



ESG at Wasatch Global Investors

An Integral Lens Within A Tried-And-True Investment Philosophy

SEPTEMBER 8, 2022

As a long-term investor, Wasatch has always sought to invest in companies with sustainable competitive advantages and best-in-class management teams. We believe that being a fiduciary to our clients means evaluating companies through a lens of sustainable long-term financial returns. While we haven't always labeled this deep due diligence as "ESG Integration," we've long believed that sustainable competitive advantages stem from companies that focus on creating long-term value for all stakeholders.

Given this focus, we believe we're well-positioned to organically incorporate formalized Environmental, Social and Governance (ESG) factors into our fundamental due diligence of individual companies. While we generally



avoid taking a moral stance on ESG issues, we believe ESG factors can impact long-term, risk-adjusted returns and integrating these factors into the due-diligence process is imperative to finding exceptional businesses. It's important to note that the incorporation of ESG factors doesn't change our investment objectives or constrain our investable universe. Rather, we believe ESG factors are an important piece in our mosaic approach to investment research. This paper explores Wasatch's ESG evolution and how we've enhanced our research processes over time to formally incorporate ESG factors.

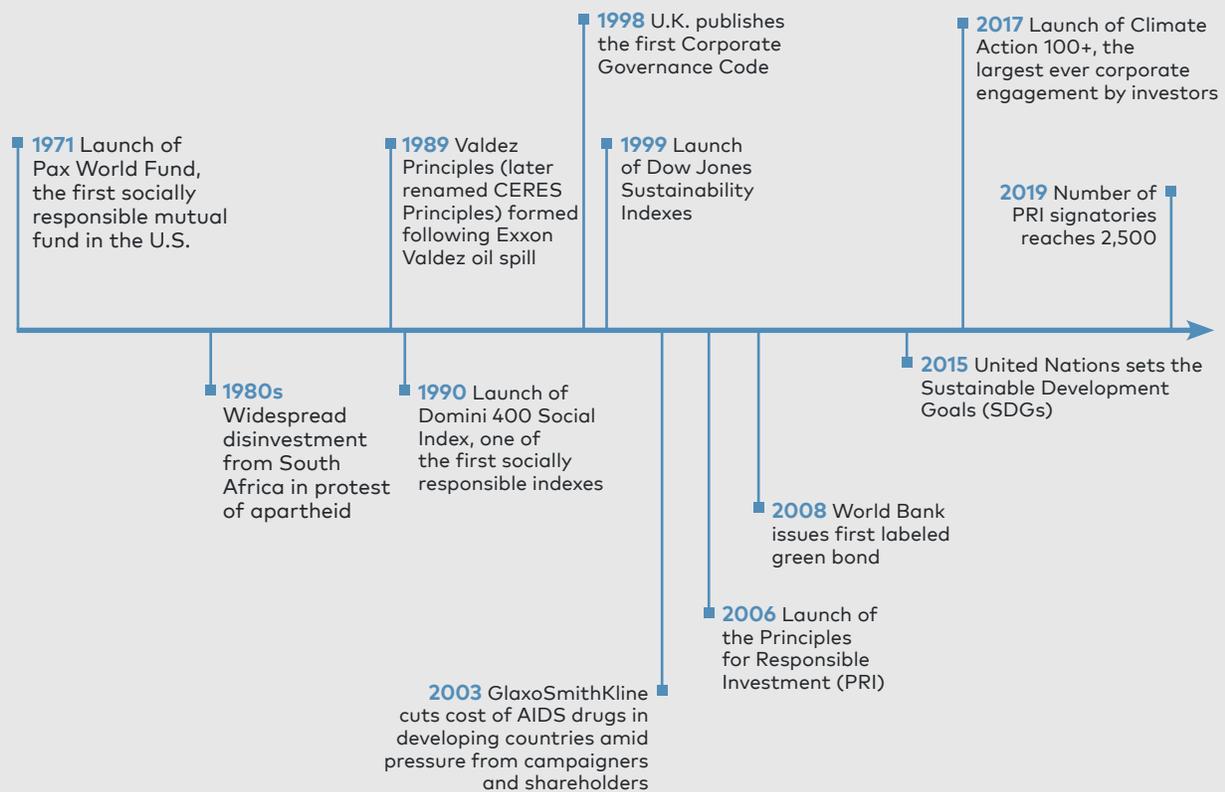
Before we fully explore ESG at Wasatch, let's take a step back and review the seemingly recent rise in ESG investing.

ESG: LATEST FAD OR HERE TO STAY?

While many consider ESG to be a new trend in the investing world, it's not as new as one might be led to believe. Yes, ESG has made headlines and become more mainstream in recent years. The proliferation of so-called "impact investments" has caused investors—and regulators alike—to pause and take stock of the situation. Is ESG investing the way of the future or a transitory fad?

While ESG investing isn't a new phenomenon, its origins are largely rooted in the use of exclusionary screens (not investing in a particular stock or industry) as opposed to the myriad of approaches used in today's ESG environment.

Figure 1: Timeline of Key Milestones For Responsible Investment



Source: United Nations Principles for Responsible Investment.

Socially Responsible Investing (SRI)—investing based on ethical considerations—in the United States traces its origins to 18th century religious groups. ESG investing—as we understand it today—began ramping up in the 1970s with the launch of the Pax World Fund, the first socially responsible mutual fund in the United States. **Figure 1** above provides a timeline of key milestones in the evolution of responsible investment globally.

In recent years, ESG has become increasingly important to investors and regulators as we collectively attempt to navigate unprecedented global events. The call for companies to act in the best interest of people and our planet—in addition to posting strong returns—has grown stronger.

Investors around the world, for example, increased their sustainable investments by 15% between 2018 and 2020 as

Figure 2: Snapshot of Global Assets Under Management And the Percentage of Sustainable Investments in 2016, 2018 and 2020 (In billions of U.S. dollars)

REGIONS (Europe, the U.S., Canada, Australia, New Zealand and Japan)	2016	2018	2020
Total Assets Under Management (AUM) of Regions	81,948	91,828	98,416
Total Sustainable Investments only AUM	22,872	30,683	35,301
Percent of Sustainable Investments	27.9%	33.4%	35.9%
Increase in Percent of Sustainable Investments (compared to prior period)		5.5%	2.5%

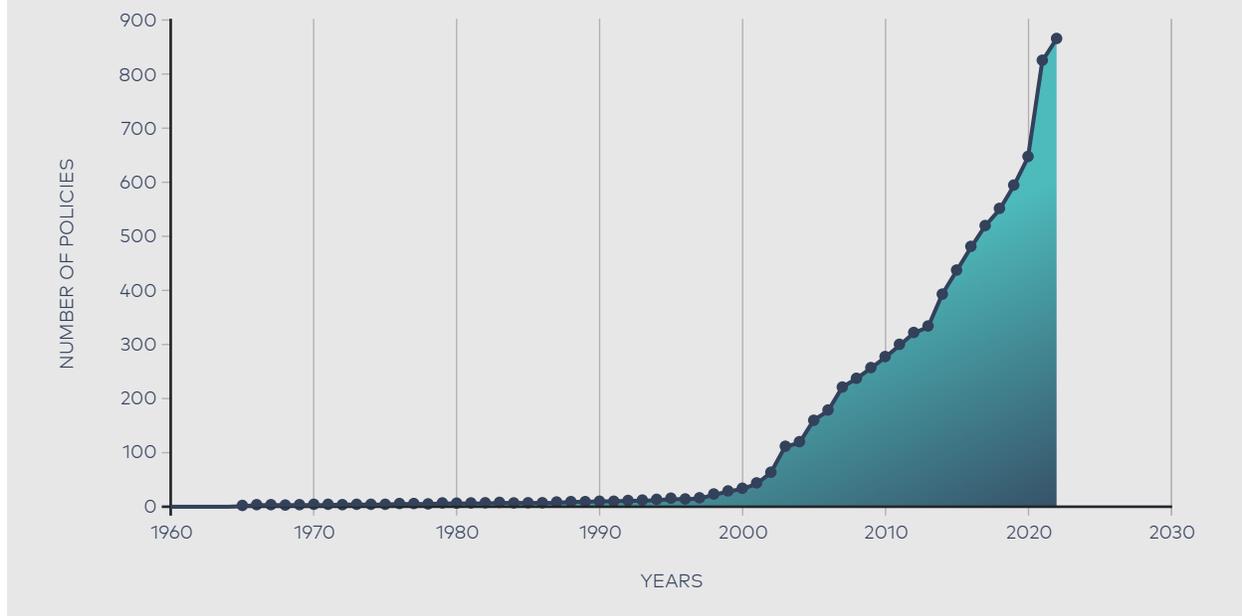


35.9% of total assets under management are sustainable investments as of 2020.

Source: Global Sustainable Investment Alliance, Global Sustainable Investment Review 2020.

Figure 3: Cumulative Number of Policy Interventions

FROM 1960 THROUGH 2022



Source: United Nations Principles for Responsible Investment.

illustrated in **Figure 2** on page 2. Bloomberg estimates that assets in sustainable investments are poised to reach \$41 trillion in U.S.-dollar terms by the end of 2022.

These trends have left regulators around the world scrambling as they attempt to protect investors while also addressing global challenges. As illustrated in **Figure 3** above, national and international regulation surrounding responsible investment has increased significantly, particularly in recent years.

While approaches to ESG investing may vary investor to investor, it appears that ESG is here to stay.

APPROACHES TO ESG INVESTING

There are many approaches to ESG investing, each characterized by different objectives, as illustrated in **Figure 4** on page 4. This is not an exhaustive list but provides a simple overview of key approaches utilized in the asset-management industry. At Wasatch, we believe ESG integration is the appropriate choice for our investment philosophy and performance objectives.

WASATCH'S HISTORY AND APPROACH TO INVESTING

To fully understanding how and why we use an ESG lens in our due diligence, it's important to understand Wasatch's history and approach to investing.

Wasatch was founded in 1975 to manage assets in a style that relies on intensive, fundamental research of individual companies. Our research pointed to earnings growth as an essential indicator of future stock prices—a premise that remains the underlying core of our investment philosophy today. Our research team is made up of experienced investment professionals who seek to understand each company from the bottom up through in-depth analysis and assessing the long-term growth potential and value of each investment we make. We look for companies with strong financials, sustainable competitive advantages and industry-best management teams.

We've always believed that having a deep understanding of our companies is integral as we strive to achieve superior risk-adjusted returns for clients. It's why we travel extensively to meet with management teams, and contact competitors, suppliers and customers to build our mosaic of knowledge about each company. We strive to know any and all information that may impact how our companies perform and we believe ESG factors are an important piece of this mosaic.

OUR ESG PROGRESSION

Using deep due diligence to understand the relevant risks and opportunities facing our companies is not a new concept for us, so as the industry increasingly focused

Figure 4: A Selection of Approaches to ESG Investing

Competitive Returns					
Responsible Investment					
Impact Investing					
Targeted ESG Impact					
	TRADITIONAL	INTEGRATION	SCREENING	THEMATIC	IMPACT FIRST
FOCUS	Limited / Not focused on ESG factors	Using ESG information in investment process at the portfolio / sector / issuer level	Negative / exclusionary screening Positive / best-in-class screening	Asset selection focused on sustainability issues such as clean energy, education or water	Intention to generate specific environmental and social outcomes in addition to financial returns
EXAMPLES	<ul style="list-style-type: none"> Traditional market-cap based strategies Absolute return strategies 	<ul style="list-style-type: none"> Traditional funds with ESG integration in the investment process 	<ul style="list-style-type: none"> Ethical Funds SRI Funds 	<ul style="list-style-type: none"> Clean energy fund EM health-care fund Microfinance structured debt fund 	<ul style="list-style-type: none"> Capital provision fund to social enterprise / charities

Source: Adapted from United Nations Principles for Responsible Investment (2013).

on ESG as an investment discipline, we were naturally equipped to begin a formal ESG program.

In 2014, we engaged a third-party ESG data provider as an initial step to begin formally incorporating environmental, social and governance factors into our investment research process. Over the next several years, we made considerable strides in building the foundation for our ESG program—we published an ESG statement (a precursor to our current ESG & Responsible Investment Policy), established an ESG Committee and became a signatory to the United Nations Principles for Responsible Investment (UNPRI).

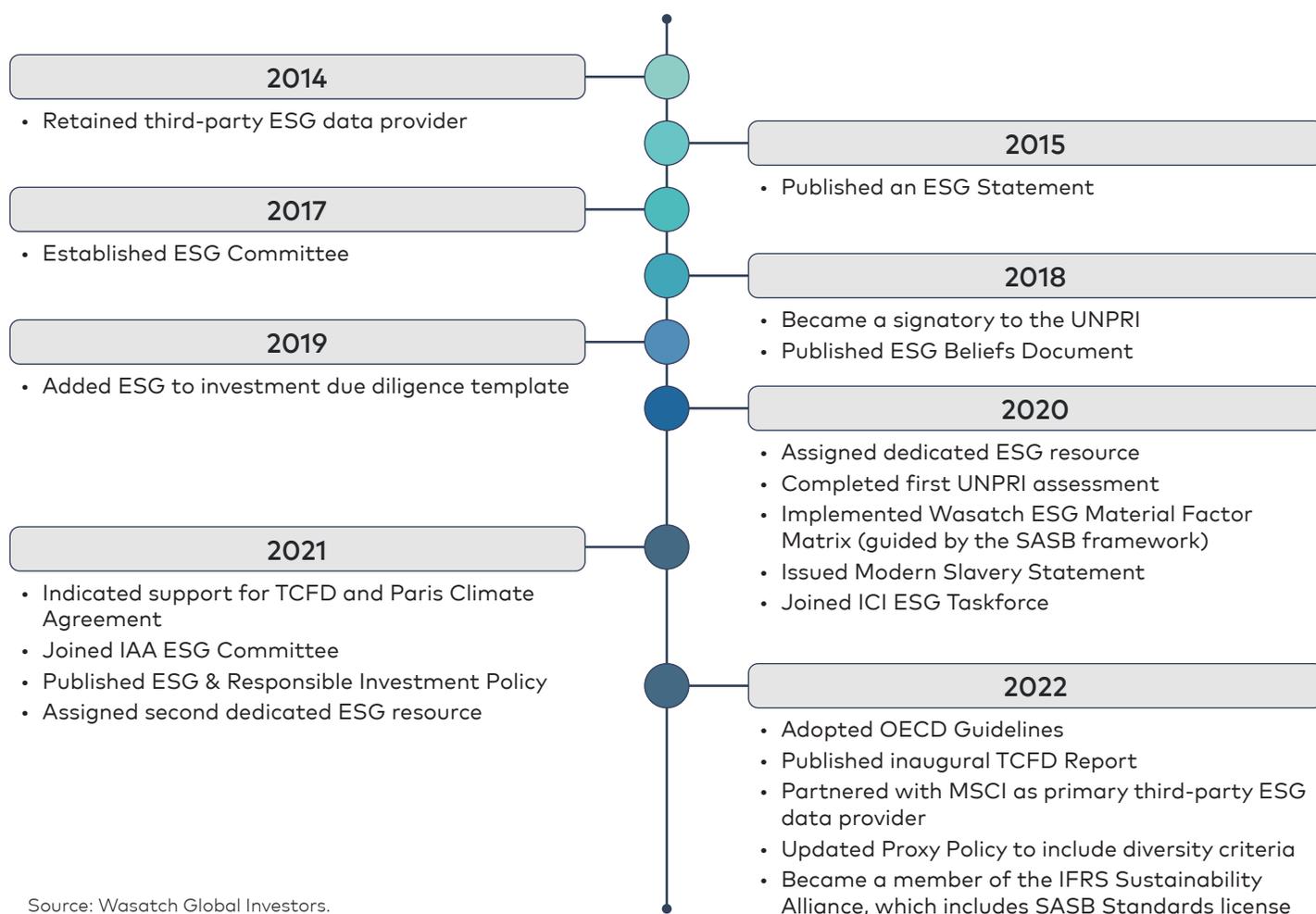
Over the course of the last three years, formalization of our ESG program has accelerated. **Figure 5** on page 5 shows key highlights of the evolution of our ESG practices. While we know there’s always additional work to do, we’re proud of the progress we’ve made in formalizing how we integrate ESG into our research process.

HOW WE INTEGRATE ESG

Our investment research process is built on the idea of Multiple Eyes™—we believe that two (or more) sets of eyes



Figure 5: Timeline of Key ESG Milestones at Wasatch



Source: Wasatch Global Investors.

are better than one. We believe this collaborative approach results in an open and engaged team and more thoughtful investment decisions. Our approach to ESG integration is no different.

A high-level overview of how we integrate ESG into our investment research process is shown in **Figure 6** on page 6 and explained in more detail throughout this paper.

Portfolio Managers & Analysts

Our portfolio managers and analysts are primarily responsible for identifying financially material ESG factors during their due diligence on individual companies. They strive to possess a deep and holistic understanding of each company they seek to own, including key growth drivers, opportunities and risks. We believe considering ESG factors in this process adds another lens that deepens our understanding of individual companies. ESG work is completed during initial and ongoing due diligence of our current holdings and prospective investments.

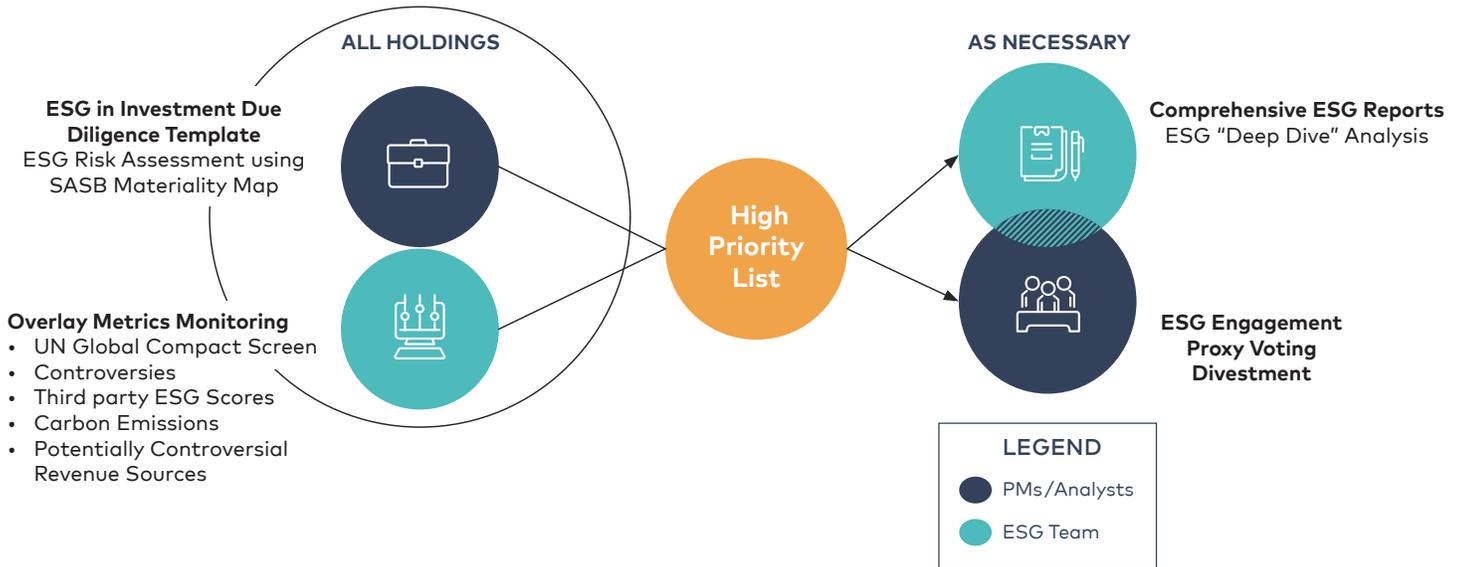
Material ESG risks or opportunities are documented in the firm's research-management system and monitored alongside traditional financial metrics. Portfolio managers and analysts are prompted to record their findings by a dedicated ESG section in the firm's standardized due diligence template. To promote consistency in ESG factor consideration among the research team, we've adopted the standards established by the Sustainability Accounting Standards Board (SASB).

ESG Team

To support our portfolio managers and analysts, Wasatch utilizes a dedicated ESG team that sits within the research department. The ESG team completes specialized ESG due diligence, monitors and reports third-party ESG metrics, hosts training sessions and provides process support.

Completing specialized, bottom up ESG due diligence is a primary function performed by the ESG team. Our ESG analysts produce "Comprehensive ESG Reports" for a

Figure 6: How Wasatch Integrates ESG into The Research Due Diligence Process



Source: Wasatch Global Investors.

selection of our holdings as a result of this specialized ESG due diligence. Our ESG team uses a metrics-monitoring dashboard to prioritize holdings based on potential ESG risk exposures. This list is referred to as the "High Priority List," and helps the team prioritize where to focus their due diligence efforts. The dashboard includes several factors such as third-party ESG ratings and various ESG metrics. Our ESG team will also complete comprehensive ESG reports on specific holdings as requested by the research team, regardless of "Priority List" status.

These Comprehensive ESG Reports include a thorough review of third-party ESG analysis and metrics, alongside company-disclosed materials. The analysis is primarily intended to identify and describe the ESG risks or exposures facing a business and any actions the company is taking to mitigate these risks. Once complete, the ESG team relays key findings to the portfolio managers and analysts who—based on their judgment of materiality—have discretion as to how best to incorporate the findings into the risk/return profile of each individual security. All Comprehensive ESG Reports are stored in the firm's research-management system.

Engagement & Escalation

If questions or concerns related to a holding's ESG practices arise from our ESG due diligence, our portfolio managers and analysts have discretion to engage with company

management to better understand how they're addressing ESG factors in their business. We don't seek to be activist investors, but instead we view ESG engagement as an additional tool to better understand the risks and opportunities facing our holdings. We document ESG engagements in our research-management system as part of our investment-research process.

In addition to engaging with company management, we believe proxy voting plays an important role in encouraging appropriate corporate governance and policies. We've established a proxy-voting policy intended to maximize shareholder value, and where relevant, address financially material ESG factors.

Although a rare occurrence, our portfolio managers, after considering all relevant factors, have discretion to divest of a holding if they determine the ESG risks facing a company are material and outweigh the return profile.

ESG OVERSIGHT

At Wasatch we believe it's imperative to be honest and transparent about our ESG practices. To that end, we've established various oversight and audit functions of our ESG efforts as outlined in our ESG & Responsible Investment Policy (available upon request).

In addition to supporting the research team, our ESG team is responsible for implementing ESG initiatives across the firm and reporting progress to the ESG Committee.

Wasatch's ESG Committee is comprised of senior team members from all areas of the firm, including portfolio management and executive leadership. The Committee meets on a quarterly basis to review a summary of our ESG efforts. The ESG Committee reports quarterly to Wasatch's Investment Risk Committee, which in turn reports to the Wasatch Board of Directors.

Lastly, our ESG efforts are audited annually by Wasatch's internal audit team as part of the firm's annual compliance program review.

SUSTAINABILITY AT WASATCH

Wasatch believes it's important to espouse the same sustainable practices at our firm that we encourage in our portfolio companies. To this end, Wasatch established a Sustainability Committee in 2019, which is responsible for identifying, measuring and reporting our exposure to climate-related risks in our operations.

One of the Sustainability Committee's initiatives is aimed at lessening the firm's carbon footprint. Through this initiative, Wasatch has installed electric car charging stations, reduced single-use plastics, increased recycling and made progress toward reducing the negative environmental impact of the firm's day-to-day operations.

Wasatch is proudly carbon neutral as of September 2021. Approximately 40% of our office building's electricity consumption is obtained through solar power, with the remainder being covered by the purchase of carbon offsets. We also utilize offsets to cover our corporate flights. Our goal is to reduce our emissions as much as possible. We aim to gradually move toward 100% solar energy for our office building.

We also intend to publish annual reporting and disclosure in accordance with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). We published our first TCFD report in March of 2022.

COMMUNITY ENGAGEMENT

At Wasatch, our founding principles include teamwork, integrity, gratitude and maintaining a long-term perspective. We believe these are hallmarks of a well-run business and can be catalysts for social good.

We seek to engage with, and have a positive influence on, the communities in which we live and work. To that end, we offer a generous charitable gift matching program and organize group volunteer efforts with local charities such as the Utah Food Bank, the Ronald McDonald House, the International Rescue Committee and others.

PUTTING IT ALL TOGETHER

With global markets becoming increasingly focused on social and environmental issues, we believe ESG is here to stay. While integrating ESG factors into our due diligence does not change our investment objectives or limit our investable universe, it does provide our investment professionals with an additional lens through which to view our holdings. We believe integrating ESG analysis into our existing framework has the potential to enhance returns and minimize risk in our investment portfolios over long-term investment horizons by adding to our mosaic of knowledge about each holding.

As a firm, we're passionate about our culture and recognize its importance in achieving investment objectives for our clients. Our cultural principles guide our firm and our investment process.

We're grateful to have earned the trust of our clients as they place their assets in our care. We fully understand the magnitude of our role as a fiduciary and place this responsibility above all else.



ABOUT THE ESG TEAM

Wasatch's dedicated ESG team is comprised of specialized ESG analysts. The ESG team sits within the research department and implements ESG initiatives across the firm, reporting progress to Wasatch's ESG Committee. The ESG team supports portfolio managers and analysts by completing specialized ESG due diligence, monitoring and reporting third-party ESG metrics, hosting training sessions and providing process support.



Candace Dechant, CFA

Lead ESG Analyst

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Years of Experience / Years at Wasatch

Ms. Dechant joined Wasatch Global Investors in 2017 as an Analyst on the U.S. small cap research team. In 2020, she was appointed to be a dedicated Environmental, Social and Governance (ESG) Analyst, serving all of Wasatch's equity investment strategies.

Prior to joining Wasatch, Ms. Dechant was an equity research analyst for Goldman Sachs, where she followed companies in the medical-device and clean-energy industries.

Ms. Dechant earned a Bachelor of Science in Industrial and Systems Engineering from the Viterbi School of

Engineering at the University of Southern California. She is also a CFA charterholder.

Candace was born and raised in Canada. She is an avid golfer and enjoys running and skiing.



Carly Carrier

ESG Analyst

8 / 2
Years of Experience / Years at Wasatch

Ms. Carrier joined Wasatch Global Investors in 2019 as a Client Relations and Marketing Analyst, supporting Wasatch's client-relations managers and the marketing team. In 2021, she was appointed to be a dedicated Environmental, Social and Governance (ESG) Analyst, serving all of Wasatch's equity investment strategies.

Prior to joining Wasatch, Ms. Carrier was an operations associate in private-wealth management at Goldman Sachs.

Ms. Carrier graduated magna cum laude from the University of Utah with a Bachelor of Science in Communication and minors in Business and English.

Carly is an avid vocalist and has sung in a variety of top choral ensembles. She enjoys spending time with her family and two dogs.

Wasatch's Guiding Frameworks & Industry Affiliations

<p>UN Principles for Responsible Investment (UNPRI) International organization working to promote the incorporation of environmental, social and governance factors into investment decision-making, where it's consistent with fiduciary responsibilities.</p>	<p>Investment Company Institute (ICI) ESG Task Force Task force focused on engaging on global policymaking activity around issues related to ESG/sustainable investing, including regulations on the implementation of responsible investment and ESG disclosures by asset managers.</p>
<p>Task Force on Climate-Related Financial Disclosures (TCFD) Framework that organizations can use to publicly disclose the climate-related risks and opportunities to their businesses.</p>	<p>Investment Adviser Association (IAA) ESG Committee Committee that helps guide advocacy efforts on sustainable investing and developing industry positions on ESG-related regulatory proposals affecting investment advisors; also provides a forum for member consideration of ESG-related policy, regulatory and compliance issues.</p>
<p>Organization for Economic Co-operation and Development Guidelines for Responsible Business Conduct (OECD Guidelines) Government-backed recommendations on responsible business conduct to encourage sustainable development.</p>	<p>Paris Climate Agreement Legally binding international treaty that includes commitments from countries to reduce emissions, work together to adapt to the impacts of climate change, and strengthen their commitments over time.</p>
<p>SASB (Sustainability Accounting Standards Board) Standards Standards developed to provide a common language about the financial impacts of sustainability.</p>	<p>IFRS Sustainability Alliance Global membership program for sustainability standards, integrated reporting and integrated thinking. Members receive tools to advance their understanding of the IFRS Sustainability Disclosure Standards, including the SASB Standards.</p>

DISCLOSURES

The foregoing is provided for informational purposes only to highlight the practices of Wasatch Global Investors related to ESG integration at the firm and in the investment research process. While Wasatch believes ESG metrics are important factors to consider during its research process, these factors should not be taken in isolation but should be viewed within the broader context of the stock evaluation and selection process. Adherence to global ESG frameworks does not necessarily alter long-standing investment strategies.

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