

# Wasatch Frontier Emerging Small Countries Fund

DECEMBER 31, 2019

## Latin America Drove Solid Fourth Quarter Capping Fund's Strong Year

### OVERVIEW

The Wasatch Frontier Emerging Small Countries Fund—Investor Class finished the fourth quarter of 2019 up 9.85%, outperforming its primary benchmark, the MSCI Frontier Emerging Markets Index, which finished the period up 6.74%.

Following a weak third quarter, both developed and emerging markets bounced back in the fourth quarter to cap off a volatile, but positive year. For the 12 months ended December 31, 2019, the Fund's Investor Class returned 26.47%, outperforming the benchmark's return of 14.10%.

Despite the stock-price volatility of our target markets this year, the last couple of quarters have seen strong fundamentals among our portfolio companies. While we have gone through periods during which external factors—from currency issues to commodity prices to national politics—have temporarily overwhelmed fundamental performance in many of the markets in which we invest, we are confident that as those factors come and go, holding a stable of high-quality companies gives the Fund the best chance to weather this volatility successfully.

### FUND MANAGERS



**Scott Thomas, CFA**  
Lead Portfolio Manager

3 / 7  
YEARS ON FUND / YEARS AT WASATCH



**Jared Whatcott, CFA**  
Portfolio Manager

3 / 14  
YEARS ON FUND / YEARS AT WASATCH

*Data show past performance and is not indicative of future performance. Current performance may be lower or higher than the data quoted. For the most recent month-end performance data, visit [wasatchglobal.com](http://wasatchglobal.com). Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. The Advisor may absorb certain expenses, leading to higher total shareholder returns. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes. **Total Expense Ratio: Investor Class—Gross: 2.31%, Net: 2.17% / Institutional Class—Gross: 2.07%, Net: 1.98%. The Advisor has contractually agreed to limit certain expenses to 2.15% for the Investor Class and 1.95% for the Institutional Class through at least 1/31/2020.***

Much of our focus in frontier- and small emerging-market countries centers on companies meeting large-scale needs for large populations. Just as China and India were thrust onto the global economic stage by the strength of inbuilt consumer demand, other frontier- and emerging-market countries with large populations have found their similarly underserved consumers to be positive market forces, while weathering otherwise tumultuous market conditions.

An example of a country with a large consumer population is Brazil, Latin America's largest economy. There was good news for Brazil in the fourth quarter as the central bank cut its Selic rate to a record-low 4.5% in an effort to spur growth. The potent combination of falling interest rates, controlled inflation and firming economic data pushed major stock averages to record highs in Brazil, which was one of the top-performing countries in the MSCI Emerging Markets Index during the fourth quarter. It is unsurprising then, that Brazil added the most to the Fund's return on a country basis and also contributed the most to performance relative to the MSCI Frontier Emerging Markets Index, which does not have a position in Brazil.

Other strong-contributing countries included Mexico, South Africa and Indonesia. These countries also helped the Fund to outperform its benchmark.

Bangladesh subtracted the most from the Fund's return and our holdings underperformed their benchmark counterparts.

The financials sector is the most heavily weighted sector in the Fund at over 40% of assets, and our position size is in line with that of the benchmark. Our financial holdings performed especially well during the quarter, adding significantly to the Fund's return and outperforming the financials in the benchmark. The consumer staples and industrials sectors also performed well,

contributing to the Fund's return and adding the most on a sector basis to our outperformance of the benchmark. Our group of consumer-staples holdings produced a double-digit gain, while the benchmark's group suffered a loss. Likewise in the industrials sector, the Fund had a double-digit gain, while the benchmark saw a single-digit return from its industrials holdings.

## DETAILS OF THE QUARTER

**Raia Drogasil S.A.** was the top individual contributor to Fund performance for the quarter. The company operates the leading chain of drug stores in Brazil. Raia Drogasil had been struggling as competitors used lower-priced, lower-quality generic medicines to lure consumers. Now that the company has begun offering discounted generics of its own, competitive intensity appears to have eased. The stock rose sharply in October after Raia Drogasil reported quarterly same-store sales growth of 11.9% overall and 7.7% for mature stores versus the same quarter a year ago. The company's retail market share increased 1.7 percentage points nationally and 2.5 percentage points in the key São Paulo market compared to the year-ago period.

**Grupo Aeroportuario del Sureste S.A.B. de C.V.** was the second-largest contributor. The company operates airports in Mexico, including holding 50-year concessions that began in 1998 to manage airports in Cancun, Cozumel and Merida, among others. During the quarter, the Mexican government clarified regulations pertaining to airport operators. While some questions still remain, we are generally optimistic that the added measure of certainty brought about by the clarification represents a positive long-term indicator for the company.

**Weg S.A.** was another Brazil-based contributor for the quarter. Weg makes transformers, motors, control panels and other components used to produce and transmit electric power from wind

and other sources. With wind energy already the fastest-growing source of power generation in Brazil, we believe Weg is well-positioned to serve the growing demand for wind turbines and other electrical equipment. The company also has been benefiting from a pickup in international markets, particularly China, and from increased demand for its larger, more-profitable electric motors.

Benefiting from a recent rally by Kenyan stocks, **Safaricom plc** contributed during the quarter. The company runs a mobile-to-mobile payments platform, M-Pesa, as well as offering cellular telephone and internet access services in Kenya, which has been the fastest-growing market in sub-Saharan Africa for the past decade. Between 2009 and 2019, the number of internet users in Kenya grew from 3.3 million (or about 9% of the population) to 46.9 million (or about 90% of the population). Although the telecommunications industry in Kenya is young enough that it is likely to see continued changes, Safaricom maintains its dominant position and boasts a strong management team. With the success of its traditional lines of business, as well as its M-Pesa payment platform, we anticipate the company will continue to grow.

**Qualitas Controladora S.A.B. de C.V.**, the largest motor-vehicle insurer in Mexico, was also among the Fund's top contributors in the quarter. Despite slowing growth and policy uncertainty in Mexico, Qualitas has been producing record profitability, with high rates adding a tailwind to investment income at the same time underwriting profitability has been hitting multi-year highs. As the market leader in a very underpenetrated industry in Mexico, we believe Qualitas should continue to post steady revenue growth and strong returns on capital. What's more, the company sits on a significant amount of excess capital that can be used for diversifying the business into adjacent markets or for returning cash to shareholders.

**ASA International Group plc**, one of our few Bangladeshi holdings, was the Fund's largest individual detractor. ASA operates as a micro-financing company, providing loans and advances to small businesses, with a particular focus on funding for female micro-entrepreneurs. The company group serves clients worldwide. ASA's fundamentals this year have been affected by currency weakness in a few of the company's larger markets, namely Pakistan. However, our research has indicated that ASA's underlying fundamentals have remained solid. We continue to like the company's valuation, return profile and geographic diversification. Despite the stock's dip, we do not believe there are fundamental reasons for concern.

Another detractor was **Unifin Financiera S.A.B. de C.V.**, which operates as a multiple purpose financial company in Mexico and offers financing products, including leasing, factoring, credit and auto loans, mainly to small and medium-size enterprises in Mexico. The company has recently seen weaker-than-expected demand as a result of heightened government policy uncertainty, which we believe will wane in significance. We expect Unifin's fundamentals to rebound and the company to continue to grow. *(Current and future holdings are subject to risk.)*

## OUTLOOK

The final quarter of the year saw a steady stream of positive news. We are heartened by the Fund's strong performance for the quarter and year, especially since the investment climate was marked by volatility and uncertainty. During uncertain times like these, we feel more responsibility, not less, to conduct thorough due diligence as we seek to find companies that have the potential to weather a variety of market environments, come what may.



That South Africa ended the year on a positive note was welcome. In many respects, South Africa is emblematic of the ups-and-downs during the year. The country saw growth plummet in the first quarter, rebound in the second quarter and completely flatten in the third quarter. Nevertheless, our South African holdings turned in strong performance for the fourth quarter.

Mexico also seemingly turned a corner to end the year, but the positive performance comes on the heels of major currency pressure and reduced capital expenditures in Mexico, along with higher inflation, heightened political uncertainty and a recent economic contraction that has lasted three quarters.

None of these factors necessarily suggest a longer-term downturn in economic growth for the countries in which we're invested. Our hope is that the current positive environment will persist. However, we necessarily balance the positive performance we have been seeing against an unpredictable global environment in which growth has shown signs of slowing.

As was the case during the fourth quarter, a general principle in international investing is that a falling U.S. dollar is helpful to emerging and frontier markets. Weakness in the greenback can become self-reinforcing, as outsized equity gains and stronger economic growth in international markets pull investment away from the U.S., further impacting the dollar. Conversely, a strong U.S. dollar can pose headwinds to emerging- and frontier-market investments. Countries with structurally weak currencies are especially vulnerable to dollar strength, which may compel them to adopt overly restrictive monetary and fiscal policies in order to attract and retain foreign capital.

Overall, as an asset class, frontier markets have performed well in 2019, with the 17.99% return of the MSCI Frontier Markets Index for the 12 months ended December 31, 2019 keeping pace with the 18.42% return of the MSCI Emerging Markets Index. And while the persistent graduation of frontier-index constituents to emerging-market indexes continues to make the MSCI Frontier Markets benchmark less significant, we remain committed to investing in the broader universe of frontier and emerging small countries that the Fund was founded to address. We believe this universe will offer increasingly unique and attractive investment opportunities in the months and years to come. So even though the indexes continue to shift, our focus on researching and investing in what we see as the highest-quality companies in frontier and emerging small countries will not.

We remain vigilantly aware of developing macro realities, even as our bottom-up approach means we remain solidly focused on finding excellent companies, wherever they may be. As a result of our in-depth due diligence, we believe our holdings are well-positioned to continue on their long-term growth trajectories and to weather the short-term ebbs and flows of frontier- and small emerging-market countries.

Thank you for the opportunity to manage your money.

Sincerely,

Scott Thomas and Jared Whatcott



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Frontier Emerging Small Countries Fund—Investor	9.85%	26.47%	7.69%	-0.55%	5.63%
Frontier Emerging Small Countries Fund—Institutional	9.78%	26.78%	7.78%	-0.42%	5.71%
MSCI Frontier Emerging Markets Index†	6.74%	14.10%	7.30%	1.17%	4.03%
MSCI Frontier Markets Index†	6.63%	17.99%	9.15%	2.69%	6.69%

\*Returns less than one year are not annualized.

\*\*Average annual total returns since the Frontier Emerging Small Countries Fund's inception on 1/31/2012.

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Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. **The Advisor has contractually agreed to limit certain expenses to 2.15% for the Investor Class and 1.95% for the Institutional Class through at least 1/31/2020.** See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. Performance data does not reflect the deduction of fees or taxes, which if reflected, would reduce the performance quoted. For more complete information including

charges, risks and expenses, read the prospectus carefully.

Performance for the Institutional Class prior to 2/1/2016 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 2/1/2016 uses the actual expenses of the Fund's Investor Class without any adjustments. For any such period of time, the performance of the Fund's Institutional Class would have been substantially similar to, yet higher than, the performance of the Fund's Investor Class, because the shares of both classes are invested in the same portfolio of securities, but the classes bear different expenses.

**Investing in small cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds. Investing in foreign securities, especially in frontier and emerging markets, entails special risks, such as unstable currencies, highly volatile securities markets and political and social instability, which are described in more detail in the prospectus.**

**An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit [wasatchglobal.com](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.**



The MSCI Frontier Emerging Markets and MSCI Frontier Markets indexes are free float-adjusted market capitalization indexes designed to measure equity market performance in the global frontier and emerging markets. You cannot invest in these or any indexes.

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The Wasatch Frontier Emerging Small Countries Fund's investment objective is long-term growth of capital.

The "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. You cannot invest in this or any index.

Return on capital is a measure of how effectively a company uses the money, owned or borrowed, that has been invested in its operations.

## FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2019

Security Name	Percent of Net Assets
Cleopatra Hospital (Egypt)	5.4%
Raia Drogasil S.A. (Brazil)	5.4%
MercadoLibre, Inc. (Brazil)	4.6%
Philippine Seven Corp. (Philippines)	4.3%
PT Bank Central Asia Tbk (Indonesia)	4.2%
Commercial International Bank S.A.E. (Egypt)	4.1%
Grupo Aeroportuario del Sureste S.A.B. de C.V., Class B (Mexico)	4.0%
Safaricom plc (Kenya)	4.0%
Banco Davivienda S.A., 2.03% (Colombia)	3.5%
FPT Corp. (Vietnam)	3.4%
Total	42.7%
<p><i>Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Fund or its Advisor. Current and future holdings are subject to risk.</i></p>	