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Quarterly
Commentary

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Wasatch Emerging Markets Small Cap Fund

SEPTEMBER 30, 2022

Amid Rising Inflation and Mounting Risks of Recession, India Stands Out Among the Major Emerging Markets

OVERVIEW

Emerging-market equities turned lower during the latter half of the third quarter following hawkish comments from officials of the U.S. Federal Reserve (Fed). Investors feared overly aggressive monetary tightening by central banks will increase recessionary risks, potentially impacting the earnings of companies selling goods and services into developed markets. The benchmark MSCI Emerging Markets Small Cap Index finished -5.25% lower on the quarter. The Wasatch Emerging Markets Small Cap Fund—Investor Class trailed its benchmark with a decline of -6.08%.

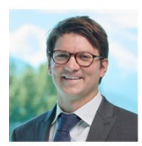
At the Fed's annual Jackson Hole economic symposium in Wyoming, Chairman Jerome Powell echoed statements from colleagues the previous week. Affirming the central bank's commitment to hiking interest rates until inflation is visibly under control, Chairman Powell dashed hopes for an early pivot toward a more accommodative monetary stance. His remarks sent the dollar soaring, eroding dollar-equivalent prices of assets denominated in other currencies. In addition

FUND MANAGERS

Ajay Krishnan, CFA
Lead Portfolio Manager
3 YEARS ON FUND / 28 YEARS AT WASATCH

Dan Chace, CFA
Portfolio Manager
3 YEARS ON FUND / 20 YEARS AT WASATCH

Scott Thomas, CFA
Portfolio Manager
7 YEARS ON FUND / 10 YEARS AT WASATCH



Kevin Unger, CFA
Associate Portfolio Manager
4 YEARS ON FUND / 7 YEARS AT WASATCH

Anh Hoang, CFA
Associate Portfolio Manager
<1 YEAR ON FUND / 10 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, 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—1.88% / Institutional Class—1.76%. The Advisor has contractually agreed to limit certain expenses to 1.95% for the Investor Class and 1.80% for the Institutional Class through at least 1/31/2023.***

to its direct effects on performance, a stronger U.S. dollar makes riskier investments in emerging markets less attractive to international investors.

The tech-heavy stock markets and export-linked currencies of Korea and Taiwan were hit hard during the third quarter, with the Korean won and the New Taiwan dollar dropping approximately -10% and -6.5%, respectively, against the greenback. Low exposure to Korea helped the Fund by allowing it to sidestep much of the decline in what was one of the quarter's worst-performing emerging markets. Taiwan, however, was the Fund's greatest source of weakness—both in absolute terms and relative to the benchmark. Geopolitical tensions with China may also have contributed to the poor investment backdrop in Taiwan.

India was a significant source of strength against the benchmark. Although our Indian stocks lagged the Indian positions in the Index, our overweight positioning was a tailwind for the Fund. India's gross domestic product (GDP) rose 13.5% in the April-to-June quarter versus the same period a year ago, official data showed. Looser mobility restrictions boosted the country's services sector—which accounts for over 50% of the nation's economy—as robust domestic demand fueled the fastest pace of economic expansion in a year. Despite rising interest rates, bank-credit demand surged 15.5% in August, the most since November 2013.

Meanwhile, China's economy continued to sputter. Factory activity struggled as an extreme heatwave strained power grids and drought conditions impeded the generation of hydroelectricity. With the Chinese government clinging to its zero-Covid policy of tight containment, widespread outbreaks of the virus hampered production further and crimped demand. Because China was the worst-performing country in the Index except for Colombia, our substantially below-benchmark exposure improved the Fund's relative return. Additionally, with our Chinese stocks declining less than the Chinese component of the Index, China was the Fund's biggest source of strength against the benchmark during the quarter.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was Trent Ltd. The company operates a leading chain of retail stores in India that specialize in fashion apparel, cosmetics, perfumes and toiletries. Slowing economies in the U.S., Europe and China have burnished the appeal of India's domestic consumer markets. Trent has been posting impressive top- and bottom-line growth, helped by improved efficiency in its supply chains. Revenues in the company's most recent quarter exceeded analyst expectations, driven largely by the accelerated opening of new stores.

Wilcon Depot, Inc. was also a top contributor. The company operates the Philippines' leading retail chain for home-improvement products and finishing-construction supplies. Wilcon recently opened its 80th store as part of the company's #FlyingHighTo100 campaign to expand its retail footprint and visibility. Net income rose 56.4% in Wilcon's most recently reported quarter on 22.8% sales growth versus the same quarter a year ago. In addition to new-store openings, management cited a 15% increase in same-store comparable sales, driven by fewer pandemic-related disruptions and solid execution in the face of continued supply-chain challenges.

Another strong stock in the Fund was Globant SA. An information-technology (IT) consulting firm, the company offers software and design services to clients in 20 countries. Globant was part of a rebound in U.S.-traded technology issues that gathered steam amid positive earnings surprises and hopes for a slower pace of interest-rate increases by the Fed. Our outlook continues to be positive for the company, which is a leader in the rapidly growing market for digital-transformation IT services.

Ongoing concerns about an excess supply of semiconductor chips impacted a number of Asian technology stocks. Among these were Silergy Corp. and Sino Wealth Electronic Ltd.—the two biggest detractors from Fund performance, respectively. Based in Shanghai, Sino Wealth provides integrated circuits that include micro-control units used in products such as small household appliances and automotive electronics. Broad weakness in Chinese stocks and worries about a decline in global demand for durable goods also weighed on the company's stock price during the quarter.

Silergy manufactures high-performance mixed-signal and analog integrated-circuit chips used in a wide array of electronic devices. Long term, we think the company's business model—which is based on analog design engineering—is difficult to replicate and is likely to provide Silergy with significant headroom for future growth. Silergy is considered a Taiwanese company for portfolio-management purposes.

Unifin Financiera SAB de CV also detracted. A multiple-purpose financial firm, Unifin is Mexico's leading equipment-leasing company and the country's largest non-bank lender. Shares of Unifin fell sharply after the company halted payments on its foreign bonds and notified creditors of its intent to restructure the debt. Confidence in Mexico's shadow banks collapsed earlier this year in the wake of similar defaults by two of Unifin's peers. *(Current and future holdings are subject to risk.)*

OUTLOOK

Our structural overweighting of India in the Fund reflects our belief that high-quality Indian companies offer attractive prospects to investors seeking long-term growth. As developed countries grapple with rising inflation, declining equity prices and mounting risks of recession, India stands out among the major emerging markets. Unlike export-driven economies such as Korea, India doesn't depend heavily on Western markets for growth. According to data from the World Bank, private domestic consumption accounts for over 70% of GDP in India, the world's sixth-largest consumer market. With exports representing only about 12% of GDP, India is well-positioned in our view to withstand the effects of a potential global slowdown.

Foreign investors returned to India in droves during the third quarter after withdrawing a record $33 billion from Indian stocks during the nine months through June. Their purchases have helped offset declining domestic inflows into equity mutual funds, which slowed in August to about $765 million—the lowest monthly amount since October 2021. Moreover, the recent uptick in cash flows from overseas has lent support to India's currency, the rupee, as foreigners converted their local currencies into rupees and used the proceeds to buy Indian stocks.

Currency risk is a key consideration when investing in India. We expect a certain amount of depreciation in the rupee and seek companies that we believe can outgrow the currency's long-term rate of depreciation against the dollar. Over the past year, India's central bank, the Reserve Bank of India (RBI), has shored up the rupee by intervening in currency markets, drawing down its foreign-exchange reserves from $641 billion in September 2021 to under $538 billion as of September 23, 2022. Still, RBI governor Shaktikanta Das has sought to reassure investors that the central bank's forex reserves are adequate to maintain a reasonable level of stability and handle external shocks.

Toward the other end of the spectrum is China—where sentiment has remained poor amid a deepening property crisis, a nationwide mortgage boycott and an austere zero-Covid regime that's crushed demand and strangled growth. While the central bank has signaled its intent to cut interest rates to stimulate the economy, currency weakness in the yuan has largely constrained its ability to do so. By most estimates, the Chinese government can muster the resources necessary to bail out the ailing property sector. Relief from zero-Covid, however, is likely to prove more elusive.

With that having been said, the current situation in China won't last forever. Zero-Covid isn't sustainable in our view, and we believe any progress on that front could touch off a powerful rally in Chinese stocks. In the meantime, periods of extreme pessimism and depressed valuations have often provided advantageous opportunities to purchase well-situated, high-quality businesses for long-term investment.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan, Dan Chace, Scott Thomas,
Kevin Unger and Anh Hoang

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging Markets Small Cap Fund—Investor	-6.08%	-37.93%	4.14%	2.41%	2.68%
Emerging Market Small Cap Fund—Institutional	-6.02%	-37.75%	4.39%	2.56%	2.79%
MSCI Emerging Markets Small Cap Index**	-5.25%	-23.23%	5.54%	1.25%	2.91%
MSCI Emerging Markets Index**	-11.57%	-28.11%	-2.07%	-1.81%	1.05%

**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 1.95% for the Investor Class and 1.80% 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 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 and Emerging Markets Small Cap Indexes are free float-adjusted market capitalization indexes designed to measure the equity market performance of emerging markets. Indexes are unmanaged. Investors cannot invest in these or any indexes.*

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The Wasatch Emerging Markets Small Cap 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.

Sales growth is the increase in sales over a specified period of time, not necessarily one year.

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

EMERGING MARKETS SMALL CAP FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2022

Security Name	Percent of Net Assets
Voltronic Power Technology Corp.	6.8%
AU Small Finance Bank Ltd.	6.1%
Silergy Corp.	5.9%
ASPEED Technology, Inc.	4.1%
Trent Ltd.	4.1%
Aavas Financiers Ltd.	4.0%
Globant SA	3.9%
Dr. Lal PathLabs Ltd.	3.6%
Grupo Aeroportuario del Centro Norte SAB de CV	3.4%
momo.com, Inc.	3.3%
Total	45.4%

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.