



November 19, 2018

Dear Clients and Fellow Shareholders,

It has been a disappointing year for us, as our portfolios have been out of sync with the markets. Through October 31, 2018, the S&P 500 was up slightly for the year, while global indices were down, global small-cap indices were down further, and our global strategies trailed both. Beyond being in an out-of-favor segment of the market, we have faced two additional major headwinds. First, a weighting headwind with our significant overweight to Emerging Markets across all portfolios and our underweight to the US market in our global portfolios – this has been a seven-year headwind for us, but particularly strong in 2018. Second, a style headwind, as momentum investing has significantly outpaced value investing this year.

Emerging Market (EM) indices were down roughly 20 percent year-to-date as of October 31. This led to a significant hit to our portfolios given our 15-20 percent overweight to Emerging Markets relative to our MSCI benchmarks. Similarly, our 13-35 percent underweight to a resilient US bull market across our global portfolios hurt. These are significant over/under weight percentages, creating stiff headwinds. We've carried similar over/under weights in EM & US for several years now, overcoming smaller headwinds in prior years. We believe our weightings are likely to soon turn to a tailwind given the disproportional valuations across countries and companies, but until then we will continue to fight through it with our best effort in bottom-up stock selection.

The second factor is that momentum investing has meaningfully outperformed value investing this year. This can be seen, for example, in such areas as biotechnology, life sciences, software and internet related names where high-flying companies have attracted uncomfortably high valuations. We see this in our own portfolios, where our highest quality names with good momentum have been bid up to very high levels. We are generally not a firm to chase valuations; instead, we tend to prune back on names as they become very expensive. This has been a mistake in the short run, as many of these great companies have gone to higher, nosebleed valuations this year.

Being on the wrong side of the market's preference for large-cap over small-cap this year has only added insult; and additional insult in our portfolios skewing towards the micro-cap range, which has been hit even harder. We believe the new SEC liquidity rule for mutual funds may be exacerbating the market-cap issue, and especially punishing micro-cap stocks. But over the long run, we believe stock prices will follow earnings growth, and small- and micro-cap stocks can potentially grow faster, longer due to their smaller size.

In summary, those heavily invested in US large-cap stocks have probably been okay this year. But for those of us invested in international small-caps, with a bias toward Value, it's been a very difficult environment.

### **Recent Selloff**

I had my first lesson in market corrections 31 years ago in October of 1987. Two weeks after my engagement to my wife, Susie, at the age of 22, the market crashed on October 19<sup>th</sup> – “Black Monday.”



Indelibly engrained in my mind is a phone call to her at her work where I tried my best to explain a “market correction.” She wondered if I was still going to have a job. Fortunately for me, I was at a good firm that could not only weather a downturn but actually thrive through it.

Susie and I have been through many corrections since then. Each one is a little different, but each is quite painful, and yet at the same time kind of exciting. Painful because clients see portfolio values decline, but exciting because it’s during market corrections where we can usually find truly great investment opportunities and add a lot of value as active managers.

I have a trophy in my office that I earned for my first “Double” as an analyst. We had bought a US medical device company, Biomet, that made hip and knee implants. The trophy reads: “Purchased 10/22/1987 at \$17.00 per share. Doubled in 343 days.” That purchase was just 3 days after Black Monday. At the time, Biomet was a micro-cap company that had experienced a major correction in the selloff; we bought into the selloff and saw a substantial and quick return. Biomet was eventually sold to Zimmer for \$13 billion in 2014. I keep this trophy in my office to serve as a reminder of what to do in market corrections.

You’ve heard the old adage: “Buy low, Sell high;” it’s obvious to say, but much harder to actually achieve. I believe the more profound piece of advice is: “Buy when there is fear; Sell when there is greed.”<sup>1</sup> This too can be difficult, even for sophisticated institutions. Investors are clearly fearful of Emerging Markets right now, and our current opinion of value-oriented, international small-cap companies is that they are highly attractive.

We view selloffs like this as not only an opportunity to buy our favorite companies at better valuations in the portfolios, but also a chance to invest more of our firm’s balance sheet, and our personal assets, in the Grandeur Peak Funds. The firm has recently added to its position, and we will likely continue to increase our investment if the market goes farther south. Individually, and as a firm, we are heavily invested in our own funds because we are confident in our potential to succeed over the long run.

We are sensitive to the fact that four of our seven funds are hard closed. For the time being, we feel the need to keep them closed to stay nimble. If the market continues to soften, we may consider moving to a soft close in order to provide you with an additional investment opportunity in these funds. Meanwhile, our Emerging Market Opportunities Fund is open to existing investors, and our two Stalwarts funds (Global and International) are open to all investors. Our sister firm, Rondure Global, has two open funds as well (Overseas and New World). To be clear, growing assets is not a priority for us, but with the recent market selloff and our investment style being somewhat out of favor this year, it feels like an interesting time to be investing in our style and niche.

Please don’t misunderstand this letter as simply making excuses for our underperformance this year; we are very disappointed in our relative performance. We would have hoped to hold up much better than we have in the current environment. Our Opportunities portfolios and our Global Micro Cap Fund have

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<sup>1</sup> A takeoff of a quote credited to Warren Buffet saying “Be Fearful When Others Are Greedy and Greedy When Others Are Fearful.”



particularly struggled this year. These are the portfolios in which I am personally most involved. I have struggled with my own stock picks in 2018 and have made far too many mistakes.

I am reminded of a period in 1996 when I struggled as a stock picker. The year as a whole wasn't going great for me, and then, while on summer vacation at the beach in July of 1996, three of my biggest holdings announced disappointing results and suffered stock price declines of 30-50 percent. I can remember explaining to Susie what a stock "blow-up" was, and how this was different than a market correction. Fortunately for me, I was at a good firm that understood that everyone goes through slumps and they stood fully behind me, despite a tough personal year. While 1996 was a bad year for both me and the firm, we had quite a nice run for the next several years. Sometimes a good manager/stock picker has their best years after a poor year.

Now after 30 years of marriage, and having lived through plenty of "market corrections" and "blow-ups," I'm grateful for Susie's words to me this past week when I was really feeling beaten up. She said, "Robert, you've been here before and found your way out of it just fine. I have confidence in you to do it again." I'm grateful for her words and I commit to each of you to do all I can to be worthy of that confidence. We want this downturn to be the start of a very exciting upturn over the coming years.

I'm also grateful for the words of my son, Benjamin, who is a member of the Global Opportunities team and one of our analysts covering Healthcare and India. He emailed me after one of my companies reported disappointing results for Q3. He wrote, "I've just got a feeling we're going to be okay, Dad. We just gotta stick to good numbers and good stories. Names that are question marks by the team need to be trimmed or sold out. Let's make sure we can always tell clients they own a bunch of great companies and that we've put our best team on the field. And if it doesn't work, then it doesn't work, but we had our game plan and we did our best."

This illustrates a hallmark of all of the individuals at Grandeur Peak and our culture. We have each other's back. When someone is down, we don't kick them, we pick them up.

In the past year, both of my mentors in my early career – Jeff Cardon and Sam Stewart – retired from Wasatch Advisors. I learned many lessons from them, but there is no greater lesson than the power of resiliency. We went through many market corrections together and we also went through many periods of personal underperformance. We had clients resign; we had outside Board directors upset; we had partners within the firm losing faith in us. But we clung together, hunkered down and stayed focused. We worked to correct mistakes, we stayed clear-thinking in times of market panic and in times when our style was out of favor, and we built each other up in times of personal discouragement. In the end, over three decades, these bad periods amounted to nothing more than a blip.

## **Grandeur Peak**

We launched Grandeur Peak in mid-2011, at the start of what has turned out to be one of the longest bull markets ever. For the first six years – despite some of the headwinds I mentioned at the beginning of this letter – most things that could have gone right for us, did. Now in our seventh year (2018), pretty much everything that could have gone wrong, has. I can't predict markets, but what I can tell you is that our entire team is deeply committed to improving performance. We are absolutely committed to



continuing to build a world-class, enduring firm. Our primary goal is to deliver long-term top-decile performance for our clients in a careful, prudent way.

To this end, we feel the right move is to stay the course on our Emerging Markets overweight and US underweight. From our bottom-up perspective, we continue to see better growth, and at better valuations, outside the US. We also plan to stick with our value bias, which in long-term studies of stock market performance has been shown to deliver better results. We will not change our stripes now.

We will, however, continue to examine our mistakes. Discouragingly, we have made some of the same mistakes over again. We have been especially good at pulling the flowers and watering the weeds. For example, we have found some great companies, small and undiscovered, but have let them go too soon when we believed their valuation had become too stretched. Our other recurring weakness is that we have not always paid enough attention to the warning signs that we call “red flags.” We have a process in place to track red flags on all of our companies, but we may need to raise the threshold on our red-flag scores. In a similar vein, we have not paid enough attention to our fellow analysts who sign up as “detractors” against owned positions. While we say we prize “multiple minds,” we have not always followed through in our actions. Our biggest mistakes this year have again been along these lines. I’m sorry to report that sometimes we’ve had to repeat our mistakes before we truly learn from them.

From the beginning, our analysts have operated under the motto of “no stone left unturned” so that no company slips through the cracks. We have done a great job developing a thorough understanding of the global landscape of public companies and touching thousands upon thousands of interesting companies (what I have previously described as the front end of our process), but it has come at the expense of deeper research (the back end). Having scoured the world for seven years, we believe a little shift in that mindset is now appropriate. It’s time for our awesome Director of Research (DOR)/quantitative team to take the lead in not letting anything new slip thru the cracks (great IPOs (Initial Public Offerings), numbers turning, etc.). Meanwhile, the analysts will narrow their focus in order to go deeper and have richer discussions on the most interesting companies. Along these lines, we are raising the bar on our Watch list categorizations to further differentiate the companies we’re watching and better focus our time on the names that are most likely to be owned in our portfolios; we’re asking our quant team to keep a close eye on the rest of our Watch companies, looking for meaningful inflection points.

Another challenge for us this year has been keeping our trading team fully staffed. We were sad to lose both Gerome Gregory and Josh Clay – our lead traders. Gerome was ready to take on a different trading role and Josh found his true passion shifting away from trading. As a result of their departures, our veteran operations team has worked double time as traders as well. Amy Hone, Dustin Brown and Angela Bowcutt have been absolutely incredible in filling the void. As strong as we feel the research team is, we feel equally proud of our business and operations team. Fortunately, we were recently able to hire a very seasoned trader, Adam Rowbotham, who joined us in October. Adam, a UK native, comes to Grandeur Peak from New York with more experience than any of our previous traders. We are very excited to have him on board and look forward to learning from him. A second global trader will be added to the team when we find the right person.



## **Year's Accomplishments**

I would now like to turn to the accomplishments of the year. While this year's performance has been tough, we do still have many accomplishments.

First, the transition to Blake Walker as CEO over the last two years has gone smoothly. I'm grateful that my co-founding partners, Blake and Eric Huefner have taken on virtually all of the day-to-day management of the firm. Managing the firm was not something I enjoyed, and relinquishing these duties has allowed me to focus on stock picking. Blake and Eric's commitment to Grandeur Peak, our mission, our employees, and above all, to you our clients, is unwavering and inspiring.

The transition to Rob Green as Director of Research (DOR) has also gone well. That said, I have continued to focus on many DOR projects over the past year. We added Aaron Kinney to the DOR team as Director of Information Systems a year ago and he has been amazing. Aaron has measurably increased the productivity of our entire research team. His ability with information systems has been a game changer to provide our team with greater business intelligence. We now have five full-time people on the DOR team, not including me, 100 percent dedicated to supporting our analysts and PMs (Portfolio Managers) in business intelligence and productivity. We've also invested in additional support staff to boost our research team's productivity. It feels great and should help us tremendously. With this strong team, I anticipate focusing even more of my time on the front lines—in the trenches analyzing companies and picking stocks.

We're very excited to report that the Global Reach Fund, which is the fund run by our five industry teams, hit its five-year mark in June and was within the top-decile of its peer group over that five-year period. While the Reach Fund took a big team effort to initiate, our research structure and industry teams are a considerable strength of Grandeur Peak now, and we could not be happier with our structure. It's gratifying to see the Fund's success. We have been working to replicate this structure for our geography teams. We call the geography teams' product effort Global Explorer. The final piece to this effort would be to have this team running their own real-money portfolio (they run a paper portfolio today).

Equally exciting, the International Stalwarts and Global Stalwarts funds hit their three-year mark in September and were within the top decile and top quartile of their peer groups, respectively. Randy Pearce, our Chief Investment Officer, has done an exceptional job managing these strategies. Randy was our first hire at Grandeur Peak. He's been the MVP of our research team these last seven years with consistent year-in and year-out performance as an analyst and portfolio manager.

We recently promoted Brad Barth to co-portfolio manager on International Stalwarts in recognition of his strong contribution to the Stalwarts team and more broadly as the Industry PM on Financials. Brad joined Grandeur Peak from Goldman Sachs over three years ago and has a Master's Degree from the London School of Economics. We've also promoted Keefer Babbitt to Lead Analyst on the Stalwarts team. Keefer who was one of our first interns, out of the University of Utah, and has been with us for nearly seven years. Randy, Brad, and Keefer also continue in their roles as industry and geography analysts across all of our portfolios.



The Stalwart effort began as a carve-out of the smid and mid-cap names from the Opportunities strategies, but the reality is that the Stalwarts team has led the firm in performance these last three years by also generating many great ideas that the other portfolios have been able to buy. We are hoping to add a few international clients to the Stalwart strategies. That is a strategically important goal for us because we feel a global clientele will make us better global investors. Our Global Stalwarts strategy is particularly suited for non-US institutional investors.

We're excited to announce that Juliette Douglas was promoted to lead manager for both our Global Reach (Industry) teams and our Global Explorer (Geography) teams. Juliette has worked with us for many years (at Grandeur Peak and Wasatch Advisors), has a business finance degree from Westminster College, and joined us at Grandeur Peak originally to help with operations and trading. We quickly recognized Juliette's potential on the research side and moved her to research three years ago. Juliette has a particular skill in keeping the research team and PMs focused and productive.

With regard to the Global and International Opportunities portfolios, Blake and I have made a determination that while we will both remain engaged in these sister products, I will focus more intently on Global Opportunities and Blake will focus more on International Opportunities. The two portfolios are closely related and will move largely together in their approach, but this separation of primary duties will give each portfolio greater individual focus.

To support Blake on the International Opportunities portfolio we've shifted Mark Madsen's responsibility as co-PM of Global Micro Cap to co-PM of International Opportunities. Mark is an industry veteran and someone we've worked closely with for many years. He has a Master of Accountancy (MAcc) Degree from BYU, and was with us at Wasatch; he joined us at Grandeur Peak three years ago from a family office.

We have named Liping Cai as Guardian PM on the Emerging Markets Opportunities Fund. Liping, who currently lives much of the year in Shanghai and leads our research effort in China as well as for our Healthcare team, will be a strong addition in the Guardian PM role. Liping has significant experience. She has science degrees from Tsinghua University in China and the University of Delaware in the US, and an MBA from Northwestern University. She has worked both in the health care field and for William Blair prior to joining us nearly 6 years ago. We believe China, in particular will be one of the most important themes for the next decade and are grateful to have Liping there on the ground.

I feel great about the generational succession plan we have in place: Blake and I as founders, then a solid next-generation of Senior Analysts and PMs, followed by the first group of interns hired in 2012/13 who are now 5-6 years into their experience. Behind them, our most recent full-time addition is Preston Williams, who has worked with us for three years and graduated this past spring from the University of Utah with honors. Preston formerly worked in a hospital ER and is a member of our Healthcare team. He and his wife will be living in Poland and Western Europe for four months next spring. As you may recall, we encourage members of the team to live abroad to increase our global understanding. Mark Madsen and his family will similarly be living in Australia for the first half of 2019.

We continue to bring in interns every year, believing some will be great and recognizing that others will ultimately choose different paths. We have recently extended full-time offers to two more of our



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interns who will be graduating next spring: Dane Nielson and Miranda Jacobs. Dane, who will graduate in finance from Brigham Young University, works on our Industrials team. Miranda, a native of Michigan, will graduate from the University of Utah and has worked on both the Industrials and the Technology teams. We have two other interns who have now been with us for over a year, and we have just recently added two new interns. We are also exploring summer and other internships from schools outside of Utah and had two Harvard students intern with us this past summer. We feel very good about our promote-from-within/internal development strategy.

So, year seven has been very hard for us. I'm reminded of a quote by Louisa May Alcott: "I am not afraid of storms for I am learning how to sail my ship." While we have faced some stiff headwinds, we also have to admit to mistakes we've made this year. We are learning from them and we will hopefully be better for them. In particular, I personally feel like I've struck out at the plate for you this year. I'm grateful for a team that has my back. In this business, even the old veterans need to continue to learn from mistakes. We're going to work very hard, stay focused, improve our game, and do all we can to get performance back on track. I really feel the evolution of our team, data access, and processes will help us become a better firm and deliver better performance. Within the research team, we have a great combination of experience and high-energy youth. The more experienced of us have been through periods of underperformance before and we still have a great deal of energy to work our way out of our current soft patch, and hopefully take advantage of the current market volatility.

Thank you for your trust and taking the journey with us.

Sincerely,

*Robert*

Robert Gardiner  
Chairman & Co-Founder  
Grandeur Peak Global Advisors

**RISKS: Investing in small and 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 entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Investments in emerging markets are subject to the same risks as other foreign securities and may be subject to greater risks than investments in foreign countries with more established economies and securities markets.**

***An investor should consider investment objectives, risks, charges, and expenses carefully before investing. To obtain a Grandeur Peak Funds prospectus, containing this and other information, visit [www.grandeurpeakglobal.com](http://www.grandeurpeakglobal.com) or call 1-855-377-7325. Please read it carefully before investing.***

*The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. You cannot invest in this or any indices.*

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Global Reach Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
Knight-Swift Transportation Holdings, Inc.	1.9%
Wix.com, Ltd.	1.1%
Dino Polska SA	1.1%
Bank of NT Butterfield & Son, Ltd.	1.1%
First Republic Bank	1.0%
Fastenal Co.	1.0%
SVB Financial Group	1.0%
China Medical System Holdings, Ltd.	0.9%
WNS Holdings, Ltd.	0.9%
Dollar Tree, Inc.	0.8%
<b>Total</b>	<b>10.8%</b>

Global Opportunities Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
Knight-Swift Transportation Holdings, Inc.	2.5%
Power Integrations, Inc.	1.9%
First Republic Bank	1.2%
Home BancShares, Inc.	1.2%
FirstCash, Inc.	1.1%
EPAM Systems, Inc.	1.1%
Palfinger AG	1.1%
SVB Financial Group	1.1%
MarketAxess Holdings, Inc.	1.0%
Bajaj Finance, Ltd.	1.0%
<b>Total</b>	<b>13.2%</b>

Global Stalwarts Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
Knight-Swift Transportation Holdings, Inc.	2.6%
First Republic Bank	2.5%
Stantec, Inc.	2.1%
Vitasoy International Holdings, Ltd.	1.8%
Power Integrations, Inc.	1.6%
Nihon M&A Center, Inc.	1.6%
B&M European Value Retail SA	1.6%
Metro Bank PLC	1.5%
MISUMI Group, Inc.	1.5%
Aalberts Industries NV	1.5%
<b>Total</b>	<b>18.3%</b>

Global Micro Cap Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
Heska Corp.	2.4%
M&A Capital Partners Co., Ltd.	2.1%
Esquire Financial Holdings, Inc.	2.0%
Fiducian Group, Ltd.	1.8%
Hingham Institution for Savings	1.5%
Plover Bay Technologies, Ltd.	1.5%
Mainstream Group Holdings, Ltd.	1.4%
BBI Life Sciences Corp.	1.4%
Infront ASA	1.4%
Sbanken ASA	1.4%
<b>Total</b>	<b>16.9%</b>

International Opportunities Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
EPAM Systems, Inc.	1.2%
Wix.com, Ltd.	1.2%
China Medical System Holdings, Ltd.	1.1%
FirstCash, Inc.	1.1%
Lululemon Athletica, Inc.	1.1%
Silergy Corp.	1.1%
Sbanken ASA	1.1%
Wirecard AG	1.0%
Palfinger AG	1.0%
Bajaj Finance, Ltd.	1.0%
<b>Total</b>	<b>10.9%</b>

International Stalwarts Fund Top 10 Holdings as of 7/31/18*	Percent of Net Assets
Stantec, Inc.	2.6%
Vitasoy International Holdings, Ltd.	2.1%
B&M European Value Retail SA	2.0%
Nihon M&A Center, Inc.	1.9%
Aalberts Industries NV	1.8%
MISUMI Group, Inc.	1.8%
Metro Bank PLC	1.7%
Silergy Corp.	1.7%
EPAM Systems, Inc.	1.6%
China Medical System Holdings, Ltd.	1.6%
<b>Total</b>	<b>18.8%</b>





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<b>Emerging Markets Opportunities Fund Top 10 Holdings as of 7/31/18*</b>	<b>Percent of Net Assets</b>
China Medical System Holdings, Ltd.	2.2%
Value Partners Group, Ltd.	1.6%
WNS Holdings, Ltd.	1.6%
Dino Polska SA	1.6%
Silergy Corp.	1.6%
Vitasoy International Holdings, Ltd.	1.5%
Security Bank Corp.	1.5%
FirstCash, Inc.	1.5%
Parex Resources, Inc.	1.4%
Bajaj Finance, Ltd.	1.4%
<b>Total</b>	<b>15.9%</b>

\*- 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.

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