

Wasatch International Micro Cap Strategy

DECEMBER 31, 2019

Broadly Positive Quarter Saw Growth Across Most Markets and Sectors

OVERVIEW

For the fourth quarter of 2019, the Wasatch International Micro Cap strategy had a solid gain that lagged the return its benchmark, the MSCI AC (All Country) World ex USA Small Cap Index, which finished the quarter up 11.01%. For the year ended December 31, 2019, the strategy's double-digit gain significantly outperformed the benchmark's return of 22.42%.

On a country basis, the top contributor to the strategy's return was the United Kingdom. The strategy's U.K. holdings also outperformed their benchmark counterparts, despite the slight drag of an underweight 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.

The strategy is overweight relative to the Index in emerging markets, most notably India, and our holdings underperformed the benchmark's emerging-market positions for the quarter. Our emerging-market holdings also experienced a weaker quarter than our developed-market positions. We continue to have a positive view of emerging markets and we especially like the growth potential of the companies in which we've invested. For the year, our emerging-market holdings contributed to absolute and relative performance.

Japan, our most heavily weighted country, had a good quarter and added to the strategy's return. Although our Japanese holdings

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3 / 13
YEARS ON STRATEGY / YEARS AT WASATCH



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underperformed their benchmark counterparts for the period, Japan was the top contributor to the strategy's performance on an absolute basis and relative to the benchmark for the year. We believe our Japanese holdings have outstanding long-term growth potential and are well-positioned to achieve their business goals even in more uncertain macro environments. There was good news in early December as 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.

DETAILS OF THE QUARTER

AK Medical Holdings Ltd., which was the strategy's top overall contributor in the third quarter of 2019, was again among the top contributors during the fourth quarter. The company is a Chinese medical-device manufacturer that produces orthopedic implants, spinal interbody cages, and artificial vertebral bodies, among other products. The company's most-recent report showed that revenues grew 59% and net income grew 81% on a year-over-year basis through June 30, 2019. In our view, AK Medical has a solidly established brand presence, counts a growing network of hospitals as customers and should continue to post solid growth numbers.

The largest individual contributor 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 12 months ended December 31, 2019, the company's share price more than doubled.

GB Group plc was the strategy's second-largest contributor for the fourth quarter. The company develops, sells, and supports business application software and licensing technology, as well as provides database management and analysis services. As digitalization continues to spread broadly across sectors and markets, companies like GB Group that focus on identity verification and fraud detection should continue to see opportunities to grow and expand. GB Group's sophisticated offering has already been deployed in 65 countries.

The largest individual detractor was Australian health-care company **Pro Medicus Ltd.** The stock took a breather in the fourth quarter after posting strong gains in the first nine months of the year. Pro Medicus develops software and other information-technology solutions targeted both at large medical corporations and smaller medical practices. Its flagship software suite, Visage, specializes in the handling of medical imagery and the management of medical imagery practices. For the fiscal year ended June 30, 2019, Pro Medicus management reported that revenues increased 48% year-over-year, with the company outperforming even our optimistic expectations, at times. The company's ongoing growth prospects appear solid to us. Pro Medicus is already experimenting with promising new features, including artificial-intelligence capabilities. For the 12 months ended December 31, 2019, Pro Medicus was the strongest contributor to strategy performance with a share price that more than doubled. We trimmed our position in the second half of the year.

On a sector basis, eight of the nine sectors in which we had investments added to the strategy's return. Our holdings in the information-technology, industrials and financials sectors contributed the most. We underperformed the benchmark in information technology and outperformed in



industrials and financials. Only one sector, consumer discretionary, marginally detracted from absolute performance during the quarter and we underperformed the Index in the sector. Health care was also an area of weakness relative to the benchmark.

The strategy's second-largest individual detractor was **Open Door, Inc.** The company is based in Japan and runs an online travel website that allows users to compare travel products across approximately 700 reservation sites. The company's normal travel trends were affected by the enthronement of Japan's new emperor, typhoons in early fall and the Rugby World Cup, which depressed travel demand.

Another detractor was **RaySearch Laboratories AB**, which 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.

OUTLOOK

We have been pleased to see developed markets respond to positive signals that, for many investors, felt perhaps overdue. The renewed optimism sent markets broadly upward. However, we do not believe the seemingly growth-friendly environment should lull investors into a sense of

excessive confidence, even as we welcome the positive news.

Warren Buffett famously said investors should be "fearful when others are greedy and greedy when others are fearful." For many investors, this aphorism feels increasingly relevant in light of a historically long bull market in the U.S. and continued signs of slowing growth globally. How these factors will eventually play out is unforeseeable.

As a result of this uncertainty, even in light of the strategy's strong quarter and year, we believe it is preferable to be invested in companies that, as a result of organizational excellence, are positioned to weather even tumultuous markets, as opposed to attempting to predict the markets themselves or presuming that a positive environment will persist indefinitely. To this end, we sometimes find ourselves "expecting the worst, but hoping for the best."

We are pleased with current positive trends and believe that, insofar as they persist, they may benefit the companies we hold. No matter which way the macro environment shifts, we remain committed to investing in companies that are well-positioned for long-term growth.

Thank you for the opportunity to manage your money.

Sincerely,

Linda Lasater, Jared Whatcott and Allison He



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.

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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.

A bull market is defined as a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as the result of an economic recovery, an economic boom, or investor psychology.

This commentary is intended to provide you with information about factors affecting the performance of the Wasatch International Micro Cap 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 Micro Cap 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.