

# Wasatch International Small Cap Growth Strategy

DECEMBER 31, 2019

## All Sectors Contributed in Positive Fourth Quarter

### OVERVIEW

The Wasatch International Small Cap Growth strategy finished the fourth quarter of 2019 with a double-digit gain and outperformed the benchmark MSCI AC (All Country) World ex USA Small Cap Index, which finished the same period up 11.01%. For the 12 months ended December 31, 2019, the strategy significantly outpaced the benchmark's 22.42% return, helped by stock selection, especially in Japan, Taiwan and India.

During the quarter, global markets broadly rose as investors responded favorably to macro developments, including an agreement on a "phase one" deal expected to resolve portions of the U.S.-China trade dispute.

On a country basis, the top contributor to the strategy's return and a leading contributor to our outperformance of the benchmark was the United Kingdom, our second heaviest-weighted position. Decisive election results had a positive effect on the U.K. market. While many analysts still worry about the potential outcome of Brexit, the election nonetheless provided a measure of clarity that has been rare in recent years, and investors seemingly felt optimistic about the prospect of market-friendly policies in the U.K. Returns were also aided by the British pound's recovery.

Japan, our heaviest-weighted country, also had a strong quarter. In early December, Japan's upper legislative house approved a U.S.-Japan trade deal introduced in September and passed by the lower legislative house in November. The deal, expected to go into effect in January 2020, will see more than \$7 billion in tariffs on U.S. goods reduced or removed in exchange for lower tariffs on Japanese industrial goods imported by the U.S.

### PORTFOLIO MANAGERS



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

3 / 5  
YEARS ON STRATEGY / YEARS AT WASATCH



**Roger Edgley, CFA**  
Portfolio Manager

13 / 17  
YEARS ON STRATEGY / YEARS AT WASATCH



**Linda Lasater, CFA**  
Portfolio Manager

5 / 13  
YEARS ON STRATEGY / YEARS AT WASATCH

## DETAILS OF THE QUARTER

**Diploma plc** led the positive results of our U.K. companies in the fourth quarter and was among the strategy's top overall contributors. Diploma is a holding company for a group of subsidiaries that provide specialized technical products and services for applications primarily in life sciences, seals (gaskets, filters, cylinders, components and kits for heavy mobile machinery and specialized industrial equipment) and controls (specialized wiring, connectors fasteners and control devices).

**Silergy Corp.** was the strongest contributor to strategy performance for the quarter and for the 12 months ended December 31, 2019. Based in Taiwan, Silergy manufactures high-performance mixed-signal and analog integrated circuits used in a wide array of electronic devices. Silergy's stock price had languished during the latter half of 2018 and early 2019 as sluggish demand caused a buildup of inventory in semiconductor supply channels. An uptick in sales during May sparked a turnaround in the stock that accelerated during the fourth quarter. In December, Silergy announced that consolidated revenues for November had risen 38.0% in local currency and 39.7% in U.S. dollars versus November 2018.

Silergy was the top-contributing company in what was the strategy's top-contributing sector for the quarter, information technology. Our group of industrial holdings also enjoyed a similarly positive quarter.

The second-largest individual contributor for the fourth quarter was **Hypoport AG**, a property-financing intermediary between financial sales teams and credit institutions in Germany. Hypoport operates a large electronic marketplace, Europace, a business-to-business platform for financial products. The company also operates a franchise system of advisors. Hypoport has been investing to replicate its platform in other areas including real estate and insurance. We think investors were surprised that the company

achieved such robust growth, and they rewarded the stock accordingly. For the year ended December 31, 2019, Hypoport's share price more than doubled.

**Trainline plc**, a recent initial public offering (IPO) that we purchased in the strategy in June, was also a top contributor for the quarter. Trainline is a U.K.-based online booking platform for train tickets. The rail industry remains antiquated, with the industry still widely reliant on the issuance of paper-based tickets. Trainline's online technology platform reduces the cost for rail carriers and makes for an improved customer experience. There are strong network effects to online platforms and, as the leader in the U.K., we believe Trainline is well-positioned to benefit. The company is using its existing platform infrastructure and strong cash flows to expand into Europe, where the rail network is even more fragmented and complicated.

Encouragingly, none of the sectors in which the strategy was invested detracted from its return in the fourth quarter. On a country basis, 19 of the 20 markets in which we were invested contributed to the strategy's return. Hong Kong was only market that failed to contribute during the quarter.

The strategy's largest individual detractor was **Vitasoy International Holdings Ltd.** A multi-national based in Hong Kong, the company offers soy milk, tofu, rice milk, tea, juices and related food-and-beverage products in China and other countries. Investors reacted negatively to Vitasoy's plans to invest more heavily in its soy-milk business to stave off competitive pressures and pave the way for future growth. We think the company's strategy makes sense, however—especially in view of the large untapped potential for packaged soy milk and Vitasoy's strong brand presence in the markets it serves.

**RaySearch Laboratories AB** was the second-largest detractor. The company develops



innovative software solutions for cancer treatment planning systems, including new solutions that incorporate machine learning. The company's orders tend to be large and uneven from quarter to quarter. The third quarter of 2019 saw a decrease in software licensing sales. We continue to like RaySearch's fundamentals and the company has seen a promising increase in total order intake.

During the quarter, we sold our position in **Afterpay Ltd.**, which detracted slightly. Afterpay is a financial-technology company based in Australia. While we still generally like the company, we believe it to be both more expensive and higher on the risk curve than other investment opportunities we have been seeing.

## OUTLOOK

We are heartened by the positive shift in the U.K. and feel the strategy is well-positioned to benefit from a market that has punched above its weight, even prior to investors' optimistic response to the recent U.K. elections.

We have been overweight in the U.K. for many years and increased our allocation through the last half of 2019, believing the country to be an attractively priced market filled with promising growth companies. Early on, as Brexit became a looming market factor, we adjusted our U.K. holdings to prioritize those with significant revenues from international sources, rather than focus on companies with revenues tied primarily to the U.K. Thus, we believe we provided the strategy with a measure of insulation against the unpredictability that has accompanied years-long Brexit negotiations and has weighed especially heavily on domestic demand.

To this end, we are excited about the U.K. companies we hold and believe they are structured such that they should grow, even if the recent uncertain environment were to persist. Our excitement is heightened by the prospect that the current trend could hold and the cloud over consumer and business spending in the U.K. could continue to dissipate.

Although the quarter held much in the way of good news for investors, we are cognizant of the fickle nature of such short periods. Despite the impressive end to 2019, and the encouraging developments that helped facilitate such positive results for the year, trade tensions and broad deglobalization efforts continue to weigh on global growth.

As for us at Wasatch Global Investors, we continue to pursue our investment discipline. Three of our team members just returned from attending a pan-European conference in the U.K. Moreover, our team has requested meetings with an additional 60 companies for another U.K. research trip planned for the end of January 2020. We believe our due diligence, especially conducting boots-on-the-ground research, is a strategic advantage that allows us to find outstanding long-term growth companies for the strategy.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Roger Edgley and Linda Lasater



*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.*

*You cannot invest directly in this or any index.*

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*Brexit is an abbreviation for "British exit," which refers to the June 23, 2016 referendum whereby British citizens voted to exit the European Union. The referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades.*

*An initial public offering (IPO) is a company's first sale of stock to the public.*

*This commentary is intended to provide you with information about factors affecting the performance of the Wasatch International Small Cap Growth strategy during the period. References to individual companies should not be construed as recommendations to buy or sell shares in those companies. Wasatch analysts closely monitor the companies held in the International Small Cap Growth strategy. If a company's underlying fundamentals or valuation measures change, Wasatch will reevaluate its position and may sell part or all of its holdings.*

*Past performance is not indicative of future results.*