WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAINX / Institutional WIINX

Wasatch Emerging India Fund

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Indian Equities Showed Resilience Amid a Slew of Negative Headlines

PORTFOLIO MANAGERS

Ajay Krishnan, CFA
Lead Portfolio Manager

11 YEARS ON STRATEGY / 28 YEARS AT WASATCH

Matthew Dreith, CFA
Portfolio Manager

7 YEARS ON STRATEGY / 11 YEARS AT WASATCH

OVERVIEW

During the first quarter of 2023, India's major stock averages continued their slow retreat from all-time highs reached in December. The benchmark MSCI India Investable Market Index (IMI) was down -5.94% for the quarter. The Wasatch Emerging India Fund—Investor Class outperformed its benchmark with a smaller decline of -5.03%.

Indian equities showed resilience amid a slew of negative headlines, rebounding from steeper losses during the quarter's final trading sessions. A short-seller report attacking companies linked to Indian billionaire Gautam Adani shook investor confidence in January as worries about exposure to the sprawling conglomerate sparked fears of contagion to the banking system. Although Adani Group denied the allegations and sought to repair the damage through a series of international roadshows, lingering concerns appeared to dampen investor sentiment.

Inflation and rising interest rates also created headwinds for stocks. Consumer prices in India rose 6.5% in January and 6.4% in February, faster than had been expected. Core inflation, which excludes volatile food and energy prices, has for 17 straight months held above 6%, which is the level targeted by the Reserve Bank of India (RBI). This may put

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 1.51% / Institutional Class 1.38%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.50% for the Institutional Class through at least 1/31/2024.***

pressure on the RBI, India's central bank, to continue tightening monetary conditions. The RBI in February raised its policy interest rate for the sixth time since May 2022 to 6.5% and signaled the possibility of rate hikes down the road.

Rising prices and higher borrowing costs have pinched household budgets and dented consumption, which accounts for about 60% of India's gross domestic product (GDP). In the quarter ended December 2022, annual GDP growth in India slowed to 4.4%, down from 6.3% in the previous quarter. Manufacturing contracted for a second straight quarter, hurt by rising input costs and a slowdown in consumption growth to 2.1% from 8.8%.

The utilities sector was the benchmark's worst-performing sector during the first quarter. Several Adani Group constituents detracted from performance among utilities. Because no utilities are owned in the Fund, this sector was the Fund's biggest source of outperformance relative to the benchmark. Other sources of outperformance included the information-technology (IT) and industrials sectors. Holdings in the health-care, consumer-staples and financials sectors were the Fund's primary sources of weakness against the benchmark.

The pullback in stock prices during the quarter left Indian equities trading at smaller valuation premiums compared to their Chinese counterparts. With concerns about geopolitics and bank stability rattling other financial markets, foreign investors put money to work in India during March, becoming net buyers of Indian shares for the first time since November.

DETAILS OF THE QUARTER

The IT-services industry accounted for the two strongest contributors to Fund performance for the quarter: **Persistent Systems Ltd.** and **LTIMindtree Ltd.**, respectively. Because these companies serve customers worldwide, their stock prices can at times be sensitive to global economic conditions. As a result, both stocks benefited from expectations that the U.S. Federal Reserve and other central banks were nearing the end of their interest-rate increases. Investors hoped looser monetary conditions might encourage corporations to free up spending on IT projects that have been placed on hold.

Persistent Systems provides outsourced software development to clients across a range of industries. In the company's most recent quarter, after-tax profit rose 34.9% on revenue growth of 45.4% compared to the same quarter a year ago. Bookings increased 20% in terms of total contract value, boosted by several large deals across industries and service lines.

LTIMindtree provides a wide array of IT services and solutions. The company reported a 25.3% year-over-year increase in quarterly revenues, but profit after tax was down -4.7%. Investors appeared to look past the earnings setback because it was largely attributable to costs and temporary inefficiencies stemming from the merger between L&T Infotech and Mindtree, which was completed in November 2022.

Another strong stock in the Fund was **Elgi Equipments Ltd.** The company manufactures and sells air compressors and automotive components in India and internationally. Consolidated profit after tax rose 92% in Elgi's most recent quarter on 18% sales growth versus the year-ago period. Management cited strong demand for the company's compressors in Europe, North America and Brazil. The automotive segment continued to perform well in tandem with the automotive sector of India's economy. Because compressed air is widely used in manufacturing and other industrial processes, Elgi is well-positioned in our view for the current wave of industrialization sweeping across India.

The greatest detractor from Fund performance for the quarter was Bajaj Finance Ltd. A non-bank financial company, Bajaj offers a broad spectrum of lending services. Shares of Bajaj declined in sympathy with other Indian equities as a selloff in the shares of Adani Group spilled over to the broader market and weighed especially heavily on companies in the financials sector. The stock moved lower again in March when investors reacted negatively to reports that Bajaj was working on an offer to purchase a banking business in Indonesia in a deal potentially valued in the hundreds of millions of dollars.

Dr. Lal PathLabs Ltd. was also a detractor. The company operates one of the largest chains of diagnostic pathology labs in India. Robust demand for Covid-19 testing during previous phases of the pandemic had driven increased volumes and margin expansion at Dr. Lal's. Those effects are now reversing, resulting in difficult year-over-year comparisons to early 2022—the time of India's peak in Omicron infections. We expect growth to normalize over the next quarter or two, and we believe Dr. Lal's has the ultimate potential to become India's dominant consumer brand in diagnostics as the company continues to consolidate and formalize the market.

Another weak stock in the Fund was Avenue Supermarts Ltd. The company operates a chain of hypermarkets and supermarkets offering food, kitchenware, garments, footwear, toys, games, bath linens, electronics and other household items. Avenue's stock price declined in January after earnings and profit margins fell short of estimates in the company's most recent quarter. Weak sales of higher-margin, discretionary items were the culprit as shoppers, squeezed by inflation, focused on necessities, such as food and other packaged goods. While we expect household spending to be constrained over the near term, we think the longer-term secular demand story we often see in India is still intact.

(*Current and future holdings are subject to risk and change.)*

OUTLOOK

Flagging demand from cash-strapped consumers has improved India's external finances. The nation's merchandise trade deficit narrowed in February for the fourth straight month, falling to a 13-month low. A decline in imports of -8.2%—the biggest drop in more than two years—was driven in part by weakening demand in India for imported goods. Also helping to lower India's import bill were expanding flows of discounted oil from Russia. India has now surpassed China as the biggest importer of Russian crude, while Russia has overtaken Iraq and Saudi Arabia to become India's largest oil supplier.

Things are looking even better on the services side. India's services trade surplus rose to $14.6 billion in February from a revised $13.8 billion in January. Exports of services from India to other countries reached almost $30 billion, up about 40% from a year ago. The positive news on trade bodes well for India's current account—the broadest measure of trade in goods and services. During the fiscal year beginning April 1, an improving current-account situation could be beneficial for India's currency and overall economy.

IT-services firms like Persistent Systems and LTIMindtree have been mainstays of India's services exports for decades. Now, global capability centers (GCCs) are playing an increasing role. GCCs have moved up the value chain from providers of low-cost routine services to centers of excellence for automation, innovation, analytics and other functions. Around 40% of the world's GCCs are currently based in India. We think this number is likely to increase going forward.

Although economic growth in India has come down in recent quarters, the country is expected to remain one of the world's fastest-growing major economies. Moody's Investors Service, a global credit-rating agency, currently forecasts real GDP growth in India of 5.5% in 2023, up from an earlier forecast of 5%. Growth in 2024 is expected to come in at 6.5%. Recent upward revisions for India reflect increased capital expenditures in the budget released by the Modi government in February. With risks in the U.S. on the rise, we believe well-situated businesses in consumer-driven economies such as India's offer potentially attractive opportunities for long-term investment.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan and Matthew Dreith

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging India Fund—Investor	-5.03%	-19.79%	18.71%	6.29%	12.03%
Emerging India Fund—Institutional	-4.96%	-19.58%	18.86%	6.45%	12.16%
MSCI India Investable Market Index**	-5.94%	-12.02%	23.83%	5.66%	7.54%

**Returns less than one year are not annualized.*

Data show past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit wasatchglobal.com. The Advisor may absorb certain Fund expenses, without which total returns would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total Expense Ratio: Investor Class 1.51% / Institutional Class 1.38%.**

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 1.50% for the Institutional Class through at least 1/31/2024.** 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 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 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 Wasatch Emerging India Fund's investment objective is long-term appreciation of capital.

***The MSCI India Investable Market Index (IMI) covers all investable large, mid and small cap securities across India, targeting approximately 99% of the Indian market's free float adjusted market capitalization.*

Indexes are unmanaged. Investors cannot invest directly in this or any index.

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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.

Sales growth is the increase in sales over a specified period of time, not necessarily one year.

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

EMERGING INDIA FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
Bajaj Finance Ltd.	9.7%
HDFC Bank Ltd.	8.5%
Elgi Equipments Ltd.	7.9%
AU Small Finance Bank Ltd.	7.5%
Larsen & Toubro Infotech Ltd.	6.5%
Avenue Supermarts Ltd.	5.6%
Trent Ltd.	4.9%
L&T Technology Services Ltd.	4.7%
Dr. Lal PathLabs Ltd.	4.6%
Divi's Laboratories Ltd.	4.3%
Total	64.1%

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.