



# A Perfect Fit

## Ajay Krishnan applies the Wasatch strategy in India.

### UNDISCOVERED MANAGER

Laura Lallos

*In every issue, Undiscovered Manager profiles a noteworthy strategy that hasn't yet been rated by Morningstar Research Services' manager research group.*

When Ajay Krishnan arrived in Utah to get his MBA in 1991—after completing his undergraduate studies in his home city of Mumbai—he wasn't expecting to be living there more than 25 years later.

What kept him there was the job he landed at Wasatch Advisors after grad school. It was a fortuitous offer; Krishnan needed to find work in his field to remain in the United States. But the firm turned out to be the perfect place to build his career.

Krishnan was hired as the fifth member of the investment research team in 1994. The firm has grown significantly since, with 33 portfolio managers and analysts today. The Wasatch mountains, visible from the firm's offices in Salt Lake City, are part of the attraction for some applicants.

For Krishnan, the natural beauty is secondary. "If Wasatch moved to Timbuktu or the middle of the Sahara Desert," he laughs, "I would move, too."

"For me, it's the people that I work with. Jeff Cardon, the CEO until a few years ago, was a mentor, along with Roger Edgley on the international side, and J.B. Taylor, our current CEO, is a friend and trusted partner. It's rare that you get to work with people who become your friends. I've had plenty of opportunities to go elsewhere, but

here, I had the chance to help build products from scratch in a great environment."

### Team Effort

The collegial team environment is integral to Wasatch's collaborative "multiple-eyes" approach to picking stocks, where several analysts vet each idea and teams regularly debate the merits of prospective and current holdings. Their goal is to invest in strong and steady growers with sustainable competitive edges, high returns on capital, healthy balance sheets, and strong management teams.

Morningstar Research Services' manager research analysts note in their coverage of the firm that the "team orientation plus opportunities to participate in the equity ownership of the firm—the investment team owns about two thirds of the employee-owned firm—have contributed to long tenures as well as effective succession planning and portfolio-manager transitions.... Tenured investment managers are compensated on long-term fund performance, and senior members invest significantly alongside fundholders."

This stability underpins the Positive score on the Parent Pillar that the analysts have assigned the firm. That in turn supports Morningstar Analyst Ratings of Gold and Silver, respectively, for the firm's flagship funds founded in 1986: Wasatch Core Growth [WGROX](#) and Wasatch Small Cap Growth [WAAEX](#). (The latter is an option in the 401(k) plan for Morningstar employees.)

Wasatch is best known for its success with these high-quality, smaller-cap growth domestic equity strategies. However, it expanded its approach abroad in 2002 and today offers eight foreign and global funds. Only one, Wasatch

International Opportunities [WAI0X](#), is currently rated by Morningstar's analysts, and it earns a Neutral largely on the basis of manager turnover in recent years. However, turnover has not been an issue for the firm overall, and six of the remaining seven international funds are Morningstar Quantitative Rating Medalists.

Among those are the four funds that Krishnan leads: Wasatch Emerging India [WAINX](#), Wasatch Emerging Markets Select [WIESX](#), Wasatch Emerging Markets Small Cap [WAEMX](#), and Wasatch Global Opportunities [WAGOX](#).

### India Emerges

India in particular has been a good match for Wasatch's high-quality approach. "Indian companies lend themselves to our style of investing," Krishnan says. "They tend to focus on the long term, on returns on capital."

The Emerging India strategy opened in 2011, but Krishnan's experience investing there dates back further. "When Wasatch started investing internationally in 2002, I took the lead on India. I've been traveling to India twice a year, every year, since then."

On his first trip, Krishnan says, "I met HDFC Bank [HDFCBANK:IN](#), and I fell in love. Up until then, I'd never been interested in investing in banks."

Back when he'd been applying to business schools in the U.S., it would take Krishnan hours to get the required bank statements from the large public-sector bank where he had his account. So, he was impressed a decade later by the efficiency of up-and-coming private banks like HDFC. He invested in the stock after that trip in 2002, and it is in the Emerging India and Emerging Markets Select funds today.

"It was an eye-opener that you could now get these kinds of services in India. That was the start of our India investing journey. And since then, we've gone twice a year and seen 40 to 50 companies on every trip and built a body of knowledge over the past 17 years. It's not a one-man show; there are 10 other people who go along with me. We avoid the monsoons, of course."



When Krishnan started out investing on the domestic side in 1994, he says, “You could not have paid me to invest in an Indian stock. My perception was that the market was very opaque. I was not sure the numbers could be trusted, and engaging in crony capitalism seemed *de rigueur*.”

That trip in 2002 revealed that India had become a great place to find companies that met Wasatch’s strict quality standards. He contrasts it to China, where there is a surfeit of capital

to finance up-and-coming companies: “India, on the other hand, has a paucity of funds. Capital is hard to come by, so companies have to learn how to run a business, how to be profitable.”

The longtime presence of multinational companies like Colgate-Palmolive CL and Unilever UN has fostered a pool of talented managers in the country. Indian companies also tend to show high levels of inside ownership. While that can cut against the interests of minority shareholders,

Krishnan says that it also leads company management to focus on the long term.

**Bright Future**

The environment is even better today. “Up until now, we made money in India in spite of India. What gets us excited today are the reforms taking place,” Krishnan says.

Demonetization, the Goods and Services Tax, and the development of a national ID have contributed to the “financialization” and the



Ajay Krishnan, lead portfolio manager at Wasatch Advisors.



## Wasatch Emerging India WAINX

Growth of \$10K



Morningstar Category	India Equity
Morningstar Rating	★★★★★
Expenses (%)	1.70%

Source: Morningstar Direct. Data as of 06/30/2019.

“formalization” of the economy. Those are two themes that Krishnan believes drive India’s promising prospects; the third is the “digitization” enabling the growth of financial services.

With the economy coming of age, Indian families are shifting from multigenerational to nuclear families, so housing is a growth opportunity. [Berger Paints India 509480:IN](#) and [Asian Paints 500820:IN](#) are two portfolio picks tied to this theme.

Overall, consumer stocks names are “an area where we’re going to have significant exposure,” Krishnan says. He’s owned [Vmart Retail VMART:IN](#), a value family fashion chain, since its IPO, and it was one of the India fund’s largest holdings as of the first quarter. [Page Industries 532827:IN](#), licensee of Jockey and Speedo products, has been in the India fund since its 2011 inception and held longer than that in older Wasatch funds.

This focus on the domestic consumer appeals to Russell Lundeberg Jr., principal and chief investment officer for Barrett Capital Management. Barrett Capital, a fee-only asset-management

firm based in Midlothian, Va., allocates assets to countries based on a proprietary quantitative approach that uses artificial intelligence algorithms to analyze fundamental data. The firm uses active funds not only because it believes that active management can add significant value outside the U.S., but also because indexes tend to be heavily weighted in export-oriented multinational companies. (See “A Globalized World,” Page 47, for Morningstar’s take.)

That’s where Wasatch Emerging India comes in. “What Wasatch has done very well is given investors the ability to benefit from domestic growth within India,” Lundeberg says. Barrett Capital foresees continued opportunity there, he says. “If you look at the fundamentals and the enormous population and the opportunity there and take into the account the reforms the government has made, all those things set a pro-business, pro-growth tone.”

Diversification is another benefit, Lundeberg says. “In December of last year, as the U.S. and most developed international markets dropped, India was actually up for the month. It’s not correlated to a lot of those major markets.”

“Indian stocks [have] their own rhythm,” writes Morningstar researcher John Rekenhaller in “A Failed Experiment” on Page 11. Rekenhaller argues against dedicated emerging-markets funds but concedes that India in some ways belies his arguments — although he considers the market too small to merit attention from U.S. investors.

### The Long Haul

Divergence can have dramatic downsides. Take 2013. Wasatch Emerging India was in the red as other markets rallied. That year, India was dubbed one of the original “fragile five” markets, owing to its weak currency and economy. Since then, Krishnan says, inflation has come down, productivity has increased, and balance sheets are improved.

Investors who took a stake in India via the Wasatch strategy and held on have fared quite well so far. From its April 2011 inception through June, the fund’s investor shares have returned an annualized 11.3%, compared with 2.7%

for the Morningstar India Index and 7.9% for the Morningstar Global Markets Index.

Among the 13 India open-end and exchange-traded funds in Morningstar’s U.S. database that have a five-year record, Wasatch is the resounding winner, with a 13.9% annualized return. (The better-known, Bronze-rated [Matthews India MINDX](#) is in third place at 8.4%, just a hair behind the runner-up.) There are only three other actively managed funds in the India Equity Morningstar Category, and 16 funds altogether, but within this small group, Wasatch is a risk-adjusted leader as well, with a 5-star Morningstar Rating.

To keep its lead, the fund will have to continue to overcome its expenses — 1.7% for the investor shares and 1.51% for the institutional, both of which Morningstar deems High compared with similarly distributed funds in its category. That’s an obstacle for Wasatch funds in general; the lineup has relatively high expenses overall.

On the flip side, Wasatch funds don’t benefit from economies of scale. The firm has a record of closing funds and limiting access via institutional channels to guard the viability of its smaller-cap, concentrated strategies. This willingness to close funds is in the best interests of existing shareholders.

As for Krishnan, he’s in it with shareholders for the long haul. When he moved over to the international side at Wasatch in 2010, he gave up his lead manager role on the domestic-equity Wasatch Ultra Growth [WAMCX](#). “I had no portfolio to manage on the international side at the time,” he says, “so that might have sounded like a foolhardy move, but it turned out to be a great move.”

“It is way more stimulating than just looking at domestic U.S. equities, and it’s probably the best decision I’ve made. Well, the second-best decision: The best decision was coming to Wasatch in the first place.” ■■

Laura Lallo is managing editor of *Morningstar* magazine.

The Morningstar Rating for funds, or ‘star rating,’ is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed end funds, and separate accounts) with at least a 3-year history. Exchange-traded funds and open ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The weights are 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating / 40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating / 30% 5-year rating / 20% 3-year rating for 120 or more months of total returns. While the 10-year overall rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all 3 rating periods. As of June 30, 2019, the Wasatch Emerging India Fund was rated 5 and 5 stars against 23 and 22 funds in the India Equity category for the 3- and 5-year periods, respectively. The Fund’s other share class may have different performance characteristics. Past performance is no guarantee of future results.

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#### Average Annual Total Returns for Periods Ended June 30, 2019

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Wasatch Emerging India Fund—Investor Class	1.44%	5.68%	15.85%	13.86%	11.32%
Wasatch Emerging India Fund—Institutional Class	1.43%	5.89%	15.97%	14.00%	11.41%
MSCI India Investable Market Index <sup>†</sup>	-0.21%	5.11%	10.09%	5.58%	2.95%

\*Returns less than one year are not annualized.

\*\*Average annual total returns since the Emerging India Fund’s inception on 4/26/2011.

Data show past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit [www.WasatchFunds.com](http://www.WasatchFunds.com). The Advisor may absorb certain Fund expenses, without which total return would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Total Expense Ratio: Investor Class—Gross: 1.70% / Institutional Class—Gross: 1.60% / Net: 1.51%.

Performance for the Institutional Class prior to 2/1/2016 is based on the performance of the Investor Class.

Wasatch Funds will deduct a 2.00% redemption proceeds 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.

<sup>†</sup>The MSCI India Investable Market Index (IMI) covers all investable large, mid and small cap securities across India, targeting approximately 99% of the Indian market’s free-float adjusted market capitalization. You cannot invest directly in this or any index.

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*The Morningstar India Index measures the performance of India's equity markets targeting the top 97% of stocks by market capitalization. You cannot invest in this or any index.*

*The Morningstar Global Markets Index measures the performance of the stocks located in the developed and emerging countries across the world. Stocks in the index are weighted by their float capital, which removes corporate cross ownership, government holdings and other locked-in shares. You cannot invest in this or any index.*

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*Diversification does not eliminate the risk of experiencing investment losses.*

*Correlation, in the financial world, is a statistical measure of how asset classes, securities, markets, or countries move in relation to each other.*

References to individual companies should not be construed as recommendations to buy or sell shares in those companies. As of June 30, 2019, the percentage of net assets the Wasatch Emerging India Fund had invested in HDFC Bank Ltd. was 5.4%, in Berger Paints Ltd. was 2.8%, in Asian Paints Ltd. was 1.1%, in V-Mart Retail Ltd. was 4.0%, and in Page Industries Ltd. was 2.1%. As of June 30, 2019, the percentage of net assets the Wasatch Emerging Markets Select Fund had invested in HDFC Bank Ltd. was 4.1%, in Asian Paints Ltd. was 2.6%, and in Page Industries Ltd. was 1.9%. As of June 30, 2019, the percentage of net assets the Wasatch Emerging Markets Small Cap Fund had invested in Berger Paints Ltd. was 1.9%. As of June 30, 2019, the percentage of net assets the Wasatch International Opportunities Fund had invested in Berger Paints Ltd. was 0.8%, and in V-Mart Retail Ltd. was 1.2%. As of June 30, 2019, the percentage of net assets the Wasatch Ultra Growth Fund had invested in V-Mart Retail Ltd. was 0.5%. These Funds did not hold any of the other companies mentioned. As of June 30, 2019, the Wasatch Core Growth, Wasatch Global Opportunities, and Wasatch Small Cap Growth funds did not have investments in any of the aforementioned companies. As of June 30, 2019, none of the Wasatch Funds were invested in Colgate-Palmolive or Unilever. Current and future Fund holdings are subject to risk and change at any time.

## **RISKS**

*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 emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus.*

The investment objectives of the Wasatch Core Growth, Wasatch Small Cap Growth and Wasatch Ultra Growth funds are long-term growth of capital. Income is a secondary objective, but only when consistent with long-term growth of capital. The investment objective of the Wasatch Emerging India, Wasatch Emerging Markets Select, Wasatch Emerging Markets Small Cap, Wasatch Global Opportunities and Wasatch International Opportunities funds is long-term growth of capital.

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

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*WAS005048 Exp: 10/31/2019*