI World and ACWI Indices. Outperformance was driven by absolute gains in energy, health care, materials, real estate and financials. Inflation-sensitive consumer sectors, communication services and information technology lagged. The U.K. market was the strongest performer regionally, thanks to consumer confidence on peaking interest rates. The sell-off in U.K. government bonds moderated and long-term fixed mortgage rates fell, boosting the prospects for U.K. homebuilders. Other notable contributors included oil exporter, Norway, as well as Switzerland, Ireland, Puerto Rico and Singapore. At 39% of the Fund, the U.S. was the largest detractor, weighed down by select financials (SLM Corp and Capital One Financial) and consumer discretionary stocks.

THIRD QUARTER 2023 PERFORMANCE ANALYSIS

World oil demand continues to advance, boosted by emerging countries' economic growth, summer air travel, increased oil use in power generation and recovering Chinese petrochemical activity. The recent decision by OPEC members to cut production only added to the supply/demand imbalance; higher oil prices were the result. Oil refiner Marathon Petroleum continued to climb, reporting earnings that beat EPS estimates and higher crude capacity utilization. TotalEnergies SE, a provider of fuel, natural gas, and electricity, re-emphasized its intention to increase shareholder distributions, while maintaining capital expenditure rates. NOV Inc. benefited from rising demand for offshore and international land drilling, resulting in a 2% quarter-over-quarter increase in capital equipment orders.

In materials, Canada's Methanex Corp. noted firmer methanol prices on 1) higher oil prices, which act as a key indicator of methanol blending demand, 2) increasing methanol to olefin operating rates, and 3) macro-economic recovery in China. Yara International posted lackluster quarterly results, citing turbulence in the order flow; however, the stock jumped as farmers resumed critical fertilizer purchases.

Health care sector holdings rebounded from first half weakness, led by Horizon Therapeutics, AbbVie Inc. and UnitedHealth Group Inc. Shares of Horizon Therapeutics rose after the Federal Trade Commission (FTC) approved Amgen's acquisition. Initially blocked by the FTC due to anti-competition fears, the deal went through as Amgen agreed to certain drug-bundling restraints. Horizon's stock price surged; we took this as an opportunity to sell our position at a sizeable profit. AbbVie raised 2023 guidance in July, deflating concerns that Humira biosimilars would dramatically impact revenues. While there was some uptick in competition, AbbVie is maintaining its share on pricing, while other drugs, Skyrizi and Rinvoq, continued to perform.

Financials provided ballast in a down market, where the Fund was overweight and outperformed the benchmark. Swiss-based Chubb Ltd., the largest publicly traded property and casualty company in the world, capitalized on a hard market. Chubb's long-term growth story is equally compelling, as the insurer invests in Asia and other emerging markets. German reinsurers also benefitted from a hard market, increasing prices on the backdrop on geopolitical uncertainties, climate change and high inflation. DNB Bank reported better-than-expected quarterly earnings, helped by a robust oil-based Norwegian economy and higher interest rates.

Recently marred by outlier bank failures, onerous capital requirements rumors, and concerns about deposit flight risk, the U.S. bank market turned a corner as rising rates boosted top-line growth. Positive results and sound credit metrics from JPMorgan Chase and similarly positioned banks further eased concerns about the banking system's stability. Despite seeing pressure on NIMs and slight adjustments on guidance, Webster Financial had robust growth in both loans and deposits. Investors were optimistic about the stock, positing even further improvement in the second half of 2023. Other strong U.S. performers included Dime Community Bancshares, Cambridge Bancorp, M&T Bank Corp and Premier Financial Corp. Conversely, consumer-sensitive financials (with large credit card, student lending and home mortgage portfolios) declined in a higher rate environment. Both SLM Corp. and Capital One Financial Corp. were weaker.

Continued inflation, which is driving interest rates higher, is having a detrimental effect on the mainstream and lower-income consumer. Discretionary spending has abated in favor of consumer staples; even in this vertical, consumers trended to lower-cost foods and proteins. Among consumer discretionary holdings, Sally Beauty Holdings dropped on slower sales for more discretionary beauty products. U.S. casual footwear manufacturer Crocs Inc. retracted on concerns about overabundant inventory channels amid decelerating demand. Crocs ramped up distribution infrastructure for its newly acquired HeyDude brand; sales have yet to follow. Canadian Tire's retail sales declined 0.1% in the second quarter, impacted by a softening of consumer demand and a mix shift towards more essential and value offerings. Bucking the "consumer weakness" trend was Japanese automotive manufacturer, Honda Motors, which reported higher production following sluggish volume delivery the previous year. Honda has outperformed its global peers year-to-date, citing favorable sales mix, controlled incentives and positive shareholder policies. A number of U.K. companies including homebuilders and clothing retailers like Next PLC also saw a rebound as U.K. inflation trended down.

The communication services sector was under pressure as Interpublic Group and Ipsos dropped in line with its advertising/marketing brethren. The industry felt the pinch of decreased ad spending, especially among technology and telecommunications clients. Interpublic Group reversed full-year organic revenue guidance from 2-4% to 1-2%; the news overshadowed new business wins in the medical/healthcare vertical.

While enthusiasm raged on about the long-term potential of artificial intelligence (AI), nearer-term concerns over sluggish semiconductor capital spending dragged down the information technology sector. Semiconductor equipment manufacturer MKS Instruments slid on reported higher expenses, operational challenges and leverage as the company worked through its integration of Atotech. SK Hynix, a global memory chip manufacturer, advanced strongly in the first half of the year due to its dominance in high bandwidth memory, a critical component in AI servers. However, the stock declined this quarter as news surfaced that its DRAM and NAND chips were found in the new Huawei Mate 60 Pro phone. Since Huawei was placed on the U.S. export control list in 2020, SK Hynix had no direct sales to Huawei. It is widely speculated that Hynix chips were sourced through a third-party agency. The chip shortage of 2020-2022 helped Arrow Electronics, as the distributor was able to source parts faster and exact higher prices in the process. Operating income from global components business rose through the roof in 2021, with decent follow-on in 2022. By 2023, demand began to normalize and Arrow reported solid earnings but failed to match prior year numbers. OpenText Corp. was down as quarterly results failed to meet market expectations. While the license and maintenance segments drove the upside for fiscal year 2023, the cloud business was slightly below expectations. Management also expects Micro Focus to return to organic growth in 2024.

As previously mentioned, Horizon Therapeutics was sold as its stock price jumped following the FTC's approval of the Amgen acquisition. Brookline Bancorp was sold as it had one of the highest loan-to-deposit ratios in the portfolio and, due to recent acquisitions, had more commercial real estate exposure than we deemed appropriate. Carter's faced increasing structural challenges (demographics and slower sales). When a post-COVID "baby boom" boosted the stock, we took this as an opportunity to exit Carter's. Global packaging company Amcor PLC was an opportunistic buy during the pandemic, a great way to purchase a high-quality defensive company at the right time. The stock re-rated and now trades at an unjustified premium valuation given the cash flow growth profile. Daimler Truck AG, the global manufacturer for medium- and heavy-duty trucks and buses, was purchased. Balance sheet and cash flow strength reinforce the resilient nature of Daimler Truck's business, while high barriers to entry deepen its competitiveness. Another new buy was Itochu Corp., the Japanese trading company that offers one of the most diversified product/service offerings among its peers.

INVESTMENT ENVIRONMENT AND STRATEGY

Central banks firm monetary stance will likely result in a "higher-for-longer" interest rate environment; investors need to come to terms with a normal period of positive real interest rates. It will take an adjustment after 10+ years of virtually zero or negative real interest rates, which led to considerable market excesses and over-inflated asset values… none of which were healthy for long-term capital market stability. Unwinding artificially low interest rates that precipitated high inflation is a fine balancing act, with a soft landing as the best scenario. Central banks must remain committed to change habitual investor expectations that keep upward pressure on inflation. Change will be achieved when real interest rates and capital costs remain above inflation, and do so for the foreseeable future.

We anticipate that higher real rates for longer will slowly favor the traditional value stocks we hold. During the third quarter, we kicked the tires, traveling to the Netherlands, Japan and Canada to visit a number of current investments as well as prospects. We noted important governance changes in Japan, which should benefit many of our regional holdings. (More about this trend will be addressed in an upcoming blog post – visit us at www.polariscapital.)

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.

This is an advertising document. The state of the origin of the fund is Ireland. In Switzerland, this document may only be provided to qualified investors within the meaning of art. 10 para. 3 and 3ter CISA. In Switzerland, the representative is Acolin Fund Services AG, Leutschenbachstrasse 50, 8050 Zurich, Switzerland, whilst the paying agent is Banque Cantonale de Genève, 17 quai de l'Ile,1204 Geneva, Switzerland. The basic documents of the fund as well as the annual and, if applicable, semi-annual report may be obtained free of charge from the representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units. Please be aware that this document may include funds for which neither a representative nor a paying agent in Switzerland have been appointed. These funds cannot be offered in Switzerland to qualified investors as defined in art. 5 para 1 FinSA.