

# Wasatch International Growth Fund

SEPTEMBER 30, 2020

## Japan Showed Strength In a Volatile, but Positive Quarter

### OVERVIEW

Global markets again displayed considerable volatility in the third quarter, broadly climbing through July and August before a decline in September that erased a portion of those gains across most major indexes. For the quarter ended September 30, 2020, the Wasatch International Growth Fund—Investor Class gained 12.22% and outperformed its benchmark, the MSCI AC (All Country) World ex USA Small Cap Index, which finished the quarter up 10.50%. Year-to-date, the Fund rose 9.83% and outperformed the benchmark's -3.64% decline.

During the quarter, we were disappointed by the announcement that Japanese Prime Minister Shinzo Abe would be resigning due to lingering health issues. From a market standpoint, we believe Abe's legacy—which includes the implementation of numerous shareholder-friendly reforms under "Abenomics"—will be a positive one.

In September, new Japanese Prime Minister Yoshihide Suga was sworn in and, having served as one of Abe's closest advisors, is widely expected to continue a similar policy agenda that we believe should

### FUND MANAGERS



**Ken Applegate, CFA, CMT**  
Lead Portfolio Manager

4 / 6  
YEARS ON FUND / YEARS AT WASATCH



**Linda Lasater, CFA**  
Portfolio Manager

6 / 14  
YEARS ON FUND / YEARS AT WASATCH



**Derrick Tzau, CFA**  
Associate Portfolio Manager

<1 / 2  
YEAR 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 1.46% / Institutional Class 1.35%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.35% for the Institutional Class through at least 1/31/2021.***

continue to support a fertile investment environment for the many exciting small companies we have been able to find in Japan.

Despite the sudden transition to a new prime minister, the continued effects from the pandemic and an ongoing trade war, Japan's small-cap market made a strong showing in the third quarter. Our Japanese holdings outperformed the benchmark's Japanese positions. In addition to being the Fund's heaviest-weighted country, Japan was the top contributor to performance on a country basis for the quarter due to stock selection.

#### DETAILS OF THE QUARTER

The Fund's leading contributor in Japan was **Menicon Co. Ltd.**, a firm that manufactures and markets contact lenses and lens-care products. The company is already the second-largest contact-lens company in Japan. Menicon also holds the largest share of the contact-lens subscription segment and has been benefiting from increasing scale in disposable and specialty lenses, which we expect should continue to drive the company's growth, profitability and cash flow.

Another Japanese company that we like is **JMDC, Inc.**, which also contributed to Fund performance. The company is an information-services provider with a health-data platform management business and offers related services in teleradiology and pharmacy systems. In our view, the drive to utilize health-care data to obtain better outcomes for patients will support long-duration growth for JMDC's medical-data products and services.

The Fund's top individual contributor was **Netwealth Group Ltd.**, which saw its stock produce another strong gain. The company operates a technology platform to help financial advisors administer and manage their clients' assets. We consider the company to be the leading tech-enabled advisor platform in Australia and, as a

result, we believe its offerings are likely to draw increased interest during the pandemic. More broadly speaking, we also believe the company is well-positioned at the early stages of the industry's quickening shift away from institutional platforms and toward specialist platforms like Netwealth's. The company's contribution to Fund performance during the quarter seemed to support that thesis, and we anticipate Netwealth will continue its positive trajectory as it becomes one of the dominant players in its space. The firm reported strong inflows in funds under administration and a 14.5% year-over-year increase in member accounts in its June 2020 quarterly financial report.

**CyberArk Software Ltd. (CYBR)**, a position we added during the quarter, finished as a detractor from Fund performance. We are optimistic about the company's prospects and often view a decline in a company's stock price as an attractive buying opportunity. CyberArk is the creator of security software designed to help protect networks from external threats. Like many other IT companies, CyberArk has enjoyed tailwinds in the current pandemic environment as organizations shift more of their operations online. We believe CyberArk is already among the leaders in the cybersecurity space and should have years of growth ahead of it, driven by a strong platform attracting a steadily increasing subscriber base.

Another detractor during the quarter was **Webjet Ltd.**, an online travel agency that offers travel shopping and reservation booking in Australia and New Zealand. Although we still believe the company has a shot at gaining market share in the current pandemic, we ultimately chose to consolidate the Fund's travel-related holdings and decided that our long-term thesis for Webjet was less convincing than other, similarly positioned holdings. As a result, we exited the position in order to focus on what we believe to be more promising new ideas.



One such example is **CAE, Inc.**, which we have written about previously and which detracted slightly during the quarter. CAE is a leading commercial and defense pilot-training vendor that our research indicates should continue to benefit as airlines outsource training to lower operating costs, which has become a priority in the current crisis. CAE had positive cash flow throughout the period and showed signs of a recovery as utilization across its network has improved from 20% at its lows in March to 40% exiting June. *(Current and future holdings are subject to risk.)*

## OUTLOOK

Through three quarters, this year has been an unprecedented one, to say the least, both from a market perspective and otherwise. The unforeseen emergence of the Covid-19 pandemic has combined with other macro factors—an election year in many countries (including the U.S.), increased discussion of climate change and social issues, to name a few—to create a uniquely volatile and uncertain environment. We are grateful that, for the seemingly ever-present instability that has marked 2020, the Fund has generally provided a counterpoint of stability.

The pandemic has also changed the way people are doing business. While that has often been a positive for the Fund—it has often benefited from the contributions of companies making it easier to work remotely—it is nonetheless a noticeable change in the day-to-day realities of most.

As for us at Wasatch Global Investors, we certainly recognize that these solutions, however vital, are not direct replacements for the in-person visits and communication that normally mark our research and due diligence when considering companies in which we might invest.

We are nonetheless committed to maintaining the same diligent research standards by using every tool at our disposal. For now, this means replacing on-the-ground meetings with phone calls and videoconferences. So far this year, Wasatch has conducted more than 1,300 calls or virtual meetings with company management teams and analysts all across the world.

As we navigate the current environment, we feel confident in the companies we hold. We also believe that irrational reactions to market volatility can lead to great buying opportunities for the long-term-oriented investor. By applying our due-diligence process to companies we see as having the strongest underlying fundamentals and management teams and by making thoughtful tactical decisions, we believe we can continue to make our portfolio of companies even stronger over the five-year-plus time horizon toward which we prefer to invest.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Linda Lasater and Derrick Tzau



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
International Growth Fund—Investor	12.22%	23.73%	7.78%	9.60%	9.37%
International Growth Fund—Institutional	12.23%	23.89%	7.89%	9.71%	9.42%
MSCI AC World ex USA Small Cap Index**	10.50%	6.97%	0.93%	6.80%	5.31%
MSCI World ex USA Small Cap Index†	10.12%	6.88%	1.42%	7.35%	6.55%

### A fund's performance for very short time periods may not be indicative of future performance.

*\*Returns less than one year are not annualized.*

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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 1.75% for the Investor Class and 1.35% for the Institutional Class through at least 1/31/2021.** 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 foreign securities, especially in frontier and emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. 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.**

***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 AC (All Country) World ex USA Small Cap Index is an unmanaged index and includes reinvestment of all dividends of issuers located in countries throughout the world representing developed and emerging markets, excluding securities of U.S. issuers. This index is a free float-adjusted market capitalization index designed to measure the performance of small capitalization securities.**

**\*The MSCI World ex USA Small Cap Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed markets, excluding the United States.**

You cannot invest in these or any indexes.

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The Wasatch International Growth Fund's investment objective is long-term growth of capital.

Abenomics refers to the economic policies advocated by Japanese Prime Minister Shinzo Abe after his December 2012 re-election to the post he last held in 2007. His aim was to revive the sluggish economy with "three arrows"—a massive fiscal stimulus, more aggressive monetary easing from the Bank of Japan, and structural reforms to boost Japan's competitiveness.

## INTERNATIONAL GROWTH FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
DiaSorin S.p.A. (Italy)	2.7%
Cochlear Ltd. (Australia)	2.4%
Halma plc (United Kingdom)	2.0%
Fevertree Drinks plc (United Kingdom)	2.0%
Trainline plc (United Kingdom)	1.9%
Vitasoy International Holdings Ltd. (Hong Kong)	1.9%
Ain Holdings, Inc. (Japan)	1.8%
Silergy Corp. (Taiwan)	1.8%
Patrizia AG (Germany)	1.7%
Voltronic Power Technology Corp. (Taiwan)	1.7%
Total	19.8%

*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.*