

Wasatch Frontier Emerging Small Countries Fund

SEPTEMBER 30, 2022

We Currently See the Most Opportunities in Vietnam and Brazil

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

6 / 10
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

During the third quarter, the Wasatch Frontier Emerging Small Countries Fund—Investor Class lost -2.78% but outperformed the benchmark MSCI Frontier Emerging Markets Index, which was down -8.68%.

After turning lower for much of 2022, frontier- and emerging-markets equities rebounded in July through mid-August. However, equities turned lower late in the third quarter due to concerns about persistent inflation and rising interest rates in many countries. Data pointing to a slowdown for the global economy also weighed on stocks during the period.

While stocks were down broadly, the Fund fared better than its benchmark. An area we'd like to highlight in the Fund's outperformance relative to the benchmark was that it benefited from our position in Brazil, a country that's not represented in the Index. As we note in our outlook, the country seems to be ahead of most nations in combating inflation, having embarked on series of interest rate increases much earlier. But our position isn't due to a macroeconomic view on Brazil.

*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—2.13% / Institutional Class—Gross: 2.09%, Net: 1.96%. 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 1/31/2023.***

Instead, we've found attractive, company-specific opportunities within the country. After visiting Brazil early in 2022, we initiated new positions in Brazilian companies and increased our position sizes in some existing holdings. We were pleased that some of those companies were strong contributors to performance in the third quarter.

DETAILS OF THE QUARTER

MercadoLibre, Inc. (MELI) was a top contributor to the Fund's performance during the quarter. The company operates an online marketplace and payments system in Latin America and is among a group of businesses that were "Covid beneficiaries." The stocks of such companies outperformed during the pandemic due to anticipation for stronger demand for their services in a stay-at-home environment. As society normalized, many of these same stocks, including that of MercadoLibre, sold off. But the stock has rebounded as earnings results for the first half of 2022 demonstrated the resiliency of MercadoLibre's business.

Another strong contributor to performance was **Wilcon Depot, Inc.** The firm is the leading operator of home-improvement stores in the Philippines, selling hardware and tools, flooring, paints, furniture, building materials and household appliances. With roughly 75 stores in the Philippines and a target to reach 100 by 2025, Wilcon enjoys a scale advantage relative to smaller, independent home-improvement stores. This has given Wilcon more bargaining power with suppliers, allowing it to offer a wider selection of goods at better prices. The company also offers many popular private labels and exclusive brands, which tend to drive better profit margins. We see a long runway for growth as we expect Wilcon to continue taking market share in the coming years. That growth potential was evident in Wilcon's latest quarterly results. Management reported

23% revenue growth and 56% profit growth compared to the same quarter a year ago.

Globant SA (GLOB) was another large contributor. This information-technology (IT) consulting company offers software and design services to clients in 20 countries. Globant's stock was part of a broad selloff in technology stocks in the first half of the year but rebounded in the third quarter as the company continued to demonstrate strong operating results. Operating in Argentina, Globant has a lower cost of service than many other global IT consultants, which has helped it repeatedly win large consulting contracts over global competitors. We also like that the company offers more highly skilled services, beyond just back-office functions that aren't as profitable.

Discovery Ltd., a provider of financial and insurance services in South Africa, was the Fund's largest detractor from third-quarter performance. The company put up strong operating results, growing earnings by 70% in its 2022 fiscal year. But the stock was down because management chose not to reissue a dividend. We think management was being conservative due to external risks such as Covid-19, inflation, war, and a potential recession, and not due to internal operational concerns. We're fine with management's decision to hold off on reissuing the dividend, and our thesis on the company remains intact. Discovery was a pioneer in bundling health and wellness programs with its life-insurance policies. These programs have encouraged healthier behaviors and better outcomes for policyholders, while also increasing customer engagement and loyalty. What's more, the company's investment in a digital bank to complement its other suite of products appears to be ahead of schedule in terms of client growth and profitability.

FPT Corp., a Vietnam-based company providing outsourced IT services, was another detractor. The

stock drifted lower along with the rest of the Vietnamese equity market, but nothing changed for the business during the quarter. We continue to like FPT and believe the company enjoys a cost advantage relative to other outsourced IT providers, as the typical Vietnamese IT engineer's salary is much less than that of an IT engineer in China or India.

Another large detractor was **Dlocal Ltd. (DLO)**, a financial-technology (fintech) company based in Uruguay. Dlocal offers a single platform that operates across borders to accept payments, send payouts and settle funds. In our view, the company continues to do well operationally, reporting considerable earnings per share growth and revenue growth in the most recent quarter. But the stock fell, likely because management reported a decline in gross profit margins and because total payment volume per merchant didn't grow. In our view, the company continues to execute its business plan and our investment thesis remains on track. We believe Dlocal has tremendous headroom for growth as cross-border payments within emerging markets increase. *(Current and future holdings are subject to risk.)*

OUTLOOK

Macroeconomic clouds such as a stronger U.S. dollar and rising interest rates have weighed on emerging- and frontier-market equities. But we believe many of these countries are better prepared to weather the storm than in the past. For many of the larger frontier-market economies, currencies are already inexpensive and external accounts are in positions of relative strength. This should give governments better ability to withstand volatility in capital flows and currency markets.

In places such as Brazil and Vietnam, which represent our two largest country weights, economic conditions may be shaping up better than in most other developed or emerging

economies. In Brazil, for example, the government may have already completed a cycle of raising interest rates, and the country appears ahead of most others in combating inflation.

In Vietnam, foreign direct investment has exceeded \$20 billion annually for the past several years. The country is a major beneficiary of companies' attempts to diversify their supply chains away from China, with some of the world's largest companies shifting production to Vietnam. The Vietnamese government has also done an admirable job managing the Covid-19 pandemic, which further established the country as a reliable manufacturing partner. Despite these positives, valuations of Vietnamese equities are near pre-Covid levels, which we believe creates opportunities for investors.

We share these macroeconomic views to provide a little perspective on conditions within the markets of frontier and emerging small countries. But as bottom-up investors, our primary focus is always on individual company fundamentals. Here too, we believe there are reasons to be optimistic.

Despite a slowing global economy, fundamentals for our companies remain firm. Earnings growth for the majority of companies in held in the Fund met or exceeded consensus expectations in the most recently reported quarter and have shown little negative revision for the year.

We believe earnings will remain resilient through a downturn, in large part because our companies play a vital role in modernizing frontier economies. For example, within the Fund we own:

- Information-technology companies enabling a digital transformation for businesses and consumers
- Financial-service firms that facilitate safer and frictionless digital transactions for a growing middle class



- Hospital chains that are improving the quality of health care within local markets
- Retail companies and communication-services firms aligned to new purchasing and consumption trends

These secular trends should push forward regardless of the economic background. This leaves us feeling confident about the Fund's long-term

return potential, in spite of the near-term economic outlook.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	-2.78%	-43.89%	-3.41%	-2.13%	0.45%
Frontier Emerging Small Countries Fund—Institutional	-2.75%	-43.89%	-3.21%	-1.94%	0.58%
MSCI Frontier Emerging Markets Index†	-8.68%	-23.58%	-6.70%	-4.88%	-0.47%
MSCI Frontier Markets Index†	-6.47%	-25.20%	-1.29%	-1.24%	3.63%

*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 2.15% for the Investor Class and 1.95% 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 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. Indexes are unmanaged. Investors 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.

Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

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

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2022

Security Name	Percent of Net Assets
FPT Corp.	9.4%
Bajaj Finance Ltd.	8.7%
DCVFMVN Diamond ETF	5.9%
Globant SA	5.5%
MercadoLibre, Inc.	5.1%
Qualitas Controladora SAB de CV	4.5%
Discovery Ltd.	4.4%
Bank for Foreign Trade of Vietnam JSC	4.4%
Dlocal Ltd.	3.8%
Mobile World Investment Corp.	3.6%
Total	55.2%

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.