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# Wasatch Emerging Markets Select Fund

SEPTEMBER 30, 2020

## India, Our Most Heavily Weighted Country, Delivered the Biggest Contribution to Return

### OVERVIEW

Optimism for a rapid economic recovery from the Covid-19 pandemic drove solid gains in emerging-market equities during the third quarter. A flagging U.S. dollar and progress toward vaccines for the virus also encouraged investors. The Wasatch Emerging Markets Select Fund—Investor Class rose 11.29% for the quarter. The Fund outgained its benchmark, the MSCI Emerging Markets Index, which rose 9.56%.

Appreciation of emerging-market currencies against the dollar boosted performance in both the Index and the Fund, adding nearly a full percentage point to returns. In addition to its direct effects on performance, a falling dollar supports riskier assets in emerging markets by increasing their appeal to international investors. A weaker greenback also makes it easier for developing nations to issue debt denominated in their own currencies. The dollar dropped to two-year lows against a basket of major rivals after the Federal Reserve unveiled a more accommodative approach to monetary policy.

### FUND MANAGERS



**Ajay Krishnan, CFA**  
Lead Portfolio Manager

7 / 26  
YEARS ON FUND / YEARS AT WASATCH



**Scott Thomas, CFA**  
Associate Portfolio Manager

4 / 8  
YEARS ON FUND / YEARS AT WASATCH



**Matthew Dreith, CFA**  
Associate Portfolio Manager

2 / 9  
YEARS ON FUND / YEARS AT WASATCH

*Data show past performance and is not indicative of future performance. Current performance may be lower or higher than the data quoted. For the most recent month-end performance data, visit [wasatchglobal.com](http://wasatchglobal.com). Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. The Advisor may absorb certain expenses, leading to higher total shareholder returns. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes. **Total Expense Ratio: Investor Class—Gross: 1.97%, Net: 1.51% / Institutional Class—Gross: 1.43%, Net: 1.21%. The Advisor has contractually agreed to limit certain expenses to 1.50% for the Investor Class and 1.20% for the Institutional Class through at least 1/31/2021.***

India, our most heavily weighted country, delivered the biggest contribution to the Fund's return. Indian stocks were strong performers as the country enters its annual festive season—typically the busiest time of the year in India for sales of big-ticket items such as gold jewelry, automobiles and apartments. Investors hope the government's recent easing of restrictions put in place to slow the spread of the coronavirus will help to revive consumer demand. A steady decline in new daily cases of Covid-19 during the final two weeks of September was another reason for optimism. Because India was one of the top-performing countries in the Index, our overweight position there was a tailwind for the Fund.

Singapore, based on the return of just one company that mostly operates beyond the country's borders, was the Fund's largest source of outperformance. Country performance in the Fund also significantly outpaced the corresponding country components of the Index in Russia, Brazil, Argentina and South Africa. Taiwan was the greatest source of weakness against the benchmark, driven by moderate declines in two of the Fund's Taiwanese holdings.

The worst-performing countries in the Index were Turkey and Thailand, respectively. The Fund benefited from its lack of investments in either country. Turkey's rate of consumer-price inflation remained stuck in double digits, souring investor sentiment as the Turkish Lira fell -11% against the U.S. dollar during the quarter. Thailand's economy is on track for a record contraction this year after the coronavirus pandemic devastated its tourism and manufacturing sectors.

## DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was **Sea Ltd. ADR**. Headquartered in Singapore, the company provides online digital content, e-commerce platforms and payment solutions world-wide. Depositary receipts of Sea

Ltd. moved higher on growing optimism about the company's potential to become a major e-commerce player in Asia.

**Bajaj Finance Ltd.** was the second-best contributor. A leading Indian non-bank financial company, Bajaj offers a broad spectrum of lending services. The company's shares had languished earlier in the year as strict stay-at-home orders and a government-imposed moratorium on loan repayments battered Indian financials. Confident in the ability of Bajaj to ride out the pandemic and emerge stronger competitively, we continued to hold the Fund's position. Our patience was rewarded with a strong third-quarter rebound in the stock, as the phased unlocking of India's economy drove steady improvement in the company's collection efficiency.

The third-largest contributor to performance was **Larsen & Toubro Infotech Ltd.** The company, which is based in India, provides information-technology (IT) services and solutions. Like other IT-services companies, Larsen has benefited as the Covid-19 pandemic accelerated the large-scale migration of corporate clients to digital platforms and the cloud. We also believe that the IT services industry may be undergoing structural improvements in profitability as the shift to work from home allows more offshoring of business to India. In the company's most recent quarter, consolidated net profit after tax rose 17.1% versus the same quarter a year ago on 18.7% revenue growth. Positive comments from management with respect to future orders also encouraged investors.

Taiwanese IT holdings **Silergy Corp.** and **ASPEED Technology, Inc.** each generated negative total returns in the high single digits, producing what were the Fund's largest and third-largest detractors from performance, respectively. We consider the third-quarter pullbacks in these stocks normal in view of their outsized gains over the prior 12 months.

Silergy manufactures high-performance mixed-signal and analog integrated circuits used in a wide array of electronic devices. In its most recent sales report, the company announced that consolidated revenues for August had risen 23.13% in local currency and 31.08% in U.S. dollars compared to August 2019. We think Silergy's business model—which is based on analog design engineering—is difficult to replicate and is likely to provide the company with significant headroom for growth over the coming decade.

ASPEED is a fabless designer of integrated circuits specializing in areas that include server management and audio-visual extensions. Because sales of the company's chips are closely tied to the production of servers, ASPEED benefited as firms around the globe added capacity to their data centers to accommodate citizens waiting out the coronavirus under home confinement. While the company's stock has lost some of its near-term appeal as lockdowns lifted, local economies reopened and people returned to workplaces outside the home, it remains a worthwhile holding for the Fund in our view.

**Ping An Healthcare and Technology Co. Ltd.** was the second-largest detractor. The company provides online medical and wellness services through the internet health-care platform "Ping An Good Doctor." Investors seemed skeptical that Ping An's revamped strategy and management team will produce the desired improvement in profitability. Concerns about the company's plans to issue US\$1 billion of additional stock to expand its in-house team of physicians also appeared to weigh on the share price of Ping An during the quarter. *(Current and future holdings are subject to risk.)*

## OUTLOOK

With less than a month to go until U.S. elections in November, we expect China to remain in the political spotlight as candidates attempt to score

points with voters. Areas in which blame is likely to be attributed to China include:

- China's response to the outbreak of Covid-19 in Wuhan
- The Hong Kong national security law
- Security concerns with respect to technology, both hardware (e.g., Huawei) and software (e.g., TikTok and WeChat)
- Military actions in the South China Sea
- Human-rights concerns regarding Uighur Muslims in the Xinjiang region
- Alleged espionage at the Chinese consulate in Houston
- A host of issues related to trade and intellectual property

In a speech at the Richard Nixon Presidential Library meant to demonstrate the failure of engagement efforts with China, Secretary of State Michael Pompeo added accusations of general nefariousness, lying, global hegemony, tyranny and communism—a time-tested charge that had served U.S. politicians quite well during the Cold War with the Soviet Union.

For its part, China may already have concluded that—no matter what it does—the United States will never accept China's rise and will instead seek to constrain it. If so, China's leaders have little incentive to make concessions designed to appease U.S. antagonism. By the same token, the political process in the U.S. during an election year often tends to slip into a game of one-upmanship in which no candidate wants to be perceived as being "soft" on the bogeyman of the moment.

To the extent that Secretary Pompeo's remarks provide a peek into President Trump's political strategy, the final weeks leading up to election day may be unusually volatile for emerging-market investments. From a longer-term perspective,



China appears to already have reached critical mass in terms of its own economy and sphere of influence. As a result, it's doubtful that U.S.-led containment efforts will succeed to any significant degree. In short, we think China is too big to ignore, and we believe its relative contribution to world gross domestic product (GDP) is only likely to increase from here.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan, Scott Thomas and Matthew Dreith

## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Emerging Markets Select Fund—Investor	11.29%	27.12%	11.22%	11.50%	4.83%
Emerging Markets Select Fund —Institutional	11.29%	27.41%	11.49%	11.80%	5.15%
MSCI Emerging Markets Index†	9.56%	10.54%	2.42%	8.97%	2.95%

### A fund's performance for very short time periods may not be indicative of future performance.

\*Returns less than one year are not annualized.

\*\*Average annual total returns since the Emerging Markets Select Fund's inception on 12/13/2012.

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Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor.

**The Advisor has contractually agreed to limit certain expenses to 1.50% for the Investor Class and 1.20% for the Institutional Class through at least 1/31/2021.** See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption 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.

**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. 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.**

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

Diversification does not eliminate the risk of experiencing investment losses.



\*The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. You cannot invest in this or any index.

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The Wasatch Emerging Markets Select Fund's investment objective is long-term growth of capital.

The "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.

Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.

## EMERGING MARKETS SELECT FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
Bajaj Finance Ltd. (India)	6.9%
MercadoLibre, Inc.	6.8%
Silergy Corp. (Taiwan)	6.5%
Globant S.A. (Argentina)	4.7%
HDFC Bank Ltd. (India)	4.2%
Raia Drogasil S.A. (Brazil)	3.8%
Sea Ltd. ADR (Singapore)	3.7%
Voltronic Power Technology Corp. (Taiwan)	3.3%
Vitasoy International Holdings Ltd. (Hong Kong)	3.2%
Tencent Holdings Ltd. (China)	3.0%
Total	46.1%

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.