

# Investing On the Frontier

Geritz and Edgley are the Lewis and Clark of global investing, uncovering stocks in parts of the world Wall Street ignores.

BY KEREN BLANKFELD

**I**n April fund manager Laura Geritz spent five days in Chile and Argentina touring a hospital, a port operator, a grocery store and a sporting goods retailer. All told, she met with the CEOs of 25 small publicly traded companies. It's the kind of boots-on-the-ground investing that few institutional money runners practice anymore. Geritz and her partner, Roger Edgley, are in search of stock gems for the \$800 million fund they comanage, Wasatch Emerging Markets Small Cap Fund.

"Sixty percent of the companies we saw have no coverage" by equity analysts, says Geritz. Some hadn't seen an investor in a year and a half. "There were no presentations. We just walked through the businesses freely."

So far just one company Geritz had visited made the fund managers' cut: Chilean retailer Forus, although the investment is still pending registration in Chile.

Home for Geritz and Edgley is Salt Lake City, where together with their six researchers they screen an ever expanding universe of 6,000 small foreign companies for candidates worth a visit. Their criteria: companies with market values of less than \$3 billion, a 15% revenue growth rate and enough cash flow to support the growth. Their goal: a 20% annual return on each stock over a three- to five-year holding period.

The team is finding India, Brazil and Indonesia to be the most fertile spots for

stocks, and most of the picks are in the discretionary consumer spending, financial services and manufacturing sectors. Some, like Colgate-Palmolive India Ltd., are subsidiaries of big multinationals. A fifth or more of the firms considered have no more than two analysts covering them.

Vetting such outfits goes way beyond spreadsheet number crunching. The team averages about three months on the road annually, visiting places like Chinese factory floors, Brazilian retail showrooms and Philippine gold and copper mines. Geritz recently received eight vaccinations, including one for yellow fever, in preparation for a July trip to Nigeria, Ghana and Kenya, where she will visit 30 to 50 companies.

"We work in an asset class that's still undiscovered," says Edgley. "It's a little bit like being in the jungle. You're trying to figure out different economic behavior, consumer trends—you're a perpetual student, you're never an expert."

During a trip to Brazil two years ago Geritz learned about Hering, Brazil's Gap equivalent, while walking through a mall with the CFO of Lojas Renner, a competitor the fund was already invested in. "It fit our process beautifully," says Geritz. "It had great high-quality numbers and a balance sheet with net cash, and at the time it had zero analysts, which is another advantage of our universe—we have a first mover's advantage at finding these names." Geritz had a call with Hering's manage-

ment and soon added it to the portfolio. Hering's stock has since shot up 480%.

The no-load fund, created in October 2007, has performed among the top 1% in the diversified emerging market category for the three years through March, according to Morningstar. In 2008 Wasatch got hammered with other emerging market funds, down 57%. The next year it was up 118%, and in 2010 its total return was 41%, nearly double the emerging market fund average.

As with other funds that invest in frontier markets, Wasatch's expense ratio is fairly steep at 2.39%. So far this year the fund is flat, mostly because its Egyptian stock holdings—including Egyptian Financial Group (EFG) Hermes Holding, Nationale Société Générale Bank and Paints & Chemicals Industries—were slammed when the Mubarak government was overthrown.

While grassroots detective work on stocks sometimes uncovers hidden treasures, it's also useful in avoiding disasters. Last February when an analyst went to visit a farm equipment factory in mainland China, he discovered that not even the locals had heard of it. It turned out to be an empty building with five men sitting on the ground out front smoking cigarettes.

The risk of buying into duds and even outright scams is inherent when investing in untrodden regions of the globe, where businesses practices run the gamut. That's why Geritz spreads her

bets. “A portfolio of 20 countries that have relatively good fiscal health versus a one-country developed market portfolio should be less risky.”

Still, hitting the road is essential. Last July Geritz drove in a Toyota Land Cruiser to the bottom of a copper mine in the Philippines, where she spent eight hours talking with workers and exploring the

operation. The visit plus the stock’s rising price was enough to convince Geritz and Edgley that miner Philex was fully valued. The fund sold its shares soon after.

More recently Singapore’s Hsu Fu Chi International Ltd. caught Geritz’s eye. The \$2.5 billion (market cap) family-owned company sells confectionery goods in China. It’s trading at 21 times earnings.

At a time when emerging markets like Brazil and China have been all the rage among investors, Edgley insists small caps remain an overlooked sector. He says, “We realized a few years ago that investors weren’t paying enough attention to emerging small caps.” A few more years with 40%-plus returns should change that. 

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Holdings are subject to change. Wasatch Emerging Markets prospectus requires 30 day period following most recent quarter-end to disclose holdings.

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Assets under management for Wasatch Emerging Markets were \$841 Million as of 7/7/11.

The investment objective of The Wasatch Emerging Markets Small Cap Fund is long-term growth of capital. There is no guarantee or assurance the Fund’s goals will be achieved.

Subject to change, the top ten holdings for the Fund as of 6/30/11 were: Colgate-Palmolive Ltd. 2.0%, Mr. Price Group Ltd. 2.0%, Bata India Ltd. 1.90%, Turk Traktor ve Ziraat Makineleri AS 1.70%, PT Holcim Indonesia Tbk. 1.60%, Clicks Group Ltd. 1.50%, Cia. Hering 1.50%, Restoque Comercio e Confeccoes de Roupas S.A. 1.50%, PT Bank Tabungan Pensiunan Nasional Tbk 1.40%, Indraprastha Gas Ltd 1.40%

*The Morningstar percentile ranking for the Wasatch Emerging Markets Fund was derived using the total return of the performance figure associated with its 1 and 3 year periods ending 6/30/11. The Fund was ranked against the following numbers of Diversified Emerging Markets funds over the following time periods: 396 funds in the last year and 291 funds in the last three years. With respect to these Diversified Emerging Markets Funds, the Fund received a percentile rank of 7 and 1 for the 1 and 3 year periods, respectively. The percentile rank of a fund among its category peers, which rank is based on a comparison of a fund’s total return performance against its peers over a given time period. Past performance is not indicative of future results.*

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**As of 6/30/11, the 1-year, 3-year, and since inception returns for Wasatch Emerging Markets Small Cap and the MSCI Emerging Markets Small Cap Index were 34.21%, 15.31% and 7.38%, and 25.22%, 11.93%, and 2.05% respectively.**

*Data shows 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, visit [www.wasatchfunds.com](http://www.wasatchfunds.com) or call 800.551.1700. 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.*

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.

The Total Annual Fund Operating Expenses for the Emerging Markets Small Cap Fund are 2.39%. Total Annual Fund Operating Expenses are based on Fund expenses before any expense reimbursements by the Advisor. Net Expenses for the Emerging Markets Small Cap Fund are 1.95%. Net Expenses are based on Fund expenses, net of waivers and reimbursements. The Advisor has contractually agreed to reimburse the Emerging Markets Small Cap Fund for Total Annual Fund Operating expenses in excess of 1.95%. See the prospectus for additional information regarding Fund expenses.

Wasatch Funds are subject to risks, including loss of principal.

***An investor should consider investment objectives, risks, charges, and expenses carefully before investing. To obtain a prospectus, which contains this and other information, click here or call 800.551.1700. Please read it carefully before investing.***

Investing in small or micro 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 unstable currencies, highly volatile securities markets and political and social instability, which are described in more detail in the prospectus.

The MSCI Emerging Markets and Small-Mid Cap Indexes are free float-adjusted market capitalization indexes that are designed to measure equity market performance in the global emerging markets.

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WAS002467

1/15/12