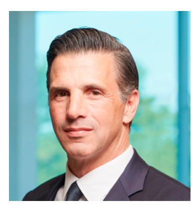
WASATCH GLOBAL INVESTORS

Market Scout

JANUARY 10, 2023

Valuations and Stock-Price Trends May Forecast a Parting of Clouds in 2023

While valuations relative to long-term growth prospects are central to our investment process at Wasatch, stock-price trends can also be important in setting the stage for future market performance.



Eric Bergeson
President
Wasatch Global Investors

DEAR INVESTORS:

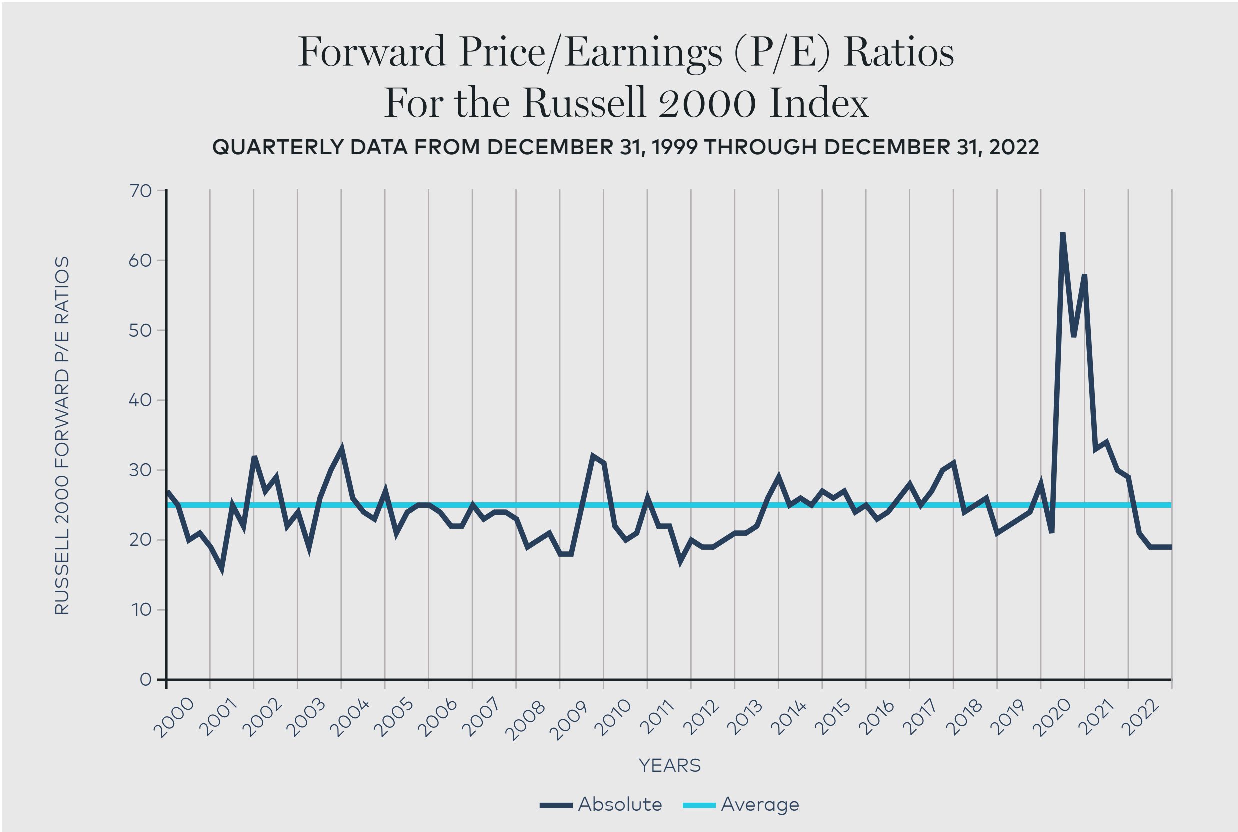
Equity markets sold off broadly in 2022, but pain was particularly acute for small-cap stocks. The Russell 2000® Index of U.S. small-caps fell -20.44%, and the Russell 2000 Growth Index lost -26.36%. After such sharp declines, the small-cap segment may deserve a closer look.

The following charts depict small-cap valuations and how the 2022 market downturn compares to declines in previous years. Our conclusion is that we think this might be an attractive time to establish or increase an allocation to small-cap equities.

SMALL-CAP VALUATIONS APPEAR TO BE AT SOME OF THE MOST ATTRACTIVE LEVELS IN A DECADE

For investors considering an allocation to small-cap equities, current valuations may offer an attractive entry point. After 2022's market selloff, the forward price/earnings (P/E) ratio of the Russell 2000 Index hit its lowest level in a decade and is well below its long-term average.

In the chart below, the dark blue line shows the Index's P/E ratio, based on fiscal-year forward earnings, from December 31, 1999 through December 31, 2022. The light blue line is the Russell 2000's average P/E ratio over the same time period.



Source: FactSet. Past performance is not indicative of future results. Indexes are unmanaged. Investors cannot invest directly in this or any index.

SMALL-CAP VALUATIONS COULD ALSO BE ATTRACTIVE RELATIVE TO LARGE-CAP VALUATIONS

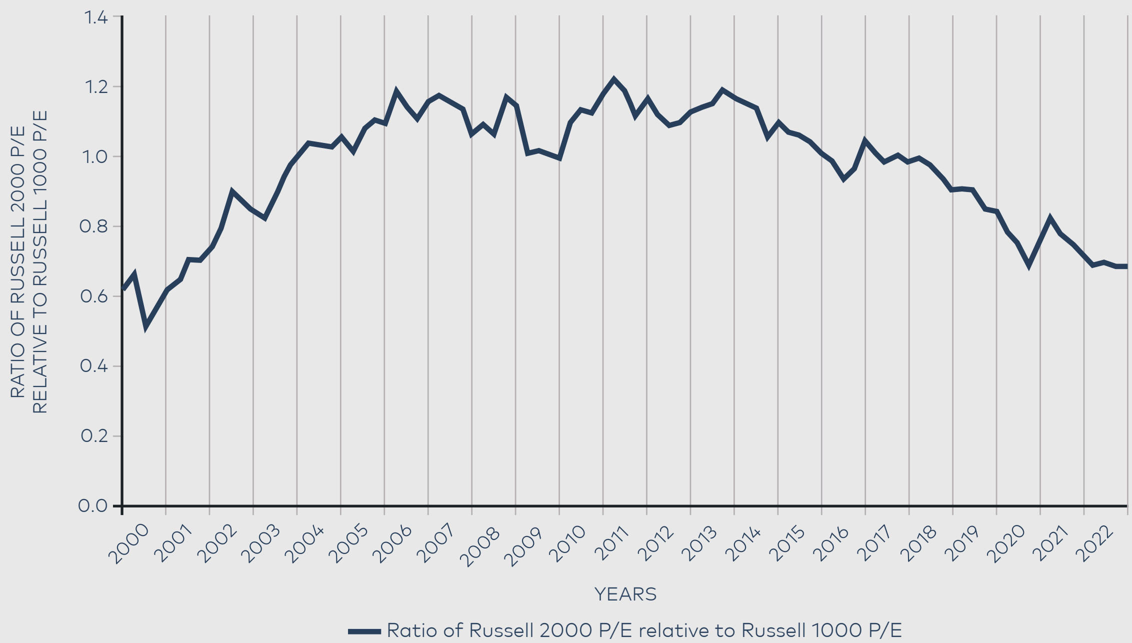
Another way to assess the attractiveness of small-cap stocks is to compare their valuations to those of large-cap equities. Based on this comparison, small-caps currently look relatively inexpensive. The chart below depicts how the valuations of the two market-cap segments have compared over time.

The dark blue line represents the Russell 2000 Index forward P/E ratio divided by the Russell 1000® Index forward P/E ratio. In other words, the line shows the relative levels of the two indexes' P/Es. For each index, the P/E ratio is the weighted-average based on fiscal-year forward earnings of all companies—with positive earnings—in the respective index. In the chart, the lower the line is, the more attractive small-cap valuations seem to be relative to large-cap valuations.

Relative Valuations Based on Forward P/Es—Ratio of Russell 2000 Index P/E Divided by Russell 1000 Index P/E

INCLUDES ONLY COMPANIES WITH POSITIVE EARNINGS IN EACH INDEX

QUARTERLY DATA FROM DECEMBER 31, 1999 THROUGH DECEMBER 31, 2022



Source: FactSet. For both indexes, the P/E is the weighted-average P/E ratio, based on fiscal-year forward earnings, of all companies with positive earnings within the respective index. Past performance is not indicative of future results. Indexes are unmanaged. Investors cannot invest directly in these or any indexes.

2022 WASN'T JUST A BAD YEAR . . . IT WAS A HISTORICALLY BAD YEAR

The chart below depicts all of the calendar years in which the Russell 2000 had negative returns since the Index began in 1984. As you can see, 2022 was one of the worst calendar years for the Russell 2000 in the history of the Index.

In the past, when a calendar year showed a negative return, the following calendar year's return was usually positive—and often quite significantly so. Past performance is no guarantee of future results, but the severity of 2022's downturn may have set the stage for a better small-cap return profile in 2023.

Russell 2000 Index Negative Calendar Years And Following Calendar Years

Calendar Year	Calendar-Year Return	Following Calendar-Year Return
2008	-33.8%	27.2%
2002	-20.5%	47.3%
2022	**-20.4%**	**TBD**
1990	-19.5%	46.0%
2018	-11.0%	25.5%
1987	-8.8%	25.0%
1984	-7.3%	31.0%
2015	-4.4%	21.3%
2011	-4.2%	16.3%
2000	-3.0%	2.5%
1998	-2.5%	21.3%
1994	-1.8%	28.5%
2007	-1.6%	-33.8%

Source: FactSet. Past performance is not indicative of future results. Indexes are unmanaged. Investors cannot invest directly in this or any index.

CONDITIONS WERE ESPECIALLY HOSTILE FOR THE WASATCH INVESTMENT APPROACH

The preceding charts characterize U.S. small-caps in general. Regarding Wasatch in particular, 2022 presented several of our strategies with the most hostile set of conditions for our investment approach in over 20 years. There were two main reasons for this:

1. During 2022, stocks experienced the combination of inflation and sharply higher interest rates. Rising rates usually have an outsized impact on the stock prices of small-cap growth companies—such as those favored by Wasatch—because their cash flows are typically weighted further into the future.
2. Wasatch is normally underinvested in energy, materials and utilities—which were generally the best-performing sectors during 2022. For energy and materials companies, the negative effects of higher interest rates were offset as inflation boosted the market prices of their products. Utilities also held up well because they're essentially monopolies whose profitability is largely controlled by regulators.

While 2022's headwinds were significant, we don't think the same conditions will continue during 2023 and beyond. In short, we believe the benefits of *high-quality* small-cap growth companies will reassert themselves—especially if the economy slows. Some of the most important elements of *quality* are reasonable debt levels, strong cash flows and management teams that can navigate inevitable challenges. You can read more about what occurred during 2022 in our latest strategy and fund commentaries, which are available on our website at ***wasatchglobal.com***.

WASATCH'S AJAY KRISHNAN FEATURED IN *BARRON'S* FIRST INDIA ROUNDTABLE

On November 18, 2022, *Barron's* magazine ran a roundtable discussion, "13 Ways to Invest in India, the World's Fastest-Growing Major Economy, According to Our Roundtable Pros." Ajay Krishnan, Wasatch's head of emerging markets investing and the Lead Portfolio Manager of the Wasatch Emerging India strategy and fund, was one of four experts who participated in the discussion moderated by Associate Editor Reshma Kapadia.

The roundtable concludes with this observation from Ajay: "In almost any direction you turn in India, there is growth. I'm looking for high-quality management and companies that generate substantial returns on capital, are run in an ethical manner, and treat stakeholders well. When you require all four characteristics, the universe of investible companies will shrink, but there is still tremendous opportunity."

To view the complete *Barron's* roundtable discussion, please go to the News & Insights section of our website at ***wasatchglobal.com***.

INDIA AND GREATER CHINA

In emerging markets, we're finding companies with particularly attractive valuations and enormous headroom for growth—which can be a powerful combination. Our new white paper focuses on India and the Greater China region (China, Hong Kong and Taiwan)—which account for a large portion of our emerging-market investments at Wasatch. Here are some of the key takeaways from the paper:

- There's enormous scope for India, Greater China and other emerging markets to increase their gross domestic product (GDP) per capita relative to the U.S. and relative to other developed nations.
- In India, we believe the megatrends of digitalization, financialization, formalization and industrialization should be particularly beneficial for our holdings.
- India's rapid advancement is based on a confluence of positive developments including public initiatives such as the massive Goods and Services Tax reform and private ventures such as Reliance Jio, which has created India's low-cost, high-tech infrastructure for mobile phones.
- Like the U.S. in the 1980s, India is currently experiencing the long-term effects of changing government priorities—which have accelerated under Prime Minister Narendra Modi.
- China has a rapidly growing economy that's less dependent on exports than many casual observers assume.
- Outside of semiconductor production, which is still in a nascent stage, China already has a large and deep range of investable companies across market capitalizations.
- In evaluating a Chinese company for purchase, the impacts of the firm's products and services on the broader social good must be carefully considered.
- To the extent that recent events in China foreshadow a more activist role for the government in determining how businesses are run, returns on capital—compared to those in India, for example—may remain compressed.

To read the full white paper, please visit the News & Insights section of our website at ***wasatchglobal.com***.

WASATCH NAMED IN *PENSIONS & INVESTMENTS* "BEST PLACES TO WORK IN MONEY MANAGEMENT"

In conclusion, we'd like to note that Wasatch Global Investors was acknowledged as one of the "Best Places to Work in Money Management" by *Pensions & Investments* on December 12, 2022. *P&I* dedicated the 11th annual survey and recognition program to identifying the best employers in the money-management industry. *Pensions & Investments* is a global news source for the industry.

"As their employees attest, the companies named to this year's Best Places to Work list demonstrate a commitment to building and maintaining a strong workplace culture," said *P&I* Executive Editor Julie Tatge. "Even as firms grappled with volatile markets and stresses from the pandemic, their employees said they felt strong support from their managers, enabling them to do their best work."

Pensions & Investments partnered with Best Companies Group to collect and analyze survey data to identify companies that stood out for their efforts to create a culture that supports employees and fosters their best work. For more information about the 2022 list, please go to ***pionline.com/best-places-to-work/2022***.

With sincere thanks for your continuing investment and for your trust,

Eric Bergeson

RISKS AND DISCLOSURES

Mutual-fund investing involves risks, and the loss of principal is possible. Investing in small-cap funds will be more volatile, and the loss of principal could be greater, than investing in large-cap or more diversified funds. Investing in foreign securities, especially in 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.

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflect the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. **Past performance is no guarantee of future results, and there is no guarantee that the market forecasts discussed will be realized.**

Wasatch Advisors LP, trading as Wasatch Global Investors ARBN 605 031 909, is regulated by the U.S. Securities and Exchange Commission under U.S. laws which differ from Australian laws. Wasatch Global Investors is exempt from the requirement to hold an Australian financial services licence in accordance with class order 03/1100 in respect of the provision of financial services to wholesale clients in Australia.

The investment objective of the Wasatch Emerging India Fund is long-term growth of capital.

Wasatch Advisors LP, doing business as Wasatch Global Investors, is the investment advisor to Wasatch Funds.

Wasatch Funds are distributed by ALPS Distributors, Inc. (ADI). Eric Bergeson is a registered representative of ADI. ADI is not affiliated with Wasatch Global Investors.

DEFINITIONS

Gross domestic product (GDP) *is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.*

GDP per capita *is a measure of the total output of a country that takes the GDP and divides it by the number of people in the country.*

The **price/earnings (P/E) ratio**, *also known as the P/E multiple, is the price of a stock divided by its earnings per share.*

Return on capital *is a measure of how effectively a company uses the money, owned or borrowed, that has been invested in its operations.*

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

The **Russell 1000 Index** *is an unmanaged total return index of the largest 1,000 companies in the Russell 3000 Index. The Russell 1000 typically comprises about 92% of the total market capitalization of all listed stocks in the U.S. equity market. It is considered a bellwether index for the performance of large company stocks.*

The **Russell 2000 Index** *is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. The Russell 2000 is widely used in the industry to measure the performance of small company stocks.*

The **Russell 2000 Growth** *Index measures the performance of Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

Indexes are unmanaged. Investors cannot invest in these or any indexes.

The Wasatch strategies and funds have been developed solely by Wasatch Global Investors. The Wasatch strategies and funds are not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies.

All rights in the Russell indexes vest in the relevant LSE Group company, which owns the indexes. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license.

The indexes are calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the indexes or (b) investment in or operation of the Wasatch strategies or funds or the suitability of the indexes for the purpose to which they are being put by Wasatch Global Investors.

Wasatch Global Investors
505 Wakara Way, 3rd Floor
Salt Lake City, UT 84108

Institutional Investors
p: 800.381.1065
institutionalinfo@wasatchglobal.com

Financial Advisors
p: 800.381.1065
advisorservices@wasatchglobal.com

Individual Investors
p: 800.551.1700
shareholderservice@wasatchfunds.com

 Wasatch Funds are distributed by ALPS Distributors, Inc. WAS005745 4/30/2023