

# Wasatch International Select Fund

SEPTEMBER 30, 2022

## International Equities Lost Ground in a Volatile Quarter But the Fund Held Up Better Than Its Benchmark

### OVERVIEW

For the third quarter of 2022, the Wasatch International Select Fund—Investor Class declined -8.90% but was down less than its benchmark, the MSCI EAFE Index, which lost -9.36%. These returns are denominated in U.S. dollars. As such, a very strong U.S. dollar has weakened performance for both the Fund and the benchmark.

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

On a geographic basis, our holdings in France and the United Kingdom contributed to the Fund's performance relative to its benchmark. However, our holdings in Canada—which is not represented in the benchmark—detracted from relative results.

### FUND MANAGERS



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

5 / 8  
YEARS ON FUND / YEARS AT WASATCH



**Linda Lasater, CFA**  
Lead Portfolio Manager

5 / 16  
YEARS ON FUND / YEARS AT WASATCH



**Derrick Tzau, CFA**  
Associate Portfolio Manager

2 / 4  
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—Gross: 3.09%, Net: 1.30% / Institutional Class—Gross: 3.03%, Net: 0.90%.** The Advisor has contractually agreed to limit certain expenses to 1.30% for the Investor Class and 0.90% for the Institutional Class through at least 1/31/2023.*

At the sector level, our consumer-discretionary and communication-services holdings contributed to relative performance, but our holdings in the industrials sector and lack of exposure to energy stocks detracted from relative results.

## DETAILS OF THE QUARTER

The top contributor to Fund performance during the quarter was **Hermes International**. The French luxury-design house specializes in handbags, leather goods, jewelry, clothing and lifestyle accessories. Hermes is the maker of the globally famous and highly coveted Birkin bags. The firm reported strong earnings results for the first half of the year and continues to experience exceptionally strong demand for its products. We've also been encouraged by Hermes' ability to push through price increases in recent months.

**Abcam PLC** was another top contributor. The British health-care company reported strong revenue growth for the first half of 2022, up 23% from the first six months of last year. After an extended period of investment for the company, we're also starting to see profit margins widen. Abcam is a long-time holding in the Fund, and our thesis remains the same. The company provides high-quality biological reagents and tools essential to a wide range of fields and applications, including drug discovery, diagnostics and basic research. We continue to expect high demand for these products as health care innovation pushes forward.

Another contributor to performance was **Descartes Systems Group, Inc.** The company offers a range of services and cloud-based products aimed at improving organizations' logistics and supply-chain management. Descartes reported strong earnings trends during the quarter, including year-over-year revenue growth of 18%, and EBITDA (earnings before interest, taxes, depreciation and amortization) growth of 18%. Those results reinforce our optimism for Descartes' long-term prospects, and the value we believe the

company provides in an environment where businesses are still sorting through supply-chain disruptions. We also believe Descartes' management team has a great track record of acquiring software companies with capable talent and strong cash flows.

**CAE, Inc.** was the largest detractor from Fund performance during the quarter. The Canadian company provides training services for civil and defense customers globally. In particular, the company enables airlines to lower their operating costs by outsourcing pilot-training programs. CAE's stock was down after the company announced it had to revise two U.S. defense contracts, which would cost CAE \$28.9 million. Despite the near-term hit to earnings, we continue to like CAE's long-term earnings potential. Management has made a concerted effort to strengthen the company's long-term competitive position and we expect airlines to rely more heavily on CAE for flight training as a result.

**JMDC, Inc.** also detracted. Management's plan to raise additional capital has weighed on the stock of the Japan-based medical-data company, but we continue to like its long-term growth potential. We 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.

A health-care company that detracted was **ICON PLC (ICLR)**, a contract provider of clinical-research services to global biotechnology and pharmaceutical firms. ICON's services include overseeing clinical studies, managing data, consulting on regulatory issues, and assisting in the development of pharmaceuticals through the use of centralized laboratories. Concern about the funding market for biotech companies likely weighed on the stock, but so far ICON's backlog of orders for services continues to grow. We also like that the company has accelerated paying down its debt from a prior acquisition. In our view, ICON is a



less risky way to invest in biotech innovation. Unlike a biotech startup, whose success or failure may hinge on the results of a clinical trial for a single therapy, ICON benefits from innovation more broadly, and from the growing number of companies bringing new treatments to market. *(Current and future holdings are subject to risk.)*

## OUTLOOK

There are an increasing number of concerns impacting markets including inflation, rising interest rates, the war in Ukraine, and likely recessions in many economies around the world. These forces create uncertainty and have led to significant volatility and weakness in markets globally.

Wasatch has invested through a variety of market environments over our 47-year history. Our success has been founded upon a laser focus on individual companies. We have a deep understanding of our businesses. This enables us to take advantage of volatility, using market weakness to add to our position sizes in companies for which we have a high degree of conviction.

Our investment philosophy is based upon identifying high-quality, long-duration growth companies. Economic downturns and times of uncertainty like we've encountered recently are when the quality of a company matters most. We believe firms with strong balance sheets, low debt

levels and cash generative business models can weather an economic storm. They can also continue with self-funded growth initiatives at a time when the rising cost of capital prevents their competitors from doing so.

These high-quality factors should help our companies not only survive an economic downturn but also thrive in the future. We've seen our companies use the challenging environment to their advantage by consolidating an industry or taking market share from weaker competitors, for example. In turn, we believe these actions should set our companies up for even better growth prospects over the medium to long term.

Looking ahead, we won't try to predict when the economy, or stock markets, will rebound. But markets are already pricing in a dire scenario with portfolio valuations near their lowest level since the Fund's inception in October 2019.

With a portfolio stacked full of what we believe are exceptional investment opportunities, we're extremely excited about the Fund's prospects over the next three to five years.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Linda Lasater and Derrick Tzau



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2022

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
International Select Fund—Investor	-8.90%	-40.51%	-3.81%	N/A	-3.81%
International Select Fund—Institutional	-8.81%	-40.33%	-3.42%	N/A	-3.42%
MSCI EAFE Index†	-9.36%	-25.13%	-1.83%	N/A	-1.83%

\*Returns less than one year are not annualized.

\*\*The Wasatch International Select Fund's inception date was October 1, 2019.

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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 1.30% for the Investor Class and 0.90% 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.

Investing in foreign securities, especially in frontier and 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](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.*

Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline.



\*The MSCI EAFE Index is an unmanaged index and includes reinvestment of all dividends of issuers located in 21 developed-market countries, excluding the U.S. and Canada. This index is a free float-adjusted market capitalization index designed to measure the performance of mid-cap and large-cap securities. Indexes are unmanaged. Investors cannot invest in this or any index.

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The Wasatch International Select 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.

The net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio measures a company's ability to pay off its debt.

Return on equity (ROE) measures a company's efficiency at generating profits from shareholders' equity.

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

## INTERNATIONAL SELECT FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2022

Security Name	Percent of Net Assets
BayCurrent Consulting, Inc.	6.5%
JMDC, Inc.	6.1%
CAE, Inc.	5.9%
Amadeus IT Group SA, Class B	5.5%
ICON PLC	5.4%
Assa Abloy AB, Class B	5.0%
Dassault Systemes SE	4.6%
Abcam PLC	3.8%
Dollarama, Inc.	3.8%
Halma PLC	3.7%
Total	50.4%

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.