

Wasatch Frontier Emerging Small Countries Fund

JUNE 30, 2020

Frontier Markets Rebounded Following Weak First Quarter

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

4 / 8
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

Frontier-market equities rebounded during the second quarter following steep losses during the first three months of the year. The Wasatch Frontier Emerging Small Countries Fund—Investor Class outgained its benchmark by a wide margin and finished the second quarter up 34.30%.

An upturn in investors' risk appetite drove the benchmark MSCI Frontier Emerging Markets Index 16.07% higher for the quarter, as economies battered by the coronavirus began to reopen and hopes grew that a vaccine would be developed. Stimulus support measures enacted by governments and central banks also encouraged investors.

Our focus on what we consider high-quality companies with strong balance sheets and robust business models served us well. Against a backdrop of heightened uncertainty, well-situated firms with the financial strength to survive and benefit from consolidation in their industries became more appealing to investors. For the most part, these types of survivors and consolidators are the kinds of businesses we generally seek to own in the Fund.

*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: 2.30%, Net: 2.20% / Institutional Class—Gross: 2.15%, Net: 2.00%. The Advisor has contractually agreed to limit certain expenses to 2.15% for the Investor Class and 1.95% for the Institutional Class through at least 1/31/2021.***

DETAILS OF THE QUARTER

Many of the Fund's top contributors during the quarter were scattered throughout Latin America. The strongest contributor to Fund performance for the quarter was **MercadoLibre, Inc. (MELI)**. The company provides e-commerce platforms and financial-technology solutions in Latin America. MercadoLibre reported better-than-expected revenues and earnings in its most-recent quarter as home-bound consumers flocking to the internet boosted online sales throughout the region. Although MercadoLibre is headquartered in Argentina and its stock trades in the U.S., it derives approximately half its revenue from Brazil.

Globant S.A. (GLOB) was also a strong contributor for the quarter. This Argentine company is an information-technology (IT) consulting firm offering software and design services to clients in 17 countries. Globant's stock price rose sharply in May after quarterly revenues and earnings came in ahead of estimates. Globant management said it expects the coronavirus pandemic to create new opportunities for the company by accelerating the large-scale migration of corporate clients to digital platforms.

A new position added to the Fund during the quarter was Singapore-based **Sea Ltd. (SE)**. The stock had a strong quarter and was the Fund's second-most significant contributor. While not classified as an IT company, Sea offers a range of services including e-commerce platforms, as well as produces digital gaming content. Although the company started as a gaming platform, it has enjoyed explosive growth and its "Shopee" online sales platform has already become the leading platform of its type in many of the South-east Asian countries in which it operates. As e-commerce penetration in the region is still in nascent stages, we believe the company's potential headroom for growth is immense.

The majority of the countries in which the Fund was invested outperformed their benchmark

counterparts in the second quarter. The Philippines was the Fund's biggest laggard compared to its benchmark peer. Having enacted one of the strictest lockdowns in the region, which severely hurt economic activity and market performance in the first quarter, the Philippines' market saw some relief in the second quarter—increasing nearly 20%. However, our two holdings in the country were laggards during the second quarter's sharp recovery.

Clicks Group Ltd. was the Fund's largest individual detractor during the quarter. Clicks Group operates South Africa's largest retail pharmacy chain and other retail stores with a combined footprint of over 870 stores in South Africa and neighboring countries. Having outperformed in the first quarter as global markets fell and investors flocked to defensive businesses such as Clicks, the stock was unable to keep pace with the market recovery in the second quarter. Investors were also disappointed by the company's announcement that it would postpone interim dividends despite strong earnings and a robust cash position.

Financials, the Fund's biggest sector weight was the largest contributor to performance in the quarter, increasing 33% compared to the benchmark return of nearly 8%. Despite this, **Unifin Financiera S.A.B. de C.V.** was the second-largest detractor. Unifin operates as a multi-purpose financial firm and is the largest equipment-leasing company in Mexico. Similar to other listed peers offering credit solutions to small and medium-size enterprises in Mexico, the stock has been under pressure due to the heightened uncertainty and clear lack of government support. However, we continue to believe there is great potential headroom for growth, particularly as the company increases its focus on financial-technology offerings. And we think the recent capital-raise announcement should put the company on the front foot to take advantage of opportunities



coming out of the pandemic. (*Current and future holdings are subject to risk.*)

OUTLOOK

A common criticism of newer forms of communication is their cold, impersonal nature. Over the past 25 years, face-to-face visits, letters and even many telephone calls have increasingly been replaced with email and text messaging. While much of the shift has been driven by the needs of businesses for faster, more-efficient interaction, the rise of technologies such as social media and online shopping have brought similar changes to other parts of our lives.

Covid-19 has fast-tracked this progression and turned it into a competitive advantage for businesses at its forefront. Digital technologies are enabling countless millions to work from home, shop and order meals from their favorite restaurants with little risk of spreading or contracting the disease.

We think these changes are here to stay. In particular, the abrupt transformation of the workplace through videoconferencing and

productivity platforms—initially adopted out of necessity—now appears likely to benefit both businesses and their employees going forward. In short, we expect what began as social-distancing requirements during the coronavirus pandemic to hasten a broad societal trend that had already been underway.

Frontier markets and emerging small countries with young populations are uniquely positioned to reap the benefits of these changes. Whereas past generations relied on expensive, capital-intensive technologies such as subways, freeways and automobiles to get to work, many of today's digitally native workers may soon need only walk from their bedrooms to their home offices. An extreme optimist might even imagine the notorious rush-hour traffic jams of major cities becoming quaint relics of an age gone by.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2020

| | Quarter* | 1 Year | 3 Years | 5 Years | Since Inception** |
|------------------------------------------------------|----------|---------|---------|---------|-------------------|
| Frontier Emerging Small Countries Fund—Investor | 34.30% | -1.77% | 0.98% | -1.35% | 4.30% |
| Frontier Emerging Small Countries Fund—Institutional | 34.45% | -1.40% | 1.22% | -1.13% | 4.43% |
| MSCI Frontier Emerging Markets Index† | 16.07% | -20.92% | -4.77% | -2.68% | 0.99% |
| MSCI Frontier Markets Index† | 14.75% | -11.17% | -1.77% | -0.13% | 4.14% |

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 Frontier Emerging Small Countries Fund's inception on 1/31/2012.

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—Gross: 2.30%, Net: 2.20% / Institutional Class—Gross: 2.15%, Net: 2.00%**

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 2.15% for the Investor Class and 1.95% 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 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 frontier and 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 Frontier Emerging Markets and MSCI Frontier Markets indexes are free float-adjusted market capitalization indexes designed to measure equity market performance in the global frontier and emerging markets. You cannot invest in these or any indexes.

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The Wasatch Frontier Emerging Small Countries Fund's investment objective is long-term growth of capital.

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS
AS OF MARCH 31, 2020

| Security Name | Percent of Net Assets |
|-----------------------------------------------|-----------------------|
| MercadoLibre, Inc. | 6.6% |
| Cleopatra Hospital (Egypt) | 5.8% |
| Raia Drogasil S.A. (Brazil) | 5.6% |
| Philippine Seven Corp. (Philippines) | 5.5% |
| Safaricom plc (Kenya) | 4.9% |
| Qualitas Controladora S.A.B. de C.V. (Mexico) | 4.5% |
| Globant S.A. (Argentina) | 4.3% |
| Naspers Ltd., Class N (South Africa) | 3.9% |
| Commercial International Bank S.A.E. (Egypt) | 3.9% |
| FPT Corp. (Vietnam) | 3.7% |
| Total | 48.8% |

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.