WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAEMX / Institutional WIEMX

Wasatch Emerging Markets Small Cap Fund

DECEMBER 31, 2022

Taiwan Stands to Benefit From a Potential Pickup in China's Virus-Battered Manufacturing Sector

OVERVIEW

Stock markets in developing nations were mostly higher during the fourth quarter of 2022. Helped by a weakening U.S. dollar and China's dismantling of rigorous zero-Covid protocols, the benchmark MSCI Emerging Markets Small Cap Index rose 8.20% for the quarter. The Wasatch Emerging Markets Small Cap Fund—Investor Class lagged its benchmark with a gain of 4.45%.

Following a soft reading on U.S. retail inflation for October, the U.S. Federal Reserve (Fed) Chairman Jerome Powell signaled a slower pace of interest-rate hikes going forward. His comments—which made interest-bearing investments denominated in U.S. dollars less attractive—weighed further on a dollar that had been trending lower for most of the quarter. Equities in developing nations rose sharply as the sinking greenback lifted dollar-equivalent prices of assets denominated in other currencies.

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

China provided more good news for investors. In the wake of street protests against virus-related curbs on mobility, the government in Beijing abruptly dissolved its zero-tolerance policy toward Covid-19. Initial reports of reopening sparked a strong rally in China's stock market from lows registered during October. Chinese equities gave back some of those gains in December, as waves of infection spreading through the country blurred forecasts for consumption and the broader economy. Although our Chinese stocks posted a double-digit return as a group, they lagged the outsized gain in the China component of the Index and hurt Fund performance relative to the benchmark.

Equity markets in Taiwan and Korea also did well. Because many businesses in these economies are linked to Chinese supply chains serving end markets in the U.S. and other countries, Taiwan and Korea stand to benefit from a potential pickup in China's virus-battered manufacturing sector—as well as from easing interest-rate pressures on the global economy. The New Taiwan dollar rose 3.8% against the U.S. dollar during the fourth quarter, while the Korean won appreciated an eye-watering 13.1%.

India was the Fund's biggest source of weakness—both in absolute terms and relative to the benchmark. Because India was one of the worst-performing countries in the Index, our overweight positioning in India worked against us. India was among only a handful of emerging markets whose currencies depreciated against the U.S. dollar during the fourth quarter.

DETAILS OF THE QUARTER

Increased funding by governments to build new semiconductor-fabrication plants lifted sentiment toward suppliers of technology and components to the semiconductor industry. Top contributors to performance in the fourth quarter included the Fund's two Korean holdings—LEENO Industrial, Inc. and Tokai Carbon Korea Co. Ltd.

LEENO produces test pins and sockets used in the development of semiconductor chips. Because the company's devices are primarily used for research and development, its revenues are largely insulated from the cycles of technology spending. Tokai Carbon Korea produces silicon wafers, purified graphite and other semiconductor materials for industrial applications.

Another strong stock in the Fund was Grupo Aeroportuario del Centro Norte SAB de CV. Often referred to as "OMA," the company operates international airports in the northern and central regions of Mexico under contracts with the government. Declining Covid-19 caseloads and pent-up demand for travel have raised passenger counts and improved tariff revenue at the company's airports. Consolidated net income rose 35.7% in OMA's most recent quarter on 32.3% total revenue growth compared to the same quarter a year ago. Total passenger traffic rose 22.8%, exceeding its comparable pre-Covid level.

The greatest detractor from Fund performance for the quarter was Aavas Financiers Ltd. An Indian non-bank financial company (NBFC), Aavas specializes in housing loans to low- and middle-income borrowers. 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.

Pet Center Comercio e Participacoes SA was also a significant detractor. The company sells food, medicines, toys, beds and other products for pets in Brazil through its digital platform and retail stores. Pet Center's rapid addition of new stores has diluted comparable same-store sales and earnings. While the company's e-commerce segment and subscription business for food are long-term positives, these lower-margin businesses are hindering the transmission of top-line sales to bottom-line profits in the short run. Weakness in household discretionary spending has also hurt sentiment toward Pet Center in what has been a difficult investment environment for retail stocks in Brazil.

Another weak stock in the Fund was **Globant SA**. An information-technology (IT) consulting firm, the company offers software and design services to clients in over 20 countries. Globant is facing an uncertain demand environment as corporate customers staring down a possible recession in 2023 shape their priorities for IT spending. The company's stock was extremely volatile during the fourth quarter, reflecting unusually cloudy outlooks for the IT-services industry and the global economy. *(Current and future holdings are subject to risk.)*

OUTLOOK

China's abandonment of its long-held zero-Covid policy shows that even authoritarian governments sometimes listen to their people. While the reopening of China is clearly a positive long-term development, the government's abrupt shift from aggressively fighting every case to allowing the virus to spread relatively unchecked through the population creates a fresh set of uncertainties both in China and globally.

The Beijing government has been reluctant to import the mRNA-based Covid-19 vaccines used in the U.S. and Europe, opting instead for homegrown shots derived from inactivated forms of the virus. Recent studies, however, have questioned the efficacy and length of protection China's vaccines offer with respect to Omicron subvariants. On the positive side, subvariants similar to those reported in China have all but disappeared in the U.S., having been outcompeted by other versions of Omicron. That suggests the likelihood of a dangerous new variant emerging in China and replacing Omicron may be smaller than previously feared.

Instead, the rest of the world may feel the impact of China's reopening primarily in the form of higher commodity prices. As Chinese factories ramp up production and hundreds of millions of motor vehicles travel more miles, global inflation already worsened by the war in Ukraine could be stoked further. The U.S., Europe and emerging markets such as India have been feeling the pinch of tighter economic conditions for most of 2022.

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 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. Even so, we don't think slowing exports pose a serious threat to economic growth itself. 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.

A more concerning aspect of India's export slowdown is its potential effect on the nation's external finances. A widening trade gap pushed India's current-account deficit to 4.4% of GDP in the quarter ended September—up from 2.2% of GDP in the 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.

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, India's economic slowdown likely curbed demand for imports of petroleum and other raw materials, even as easing commodity prices reduced their costs. From that perspective, a modest deceleration in near-term growth might not be such a bad thing for India. On a longer horizon, we believe secular trends underway in India and the strong fundamentals of Indian businesses owned in the Fund present attractive opportunities for investment.

Thank you for the opportunity to manage your assets.

Sincerely,

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

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging Markets Small Cap Fund—Investor	4.45%	-38.72%	1.90%	1.79%	2.52%
Emerging Market Small Cap Fund—Institutional	4.40%	-38.59%	2.03%	1.93%	2.62%
MSCI Emerging Markets Small Cap Index**	8.20%	-18.02%	5.11%	1.06%	3.21%
MSCI Emerging Markets Index**	9.70%	-20.09%	-2.69%	-1.40%	1.44%

**Returns less than one year are not annualized.*

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 returns 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—1.88% / Institutional Class—1.76%**

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.

EMERGING MARKETS SMALL CAP FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
Voltronic Power Technology Corp.	6.2%
AU Small Finance Bank Ltd.	6.0%
Trent Ltd.	5.0%
Globant SA	4.8%
Aavas Financiers Ltd.	4.5%
Silergy Corp.	4.3%
Dr. Lal PathLabs Ltd.	4.1%
ASPEED Technology, Inc.	4.0%
L&T Technology Services Ltd.	3.6%
Mindtree Ltd.	3.5%
Total	46.0%

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.