

Wasatch Global Value Fund

SEPTEMBER 30, 2020

Stocks Rose on Central Bank Support, Vaccine Optimism

OVERVIEW

Global equities finished the third quarter higher, largely reflecting continued support from central banks and government stimulus efforts in response to the Covid-19 pandemic. Headlines around apparent progress toward a coronavirus vaccine also boosted investor sentiment.

In the United States, with Congress unable to agree upon a second fiscal stimulus package, monetary policy took on heightened importance. Markets responded favorably as Federal Reserve Chairman Jerome Powell outlined a new approach to monitoring inflation that gives the central bank the flexibility to maintain an exceptionally low benchmark interest rate even if inflation were to break through the 2% target.

Stock-market progress was strong in July and August, then trended lower in September on concerns around a resurgence in Covid-19 cases across the globe. Increasing discussion of a litigated U.S. presidential election outcome also weighed on sentiment.

The Wasatch Global Value Fund—Investor Class returned 2.18% in the third quarter of 2020, trailing its benchmark, the growth-oriented MSCI AC (All Country) World Index, which returned 8.13%. The Fund also lagged the MSCI AC World Value Index, which gained 3.97%.

FUND MANAGER



David Powers, CFA, CAIA, CPA
Lead Portfolio Manager

7 / **7**
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—Gross: 1.19%, Net: 1.10% / Institutional Class—Gross: 1.23%, Net: 0.97%. The Advisor has contractually agreed to limit certain expenses to 1.10% for the Investor Class and 0.95% for the Institutional Class through at least 1/31/2021.***



The U.S. component of the MSCI AC World Index outperformed the benchmark's overall return. All sectors represented in the Index posted a positive return for the quarter, with the exception of energy which posted a double-digit decline. Performance within the benchmark was led by the consumer-discretionary sector, followed by information technology, materials and industrials. The Fund's performance was constrained by overweights to and stock selection within energy and financials, as well as by an underweight to and selection within information technology. Stock selection within non-U.S. markets weighed most heavily on the return.

On a country basis, our U.S. holdings posted a gain and added the most to the Fund's return but underperformed the Index's U.S. position. The U.S. represented about half of the Fund's assets while having a somewhat larger footprint within the Index. Korea, the Fund's second-largest country weighting behind the U.S., and the Netherlands were the second- and third-best contributors to the Fund's return. Canada and the United Kingdom were underperformers primarily due to weakness in our energy names domiciled in those countries.

DETAILS OF THE QUARTER

Leading contributors to performance again included homebuilder **PulteGroup, Inc. (PHM)**. We purchased Pulte as its stock suffered along with most other cyclicals in April as coronavirus concerns crested. Pulte has benefited from the recovery in housing, which has been supported by undersupply and high affordability given the low cost of borrowing. In addition, the work-from-home trend has sparked an increase in demand for housing in the suburbs and exurbs.

Within industrials, electrical equipment and hydraulic-systems manufacturer **Eaton Corp. plc (ETN)** was a notable contributor. With customers ranging across industries including vehicle and aircraft manufacturers, builders and utilities, Eaton

is highly levered to the global economy. As such, Eaton has been a prime beneficiary of the rebound in conditions that began in the second quarter, especially in the U.S. We continue to hold both Eaton and Pulte on the view that the up cycle has just begun for both companies.

Within information technology, **Samsung Electronics Co. Ltd.** was the Fund's leading contributor. While Samsung is most widely known as a manufacturer of consumer electronics, its semiconductor business drove the stock's performance over the quarter. Investors came to the view that pricing in the memory-chip market had bottomed out and was headed into a cyclical recovery. In addition, with competitor Huawei blocked from the U.S. market Samsung's networking-equipment segment appears well-positioned to benefit from the buildout of next-generation 5G wireless.

On the downside, **Citigroup, Inc. (C)** was a notable detractor as the low-interest-rate environment continued to weigh on investor sentiment with respect to banks broadly. In addition, while Citigroup's second-quarter results exceeded expectations, the earnings beat was driven by trading activity, and loan-loss provisions were higher than expected. Finally, a federal banking regulator raised concerns in the quarter about the bank's internal controls, making investors wary of the prospect of both fines and increased ongoing costs around compliance.

An overweight position in Canadian oil-sands company **Suncor Energy, Inc. (SU)** drove much of the Fund's underperformance within energy. A refiner of the petroleum byproduct bitumen into a range of products including oil, gas and asphalt, Suncor faced challenges in the quarter as a fire led to a halt in production at its base operation. Presented with this downtime, Suncor decided to accelerate planned maintenance, which will impact results in the short term as the associated

expenses are brought forward. We expect production to benefit in 2021 from this decision and for Suncor to be well-positioned to benefit as oil prices likely strengthen in coming quarters.

Within consumer staples, Japanese retailer **Seven & I Holdings Co. Ltd** has struggled under pandemic conditions on lower traffic at the more than 70,000 convenience stores it operates throughout the world, many under the 7-Eleven brand. While supermarkets have done well with shoppers trying to make the most of their visits, convenience stores have suffered as people seek to minimize the number of trips they take. In addition, Seven & I announced an acquisition of most of

Marathon Oil's U.S.-based Speedway stores, which many investors viewed as requiring a somewhat stretched level of financing in relation to the company's market capitalization. We expect the deal to add to the company's earnings per share over time and have maintained the position. *(Current and future holdings are subject to risk.)*

OUTLOOK

As the accompanying chart demonstrates, the performance disparity between growth and value stocks globally has been extraordinary in recent years, leading to a historically wide style valuation gap.



Source: Bloomberg. Past performance is not indicative of future results.



The outperformance of growth stocks over the past few years has been driven by investors seeking companies with the ability to grow earnings even when the economy is slowing. If indeed a new cycle is underway, there is the potential for a market rotation in which we believe value stocks may outperform significantly.

We hold the view that, in the wake of the coronavirus-driven recession, a new cycle has begun and the global economy is likely to slowly mend and gain strength from here. In addition to ongoing support from policy makers world-wide, substantial progress has been made in treating Covid-19 and the likelihood is that one or more vaccines will become broadly available by the middle of 2021. Moreover, absent a razor-thin

margin and contested outcome in the presidential race, a significant source of uncertainty will be eliminated with the U.S. elections in early November. There is also the potential for the legislative logjam around a second stimulus package to break after the elections. Against this backdrop, we have continued to shift toward smaller, more cyclical companies within our value universe and have raised the overall market sensitivity of the Fund.

Thank you for the opportunity to manage your assets.

Sincerely,

David Powers



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Global Value Fund—Investor	2.18%	-13.11%	-2.01%	4.48%	5.99%
Global Value Fund—Institutional	2.22%	-13.00%	-1.86%	4.61%	6.11%
MSCI AC (All Country) World Index**	8.13%	10.44%	7.12%	10.30%	8.55%

*Returns less than one year are not annualized.

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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 1.10% for the Investor Class and 0.95% 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 1/31/2012 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 1/31/2012 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.

Investments in value stocks can perform differently from the market as a whole and other types of stocks and can continue to be undervalued by the market for long periods of time. Loss of principal is a risk of investing.

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 (All Country) World Index captures large- and mid-cap representation across 23 developed-market and 26 emerging-market countries. With 2,994 constituents, the Index covers approximately 85% of the global investable equity opportunity set. You cannot invest directly in this or any index.*

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The Wasatch Global Value Fund's investment objectives are to seek capital appreciation and income.

Earnings per share or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.

The MSCI AC (All Country) World Growth Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 developed-market countries and 26 emerging-market countries. You cannot invest directly in this or any index.

The MSCI AC (All Country) World Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 developed-market countries and 26 emerging-market countries. You cannot invest directly in this or any index.

Valuation is the process of determining the current worth of an asset or company.

GLOBAL VALUE FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
China Mobile Ltd. (China)	5.1%
Johnson & Johnson	4.5%
Duke Energy Corp.	4.1%
Exelon Corp.	4.0%
Samsung Electronics Co. Ltd. (South Korea)	3.8%
Suncor Energy, Inc. (Canada)	3.6%
Eaton Corp. plc	3.6%
BP plc (United Kingdom)	3.3%
Axis Capital Holdings Ltd.	3.3%
Science Applications International Corp.	3.2%
Total	38.5%

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.