

Investor
WAINX / Institutional
WIINX

Wasatch Emerging India Fund

SEPTEMBER 30, 2020

Indian Stocks Were Up for The Quarter as Restrictions on Economic Activity Eased

OVERVIEW

Indian equities moved solidly higher during the third quarter amid better-than-expected corporate earnings and strong inflows of foreign capital. The Wasatch Emerging India Fund—Investor Class gained 14.67% for the quarter. The Fund was not far behind its benchmark, the MSCI India Investable Market Index (IMI), which rose 15.87%.

Restrictions on the activities of individuals and businesses eased further during the quarter as the government continued to unlock India's economy in phases. Investors now hope the scheduled reopening of movie theaters on October 15 will provide a much-needed boost to consumer sentiment heading into the annual festive season. The period from mid-October through December is typically the busiest time of the year in India for sales of big-ticket items such as gold jewelry, automobiles and apartments. A steady decline in new daily cases of Covid-19 during the final two weeks of September was another reason for optimism.

Manufacturing activity in September jumped to its highest level in more than eight years, according to data released on the last day of the

FUND MANAGERS



Ajay Krishnan, CFA
Lead Portfolio Manager

9 / 26
YEARS ON FUND / YEARS AT WASATCH



Matthew Dreith, CFA
Portfolio Manager

4 / 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. 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 1.68% / Institutional Class—1.49%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.50% for the Institutional Class through at least 1/31/2021.***

quarter. The official report helped reassure investors that India's economy was on the mend following the second quarter's sharp contraction. India's gross domestic product (GDP) shrank -23.9% in the April-to-June period from a year earlier—the steepest quarterly decline on record in figures published since 1996.

In terms of agriculture, India has reported the best monsoon rainfall in the past six years. This has improved crop yields and should also support GDP growth and rural consumption. Moreover, favorable monsoon seasons are associated with low rates of inflation for food prices.

Currency appreciation of India's rupee against the U.S. dollar enhanced returns in both the Index and the Fund. The rupee rose 2.7% against the greenback during the third quarter, fueled by a shrinking trade deficit and an uptick in foreign direct investment. For the three months ended June 30, India posted a record current-account surplus as overseas investors poured \$6.5 billion into Indian stocks.

With the reopening of global economies stoking demand for gasoline and other products derived from oil, energy was a top-performing sector of the Index. However, the cyclical, capital-intensive nature of the energy business doesn't fit well with our preference for growing, high-quality companies. As a result, the Fund's lack of investments in energy was the primary source of underperformance relative to the benchmark.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was **Mindtree Ltd.** The company delivers business and technology solutions through global software development. Like other information-technology services companies, Mindtree has benefited as the Covid-19 pandemic accelerated the large-scale migration of corporate clients to digital platforms and the cloud.

The communication-services sector and financials were the Fund's greatest sources of strength against the benchmark, helped by gains in **Info Edge India Ltd.** and **Bajaj Finance Ltd.**, respectively. Bajaj, the Fund's second-largest overall contributor during the quarter, is a leading non-bank financial company offering a broad spectrum of lending services. After languishing earlier in the year as strict stay-at-home orders and a government-imposed moratorium on loan repayments battered Indian financials, shares of Bajaj continued to rebound as the phased unlocking of India's economy drove steady improvement in the company's collection efficiency.

Info Edge runs an online job-posting website and leading internet portals dedicated to matrimony, real estate and education. Following a sharp drop-off during India's Covid-19 lockdown, traffic on the company's flagship recruitment-solutions platform has increased in recent months. Management noted significant acceleration in the real-estate segment as well, with buyer inquiries up 65% year-over-year during the final week of August. The matrimony segment of Info Edge also has benefited as Indians sheltering in place browsed the company's portal, uploaded their profiles and availed themselves of industry-first features that include video calling, video profiles and video-based online meetups.

The greatest detractor from Fund performance for the quarter was **GMM Pfaudler Ltd.** The company manufactures glass-lined reactors for the pharmaceuticals and chemicals industries. GMM Pfaudler's stock price fell sharply in September after the company's promoters announced an offer for sale (OFS) of equity shares at a substantial discount to the then-current market price. First introduced in 2012 by India's securities-market regulator, SEBI, the OFS mechanism is a way for the promoters of a listed company to use the stock-exchange platform to sell their shares publicly.



Kotak Mahindra Bank Ltd. was also a detractor. A full-service commercial bank, Kotak Mahindra offers a wide range of personal, commercial and corporate-banking resources. The company's stock price declined approximately -4% during the third quarter in what we consider normal fluctuation. Kotak Mahindra's removal from FTSE Russell's equity indexes may have had a minor impact on the stock as mutual funds using the indexes adjusted their portfolios.

Another weak stock in the Fund was **Avenue Supermarts Ltd.** The company operates a chain of supermarkets offering items that range from food and groceries to apparel and general merchandise. Avenue's standalone profit after tax declined -85.2% in the quarter ended June 30 as total revenues fell -33.7% compared to the same quarter a year earlier. Management cited Covid-19 lockdown restrictions, which forced the closure of certain locations, impacted foot traffic and prohibited the sale of non-essential, higher-margin merchandise. With retail distribution in India still dominated by small neighborhood stores called *kiranas*, we think opportunities abound for well-managed operators such as Avenue to formalize their industries and reap significant economies of scale. *(Current and future holdings are subject to risk.)*

OUTLOOK

Speaking at the Federal Reserve's virtual Jackson Hole Economic Policy Symposium in August, Fed Chairman Jerome Powell announced a new, more accommodative approach to U.S. monetary policy. As governments around the world struggle to revive their economies from virus-

induced slowdowns, we think the Fed's shift toward keeping U.S. interest rates lower for longer will prove especially beneficial for countries such as India.

India's government and central bank sometimes find themselves hamstrung by rising energy prices. Because India imports about 80% of the oil it uses, higher-priced oil widens the country's current-account deficit and stokes inflation. That, in turn, forces the Reserve Bank of India to keep interest rates high to defend the currency, and limits the government's ability to run large deficits without scaring away the foreign capital needed to fund them. Although the risk of escalating crude-oil prices seems remote in the current environment, crop failures and other factors can also create inflationary pressures that constrain efforts by India's government and central bank to stimulate economic growth.

By making the U.S. dollar less attractive to international investors, the Fed's new approach should give India's policy makers some additional breathing room on both the fiscal and monetary sides. While we can't rule out an unexpected spike in inflation that forces the Fed to tighten sooner than it would like, the Fed's updated monetary framework is likely to provide India and other emerging markets with a tailwind for at least the next few years.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan and Matthew Dreith



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Emerging India Fund—Investor	14.67%	-0.38%	4.54%	9.25%	9.79%
Emerging India Fund—Institutional	14.82%	-0.15%	4.67%	9.44%	9.89%
MSCI India Investable Market Index†	15.87%	1.10%	0.63%	5.01%	2.00%

*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 wasatchglobal.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—1.68% / Institutional Class—1.49%**

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 1.75% for the Investor Class and 1.50% 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.

Performance for the Institutional Class prior to 2/1/2016 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 2/1/2016 uses the actual expenses of the Fund's Investor Class without any adjustments. For any such period of time, the performance of the Fund's Institutional Class would have been substantially similar to, yet higher than, the performance of the Fund's Investor Class, because the shares of both classes are invested in the same portfolio of securities, but the classes bear different expenses.

Investing in small 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.

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.



*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.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties

(including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

CFA® is a trademark owned by the CFA Institute.

The Wasatch Emerging India Fund's investment objective is long-term appreciation 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 INDIA FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
Bajaj Finance Ltd. (India)	9.8%
Divi's Laboratories Ltd. (India)	5.7%
HDFC Bank Ltd. (India)	5.7%
Britannia Industries Ltd. (India)	4.9%
AU Small Finance Bank Ltd. (India)	4.7%
ICICI Lombard General Insurance Co. Ltd. (India)	4.7%
Info Edge India Ltd. (India)	4.6%
Larsen & Toubro Infotech Ltd. (India)	4.6%
Mindtree Ltd. (India)	4.5%
Kotak Mahindra Bank Ltd. (India)	4.3%
Total	53.6%

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.