

Wasatch Frontier Emerging Small Countries Fund

DECEMBER 31, 2022

Our Companies Are Playing A Direct Role in the Transformational Changes Taking Shape Within Frontier And Emerging Small Countries

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

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YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

The Wasatch Frontier Emerging Small Countries Fund—Investor Class ended the quarter with a return of 0.00%, underperforming the benchmark MSCI Frontier Emerging Markets Index, which was up 9.16%.

Much of the Fund's underperformance relative to the benchmark was due to its geographic and sector positioning. The Fund had a substantial underweight to the Philippines, which was the largest weighting and a top-performing market in the Index this quarter. The Fund's holdings in India and Brazil, neither of which is represented in the benchmark, also were a drag on relative performance.

At the sector level, stock selection in the financials sector weighed on relative performance. Overweight positions in the consumer-discretionary and information-technology (IT) sectors also detracted from relative results.

*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.***

DETAILS OF THE QUARTER

Two consumer-discretionary stocks, **Mobile World Investment Corp.** and **Pet Center Comercio e Participacoes SA**, came under pressure during the quarter and were among the Fund's largest detractors. Mobile World is a Vietnamese retailer of digital devices and consumer electronics. More recently, the company began building out a grocery and pharmacy business. Vietnamese stocks sold off broadly in the quarter amid a regulatory probe on corruption in the country's corporate bond market. Specific to Mobile World, the company's stock fell after rumors that its balance sheet had exposure to some of the firms involved in the government's investigation. The company has since responded, stating that it has no relationships with companies or banks at the center of the probe.

While it appears that Mobile World doesn't have connections to any of the companies being investigated for corruption in the bond market, the potential for slowing electronic sales could be another headwind for the company. Demand for such products sharply increased during the pandemic and could experience a slowdown in the near term. However, we like the potential for improved profitability in its burgeoning grocery and pharmacy businesses.

Pet Center Comercio e Participacoes SA, the other notable detractor within the consumer-discretionary sector, sells food, medicines, toys, beds and other products for pets in Brazil through its digital platform and retail stores. Pet Center's third-quarter earnings results were disappointing, and margin expansion has not been what many expected. However, we still like the economic resiliency of the pet business. We also like the way management has positioned the company as more shopping takes place online and digitally.

Outside of the consumer-discretionary sector, **Dlocal Ltd. (DLO)** was another large detractor. Based in Uruguay, the company offers payment

solutions world-wide. Dlocal's stock price fell sharply in November after an investment-research firm published a short-sale report containing scathing allegations. The company subsequently issued a targeted rebuttal and announced a share-buyback plan. Although the stock has recovered some of its losses, it finished lower on the quarter. After extensive research, we continue to own Dlocal at a reduced weight in the Fund.

Discovery Ltd., a provider of financial and insurance services in South Africa, was the top contributor to Fund performance. Prior to the fourth quarter, there had been negative sentiment around South African equities, which weighed on the stock. Management's decision not to reinstate its dividend was another concern for some investors. However, our view at the time was that management was simply being conservative due to external risks such as inflation and a potential recession, and that there were no operational concerns. In recent months, the stock has rebounded as investors digested the information and perhaps realized the drop in the stock price was an overreaction. Long term, nothing has changed in our view of the company. 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 suite of products appears to be ahead of schedule in terms of client growth and profitability.

Another large contributor was **WEG SA**, a Brazilian motor manufacturer. The stock was up after the company produced surprisingly strong earnings despite a weaker macroeconomic backdrop. We continue to like the execution we see from WEG's management team, which has had success in a variety of areas such as commercial



and appliance motors and industrial electronic equipment, among others. We also like that the company is not only a domestic champion in Brazil, but has punched above its weight, succeeding on a global scale against larger competitors.

Dino Polska SA was another significant contributor. The company operates “compact supermarkets” in Poland’s rural markets. Dino seems to have found the right mix of store size, product quality, and product mix, allowing it to take share from big-box supermarkets that struggle in lower populated areas, and also compete with smaller, family-owned stores that may not offer as many high-quality food selections. In addition, the number of migrants flowing from Ukraine to Poland has created increased store traffic and strong results for the firm. *(Current and future holdings are subject to risk.)*

OUTLOOK

In 2022, the Fund had a lot of exposure to some of the under-performing segments within the markets of frontier and emerging small countries. However, we believe we’re invested in the most promising areas of these markets’ future.

Geographically, the Fund’s largest weight is in Vietnam, which was one of the worst-performing countries for the Fund and the benchmark during the fourth quarter. But we continue to be constructive on the country’s long-term prospects.

We believe Vietnam is becoming 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 the country. As we shared last quarter, foreign direct investment in the country has exceeded \$20 billion annually for the past several years. In addition, we believe the Vietnamese government has 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 a great long-term opportunity for investors.

The Fund’s positioning across sectors was also unfavorable in 2022. Our largest weights are in information technology and financials, and within the financial sector, many of our companies are fintech businesses. The benchmark, on the other hand, looks quite different. The MSCI Frontier Emerging Markets Index has zero exposure to the IT sector, and a different makeup of financial companies that includes many traditional banks.

That positioning worked against us this year as the prospect of rising interest rates led to discounted valuations and a broad sell-off of high-growth, technology-oriented companies whose expected future cash flows appear less valuable in the present.

We’re willing to tolerate the near-term setback. Looking forward, we believe our companies will play a direct role in the transformational changes taking place within frontier and emerging small countries. For example, our holdings include: IT 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 quality of life within local markets; and retail companies and communication-services firms that are aligned to new purchasing and consumption trends.

We believe our holdings in these companies have a long runway for growth and look forward to watching how these themes play out in 2023 and beyond.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	0.00%	-41.11%	-6.39%	-3.30%	-0.44%
Frontier Emerging Small Countries Fund—Institutional	0.40%	-40.86%	-6.05%	-3.09%	-0.26%
MSCI Frontier Emerging Markets Index†	9.16%	-18.18%	-6.00%	-4.14%	-0.16%
MSCI Frontier Markets Index†	-0.83%	-26.34%	-3.65%	-2.47%	3.23%

*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.

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

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
Bajaj Finance Ltd.	9.9%
FPT Corp.	8.8%
MercadoLibre, Inc.	6.9%
DCVFMVN Diamond ETF	5.2%
Globant SA	5.0%
Wilcon Depot, Inc.	4.3%
Qualitas Controladora SAB de CV	4.2%
Bank for Foreign Trade of Vietnam JSC	4.1%
WEG SA	3.6%
NU Holdings Ltd. Class A	3.5%
Total	55.5%
<p><i>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.</i></p>	