Quarterly Commentary

Investor WAINX / Institutional WIINX

Wasatch Emerging India Fund

DECEMBER 31, 2022

Major Stock Averages in India Retreated From Record Highs During the Final Weeks of the Quarter Amid Signs That Economic Growth Was Beginning to Slow

FUND MANAGERS

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OVERVIEW

Indian equities edged higher during the fourth quarter of 2022 as a resilient domestic economy and an improved outlook for global inflation underpinned investor sentiment. The benchmark MSCI India Investable Market Index (IMI) rose 1.20% for the quarter. The Wasatch Emerging India Fund—Investor Class underperformed its benchmark and posted a -4.22% decline.

Major stock averages in India retreated from record highs during the final weeks of the quarter amid signs that economic growth was beginning to slow. India's gross domestic product (GDP) grew 6.3% in the July-to-September quarter compared to a year ago—down from 13.5% expansion during the previous quarter as distortions caused by

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, without which total returns would have been lower. 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 1.52% / Institutional Class—1.37%. 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 1/31/2023.***

Covid-19 lockdowns faded. A contraction in the manufacturing sector also impacted growth, as higher interest rates and a slowdown in exports weighed on demand and rising input costs crimped output.

Driven largely by softness in exports and a widening trade gap, India's current-account deficit reached a nine-year-high of 4.4% of GDP in the quarter ended September—up from 2.2% of GDP in the April-to-June quarter and 1.3% of GDP in the year-ago period. The broadest measure of trade and income flows with the rest of the world, a country's current-account status can significantly affect the value of its currency. During 2022, India's rupee depreciated about -10% against the U.S. dollar, reducing dollar-equivalent prices of Indian stocks and dragging down the Fund's performance.

India's current-account deficit is expected to have narrowed during the fourth quarter as weakness in the currency made products priced in rupees more competitive both at home and overseas. Additionally, slowing economic growth in India likely curbed demand for imports of petroleum and other raw materials, even as easing commodity prices reduced their costs.

Meanwhile, data at the retail level showed inflation falling below 6% for the first time in 2022. India's consumer-price index rose 5.88% in November from a year earlier, down from 6.77% in October and well below forecasts. During 2022, India's central bank—the Reserve Bank of India (RBI)—raised its policy interest rate from 4% to 6.25% in an effort to rein in persistent inflation that had remained above its target range of 2% to 6% for most of the year.

DETAILS OF THE QUARTER

Financials, the Fund's most heavily weighted sector, accounted for some of the strongest contributors and greatest detractors from performance. Top contributors in the quarter included HDFC Bank Ltd. and AU Small Finance Bank Ltd.

HDFC Bank is India's largest private-sector bank by total revenues. The company offers a wide range of services to businesses and individuals. HDFC Bank's stock price rose sharply in November following a change in rules governing mergers in the MSCI India Index. In April, HDFC Bank announced it will merge with parent company Housing Development Finance Corporation Limited. Because the new rules will result in a higher index weight for the combined entity, investment funds seeking to track the MSCI India Index will need to purchase additional shares once the merger is completed.

AU Small Finance Bank primarily targets unbanked and underbanked low- and middle-income borrowers in India. In the company's most recent quarter, net profit rose 23% versus the same period a year ago. Deposits grew 7% quarter-over-quarter, and asset quality showed continued improvement. Management cited credit growth across all lending verticals, along with ongoing progress in collection efficiencies and retail deposit mobilization.

Another strong stock in the Fund was L&T Technology Services Ltd. (LTTS). The company provides engineering and research-and-development services world-wide. Net profit rose 23% in the company's most recent quarter on revenue growth of 24% compared to the same quarter last year. Strength in the transportation, plant-engineering and industrial-products business segments helped drive results. LTTS reported healthy deal bookings, especially in Europe, where the company closed a record-high total contract volume.

Despite having produced some of the Fund's top contributors, financials as a group were the biggest source of underperformance relative to the benchmark. Bajaj Finance Ltd. and Aavas

Financiers Ltd. were among the greatest detractors from Fund performance in the quarter.

A non-bank financial company (NBFC), Bajaj offers a broad spectrum of lending services. Pent-up demand during the pandemic and an economic upturn are driving strong credit growth in India. As loan volumes swell, private-sector banks (such as HDFC Bank, which is discussed above) are outpacing their state-owned peers. In the quarter ended September, India's private-sector banks increased their share of total credit to 38.4%—up from 37.5% in the year-ago quarter and 29.6% five years ago. The success of India's large private-sector banks has attracted growing interest from investors and drawn investment flows away from Bajaj at the margins.

Aavas is an NBFC specializing in housing loans for low- and middle-income borrowers in India. Consolidated after-tax profit increased 16% in the company's most recent quarter on 22% revenue growth versus the year-ago period. The results were only slightly better than investors had been expecting, however, and the stock fell following the news. Moreover, management announced plans to sustain elevated investment spending on technology needed to support the company's future growth. In the current environment of rising interest rates, investors have tended to frown upon expenditures that don't generate a quick return.

Another weak stock in the Fund was Dr. Lal PathLabs Ltd. The company operates one of the largest chains of diagnostic pathology labs in India. Robust demand for Covid-19 testing during the worst of the pandemic had driven increased volumes and margin expansion at Dr. Lal's. Those effects are now reversing and causing difficult year-over-year comparisons to 2021—the time of India's large second wave of infections. We expect growth to normalize over the next quarter or two and believe Dr. Lal's has the potential to become India's dominant consumer brand in diagnostics as it continues to consolidate and formalize the market. *(Current and future holdings are subject to risk.)*

OUTLOOK

On-site, in-person meetings with company executives are a key element of the Wasatch investment process. As part of that work, several members of our emerging markets team recently traveled to India on a research trip. One of the firms we visited was Berger Paints India Ltd., a company owned across several Wasatch Funds for many years. Based in Kolkata, Berger manufactures and distributes paints, enamels, varnishes and synthetic resins for residential and commercial applications.

Paint is an $8 billion industry in India with ample room for future growth. Anyone who's traveled to India can attest to the fact that most buildings and homes need a coat of paint. As incomes rise and consumers have more money to spend, they want to upgrade the quality of their living spaces. In an industry that's experienced double-digit annual percentage growth over the past two decades, the decorative-paints category represents about 75% of the overall market, with industrial paints accounting for the remaining 25%.

The attractiveness of the paint business in India hasn't gone unnoticed. Grasim Industries Ltd., the flagship company of the Aditya Birla Group, announced last year that it intends to enter the market for decorative paints. The company—which is not a current Fund holding—has earmarked approximately $1.2 billion for capital expenditures during the venture's initial phase and intends to begin production early in 2024. Capacity is planned at 1.332 million liters (350,000 gallons) of paint per year—nearly double that of Berger.

Grasim plans to leverage the longstanding distribution network established by Birla White, a premium brand from Grasim subsidiary UltraTech Cement. Birla White is a market leader in white portland cement and wall putty, with a large distribution network that extends across 6,000 cities and towns in India.

In assessing the competitive threat to Berger, which we take quite seriously, it's important to note that India's paint industry is largely controlled by four dominant players—with Berger among them—that have formed something akin to an oligopoly. The reasons for this are many and involve complex relationships between manufacturers, distributors, dealers and the contract painters who purchase much of the paint on behalf of customers. So, what might seem like a simple business-to-consumer distribution model in theory is actually much more complicated in practice. Moreover, the UltraTech network is different from a paint dealership and serves a different base of customers.

Suffice it to say that India's paint industry is notorious for having high barriers to entry. If history is any guide (and we think it is), past failures of other large, global names to make significant inroads don't bode especially well for Grasim's foray into the paint business.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan and Matthew Dreith

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging India Fund—Investor	-4.22%	-21.75%	8.18%	6.36%	12.05%
Emerging India Fund—Institutional	-4.17%	-21.76%	8.30%	6.52%	12.18%
MSCI India Investable Market Index**	1.20%	-9.07%	11.25%	5.19%	7.75%

**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 1.75% for the Investor Class and 1.50% for the Institutional Class through at least 1/31/2023.** 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. Indexes are unmanaged. Investors cannot invest directly in this or any index.*

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

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
Bajaj Finance Ltd.	9.9%
Elgi Equipments Ltd.	7.7%
AU Small Finance Bank Ltd.	6.5%
Trent Ltd.	6.3%
HDFC Bank Ltd.	6.0%
Mindtree Ltd.	5.9%
Larsen & Toubro Infotech Ltd.	5.6%
Avenue Supermarts Ltd.	5.5%
Dr. Lal PathLabs Ltd.	5.3%
L&T Technology Services Ltd.	4.9%
Total	63.6%

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.