

# Wasatch Global Opportunities Fund

DECEMBER 31, 2022

## If the Global Economy Slows, We Wouldn't Be Surprised if Our Companies Stay on the Offensive

### OVERVIEW

For the fourth quarter of 2022, the Global Opportunities Fund—Investor Class gained 4.93% but trailed the benchmark MSCI AC (All Country) World Small Cap Index, which was up 10.45%.

After losing ground for much of 2022, global equities rallied in the fourth quarter. Gains were driven by signs that inflation may have peaked in some economies, leading investors to hope that central banks would slow campaigns of interest-rate increases. Shares also rallied after news that China would loosen Covid-19 restrictions, which could boost growth in the world's second-largest economy.

On a geographic basis, the Fund's overweight to India and its stock selection within the U.S. detracted from results relative to the benchmark. Conversely, stock selection in Australia and in Belgium, where the Fund owns one stock, contributed to relative performance.

At the sector level, our holdings in the information-technology (IT) and financials sectors detracted the most from relative performance.

### FUND MANAGERS



**JB Taylor**  
Lead Portfolio Manager

11 / 26  
YEARS ON FUND / YEARS AT WASATCH



**Ajay Krishnan, CFA**  
Lead Portfolio Manager

10 / 28  
YEARS ON FUND / YEARS AT WASATCH



**Ken Applegate, CFA, CMT**  
Portfolio Manager

3 / 8  
YEARS ON FUND / YEARS AT WASATCH



**Paul Lambert**  
Portfolio Manager

3 / 22  
YEARS ON FUND / 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](http://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 1.46% / Institutional Class—Gross: 1.40%, Net: 1.35%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.35% for the Institutional Class through at least 1/31/2023.***

However, an underweight to real estate and overweight to industrials contributed to relative results, as did stock selection in the consumer-discretionary sector.

## DETAILS OF THE QUARTER

**Tata Elxsi Ltd.** was a large detractor from Fund performance during the quarter. Headquartered in Bangalore, India, the company provides design-led technology services that include software development and integration. Revenue growth for the company slipped during the quarter, but the company still grew revenues by 28% year-over-year. Tata Elxsi had been experiencing strong growth in the automotive market, winning strategic deals with both original equipment manufacturers (OEMs) and suppliers for design, technology and digital services across geographies. More recently, growth has decelerated. Still, the company's margins appear high and the stock valuation is elevated—which may be difficult to maintain. As a result, we're currently evaluating Tata Elxsi's vulnerability to disappointments going forward.

Another significant detractor was **Paylocity Holding Corp. (PCTY)**. The U.S. company provides cloud-based payroll and human-resources software targeted at smaller firms. Although Paylocity's most recent earnings release contained many positive takeaways, the U.S. Federal Reserve's (Fed) focus on the red-hot U.S. labor market as a source of inflationary pressures may have spooked some investors. Because a portion of Paylocity's pricing structure is tied to employee headcounts at customer firms, revenues are vulnerable to potential upticks in layoffs and attrition. Another factor may have been the interest Paylocity earns on the cash it holds for customers—which stands to diminish if the Fed cuts interest rates in response to a slowing economy in 2023 as some investors expect.

Another large detractor was Japanese medical-data company **JMDC, Inc.** While nothing fundamentally changed for the business, Japanese growth stocks sold off broadly after the Bank of Japan surprised markets with an announcement it would tweak its bond-yield control, which could allow long-term interest rates to rise more. Looking ahead, we continue to believe JMDC will play a vital role in helping Japan's health-care system achieve better patient outcomes through the use of data and analytics.

**Altra Industrial Motion Corp. (AIMC)** was the largest contributor to Fund performance. The stock of the U.S. industrial company was up substantially after Regal Rexnord announced it would acquire the company. Altra makes components used in power transmission products across a number of industrial end markets. We believe Altra offers an attractive mix of exposure to growth in the industrials sector and the potential for strong recurring revenue. Those factors likely played a role in making the company an attractive acquisition candidate. We sold the stock after the announcement.

Another large contributor was **Five Below, Inc. (FIVE)**. The stock of the U.S. specialty retailer was up after management announced third-quarter earnings and revenue growth that exceeded consensus expectations. Management also offered strong full-year guidance. Five Below operates a chain of specialty discount stores aimed at "tweens" and teens that sell products that cost up to \$5, plus a small assortment of products priced from \$6 to \$25. We continue to believe the company has a long runway for growth as it accelerates new store openings.

**BayCurrent Consulting, Inc.** was another significant contributor. In its most recent quarterly earnings announcement, the Japan-based business management and information-technology (IT)



consultant announced it grew revenue by 32.6% year-over-year. Heading into 2023, we continue to believe BayCurrent has a long runway for growth. Japan is behind many countries when it comes to digitalization. The pandemic and work-from-home environment underscored its need to catch up. As Japanese enterprises undertake large-scale digitalization projects, we believe domestic IT consultants such as BayCurrent have a strong home-country advantage relative to global consulting firms. *(Current and future holdings are subject to change and risk.)*

## OUTLOOK

In recent months, investors' biggest macroeconomic concern has shifted from inflation to the potential for a recession. Those concerns seem justified. While we don't believe an economic crisis is on the horizon, many indicators suggest the global economy is slowing down.

A weaker economic backdrop coupled with rising costs of capital would pose a challenge for many businesses. But this is an environment in which high-quality companies can distinguish themselves.

At Wasatch, high-quality companies have always been our focus. The companies we invest in tend to have high levels of return on invested capital (ROIC), a history of strong free cash flow generation and low leverage. Such characteristics position a business to not just withstand an economic downturn, but use it to their advantage. With a strong balance sheet and steady cash flow, a company can pull more levers to protect margins. It can also continue with strategic growth initiatives at a time when rising capital costs prevent weaker competitors from doing so.

In what's already been a challenging operating environment in 2022, we've seen many of our high-

quality companies improve their competitive positioning amid the uncertainty. For example, some of our firms made acquisitions to consolidate an industry, while others grew their sales staff to grab market share.

If the global economy enters a recession, we wouldn't be surprised if many of our companies stay on the offensive, making more moves to set themselves apart from the competition. We believe such initiatives will set our companies up for even better growth prospects coming out of a downturn.

In terms of our strategy's positioning, we head into 2023 with our largest portfolio weights in the information-technology and health-care sectors. Should the economy soften, we believe our companies in both sectors should hold up relatively well. The health-care sector is defensive by nature, as addressing critical health needs is always of paramount importance. Within the technology sector, we're invested in companies tied to secular growth trends such as data and analytics, the transition to the cloud, cybersecurity, and digital transformation. Even if firms pare back technology budgets, we believe such trends will push forward because the business rationale for them remains compelling.

In the coming months, we'll continue to monitor how these trends push forward, and assess how our companies navigate what might be a challenging economic backdrop in the early part of the year.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Ajay Krishnan, Ken Applegate and  
Paul Lambert



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Global Opportunities Fund—Investor	4.93%	-34.97%	3.96%	6.79%	8.94%
Global Opportunities Fund—Institutional	4.88%	-34.90%	4.06%	6.95%	9.05%
MSCI AC World Small Cap Index**	10.45%	-18.67%	3.18%	3.23%	7.69%

\*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 1.35% 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 and micro 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 emerging and frontier markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Investments in emerging markets are subject to the same risks as other foreign securities and may be subject to greater risks than investments in foreign countries with more established economies and securities markets.

**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](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.**



*\*\*The MSCI AC (All Country) World Small Cap Index is an unmanaged index and includes reinvestment of all dividends of issuers located in countries throughout the world representing developed and emerging markets. This index is a free float-adjusted market capitalization index designed to measure the performance of small capitalization securities. Indexes are unmanaged. Investors cannot invest directly in this or any index.*

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*The Wasatch Global Opportunities Fund's investment objective is long-term growth of capital.*

*The "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.*

*Free cash flow is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. It is the cash a company generates after spending the money required to maintain or expand its asset base.*

*Return on invested capital (ROIC) is a way to assess a company's efficiency at allocating the capital under its control to profitable investments.*

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

## GLOBAL OPPORTUNITIES FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
AU Small Finance Bank Ltd.	5.1%
BayCurrent Consulting, Inc.	4.6%
Abcam PLC	3.7%
Five Below, Inc.	3.7%
Ensign Group, Inc.	3.6%
Globant SA	3.4%
HealthEquity, Inc.	3.1%
Voltronic Power Technology Corp.	2.8%
Bank OZK	2.7%
Mindtree Ltd.	2.4%
<b>Total</b>	<b>35.1%</b>
<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>	