

Wasatch Emerging Markets Select Fund

DECEMBER 31, 2019

Trade Optimism Was One Driver of Emerging-Market Performance

OVERVIEW

Accommodative monetary policy and an apparent breakthrough in the trade impasse between the U.S. and China helped push emerging-market equity prices higher during the fourth quarter. The Wasatch Emerging Markets Select Fund—Investor Class posted a solid gain of 10.51%. The Fund modestly lagged its benchmark, the MSCI Emerging Markets Index, which rose 11.84%. For all of 2019, the Fund increased 28.04%, surpassing the 18.42% return of the Index.

Central banks around the world maintained a general bias toward easing, with the U.S. Federal Reserve cutting its key lending rate for the third time in 2019. The widely expected move dampened enthusiasm for the U.S. dollar, which slipped -3.0% against a basket of major rivals during the fourth quarter. Emerging markets benefited as the falling greenback and lower U.S. interest rates made riskier assets in developing nations more attractive to international investors. A weaker dollar also makes it easier for emerging markets to issue debt denominated in their own currencies.

FUND MANAGERS



Ajay Krishnan, CFA
Lead Portfolio Manager

7 / 25
YEARS ON FUND / YEARS AT WASATCH



Roger Edgley, CFA
Portfolio Manager

7 / 17
YEARS ON FUND / YEARS AT WASATCH



Scott Thomas, CFA
Associate Portfolio Manager

3 / 7
YEARS ON FUND / YEARS AT WASATCH



Matthew Dreith, CFA
Associate Portfolio Manager

1 / 8
YEAR 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. 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: 1.76%, Net: 1.51% / Institutional Class—Gross: 1.45%, 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 1/31/2020.***

Brazil was the Fund's greatest source of strength against the benchmark. Stocks rallied in Brazil after the country's Senate gave final approval to landmark pension-reform legislation at the center of President Jair Bolsonaro's plans to cut government debt. The prospect of improving public finances bolstered Brazil's currency—which rose 3.5% against the U.S. dollar during the quarter. A potent combination of falling interest rates, controlled inflation and firming economic data has been a positive driver for Brazilian equities.

Mexico's central bank cut borrowing costs in December for the fourth time in a row as inflation dipped to 2.63%, below the central bank's target of 3%. The peso finished the quarter 4.7% higher against the greenback, having received an additional boost after the U.S. House of Representatives approved an updated version of the North American Free Trade Agreement. The Fund's holdings in Mexico substantially outgained the Mexican positions in the Index, enhancing Fund performance in absolute terms and relative to the benchmark.

Indian stocks climbed to record highs in the wake of corporate tax cuts, monetary easing and a series of other measures designed to stimulate flagging economic growth. India's gross domestic product (GDP) rose 4.5% in the September quarter from a year ago—down from 5% in the previous quarter and the slowest pace of expansion in more than six years. Weakness in household expenditures—especially in rural areas of the country—impacted our consumer stocks as cautious Indians tightened their belts. India was the Fund's largest source of underperformance relative to the benchmark during the fourth quarter.

The Fund's Korean stocks also underperformed, primarily as a result of company-specific factors. Our significantly below-benchmark weighting in

Korea helped to mitigate the adverse effect on Fund performance.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was **Silergy Corp.** Based in Taiwan, Silergy manufactures high-performance mixed-signal and analog integrated circuits used in a wide array of electronic devices. Silergy's stock price had languished during the latter half of 2018 and early 2019 as sluggish demand caused a buildup of inventory in semiconductor supply channels. An uptick in sales during May sparked a turnaround in the stock that accelerated during the fourth quarter. In December, Silergy announced that consolidated revenues for November had risen 38.0% in local currency and 39.7% in U.S. dollars versus November 2018.

A pair of Brazilian holdings—**Weg S.A.** and **Raia Drogasil S.A.**—represented the second- and third-largest contributors, respectively. Weg makes transformers, motors, control panels and other components used to produce and transmit electric power from wind and other sources. With wind energy already the fastest-growing source of power generation in Brazil, we believe Weg is well-positioned to serve the growing demand for wind turbines and other electrical equipment. The company also has been benefiting from a pickup in international markets, particularly China, and from increased demand for its larger, more-profitable electric motors.

Raia Drogasil operates the leading chain of drug stores in Brazil. The company had been struggling as competitors used lower-priced, lower-quality generic medicines to lure consumers. Now that the company has begun offering discounted generics of its own, competitive intensity appears to have eased. The stock rose sharply in October after Raia Drogasil reported quarterly same-store sales growth of 11.9% overall and 7.7% for mature stores

versus the same quarter a year ago. The company's retail market share increased 1.7 percentage points nationally and 2.5 percentage points in the key São Paulo market compared to the year-ago period.

The greatest detractor from Fund performance for the quarter was **BGF Retail Co. Ltd.** The company operates convenience stores in Korea. Competitive pressures have hurt BGF's business on both the top and bottom lines. In addition, Korea's populist government has raised the country's minimum wage, swelling BGF's labor costs and squeezing margins further. With convenience-store openings in Korea continuing to outstrip demand growth in the industry, we are reevaluating the Fund's position in the stock.

Medytox, Inc., also a Korean holding, was the second-largest detractor. Medytox manufactures neurotoxins for cosmetic applications. Concerns about the pending approval of the company's products for sale in China continued to weigh on shares of Medytox. Meanwhile, the company's lawsuit against a pair of competitors—which seeks to block U.S. imports of a rival product—have created an additional layer of uncertainty around the stock. On the plus side, a recent inspection of the company's manufacturing facilities by Korea's Ministry of Food and Drug Safety failed to uncover any serious problems, thus removing a potential obstacle to Chinese approval.

The third-largest detractor from performance was **Vitasoy International Holdings Ltd.** A multinational based in Hong Kong, the company offers soy milk, tofu, rice milk, tea, juices and related food-and-beverage products in China and other countries. Investors reacted negatively to Vitasoy's plans to invest more heavily in its soy-milk business to stave off competitive pressures and pave the way for future growth. We think the company's strategy makes sense, however—especially in view of the large untapped potential for packaged soy milk and Vitasoy's strong brand

presence in the markets it serves. (*Current and future holdings are subject to risk.*)

OUTLOOK

As was the case during the fourth quarter, a falling U.S. dollar is generally helpful to emerging markets. Weakness in the greenback can become self-reinforcing, as outsized equity gains and stronger economic growth in emerging markets pull investment away from the U.S., further impacting the dollar. Conversely, a strong U.S. dollar can pose headwinds to emerging-market investments. Countries with structurally weak currencies are especially vulnerable to dollar strength, which may compel them to adopt overly restrictive monetary and fiscal policies in order to attract and retain foreign capital.

From the dollar's recent low against a basket of major rivals on January 26, 2018, the greenback rose 11.3% through the end of September 2019. When viewed in that light, the difficulties emerging-market investments faced in 2019 and 2018 seem unsurprising. The MSCI Emerging Markets Index lost -14.58% in 2018—and was up just 5.89% through the end of 2019's third quarter, lagging more-sizable gains in global equity markets as a whole. The dollar's abrupt reversal during the fourth quarter—in which the greenback declined -3.0% against the same basket of competitive currencies—helped propel the MSCI Emerging Markets Index to an 11.84% gain during the final three months of 2019.

Although the dollar's cyclical phases are not actionable for timing purposes, they nevertheless provide us with a rough framework for evaluating the current situation and longer-term probabilities. The dollar's historical tendency to trade within a fairly well-defined band suggests that it cannot continue going up forever. We now seem to be approaching the upper end of that band. If so, the strong-dollar headwind of the past two years may



be poised to transform itself into a weak-dollar tailwind for emerging markets.

In the meantime, we think the high-quality companies and innovative disruptors around which we have built the Fund's portfolio are well-positioned to outperform. We look for companies with their own, unique demand drivers that are not tied to macro trends in the global economy. Throughout the dollar's cycles, we believe our fundamental, bottom-up investment approach has

the potential to generate attractive returns over time.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan, Roger Edgley, Scott Thomas and Matthew Dreith

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Emerging Markets Select Fund—Investor	10.51%	28.04%	15.97%	4.17%	3.29%
Emerging Markets Select Fund —Institutional	10.58%	28.40%	16.28%	4.44%	3.61%
MSCI Emerging Markets Index†	11.84%	18.42%	11.57%	5.61%	3.44%

*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 1/31/2020.** 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 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.

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 SEPTEMBER 30, 2019

Security Name	Percent of Net Assets
Bajaj Finance Ltd. (India)	9.3%
Silergy Corp. (Taiwan)	5.2%
MercadoLibre, Inc. (Brazil)	5.1%
Raia Drogasil S.A. (Brazil)	4.6%
HDFC Bank Ltd. (India)	4.3%
ICICI Lombard General Insurance Co. Ltd. (India)	3.8%
PT Bank Central Asia Tbk (Indonesia)	3.5%
BGF Retail Co. Ltd. (Korea)	3.4%
Asian Paints Ltd. (India)	3.3%
Vitasoy International Holdings Ltd. (China)	3.2%
Total	45.5%

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.