

Wasatch Emerging India Fund

SEPTEMBER 30, 2023

As Oceans of Money Flowed Into Indian Equities From Abroad, the Index Benefited More Than the Fund Did

FUND MANAGER



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12 / 29
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

Major stock averages in India climbed to record highs during the third quarter of 2023, boosted by a fast-growing economy, solid corporate earnings and steady net buying from domestic and global funds. The benchmark MSCI India Investable Market Index (IMI) rose 4.73% for the quarter. Lagging the benchmark, the Wasatch Emerging India Fund—Investor Class returned 0.17%.

India's appeal as an alternative to China continued to encourage foreign inflows into Indian stocks. After pulling a record \$17 billion from India's equity market in 2022, global investors reversed that exodus this year, purchasing a net \$17.2 billion of shares through September 1, 2023. With growth slowing in Europe, the U.S. and parts of Asia, India's economy has outpaced developed-market economies and stood out from its emerging-market peers. Driven mainly by services and other domestic factors, GDP grew 7.8% in the quarter ended June 30 from a year ago.

As oceans of money flowed into Indian equities from abroad, the Index benefited more than the Fund did. And foreigners weren't the only ones

*The performance data quoted represents past performance. Past performance does not guarantee future results. 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. The 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.***

who were buying. Record inflows from domestic retail clients forced some Indian small-cap stock funds to turn away new investors—a sign that speculative buying in some areas of the market had made reasonably valued companies difficult to find. In that environment, our focus on seeking high-quality businesses struggled to gain traction, and the Fund underperformed.

The financials sector was the biggest source of underperformance relative to the benchmark. Earlier in the year, financial stocks had done well amid optimism that easing inflation would allow India's central bank to cut interest rates soon. Those hopes were dashed during the third quarter as surging food prices drove retail inflation from 4.87% in June to 7.44% in July and 6.83% in August. India's government has imported vegetables and banned exports of some varieties of rice to control food inflation by increasing supplies in the domestic market. The Fund's financials did worse than those in the Index, and our overweight positioning in the sector was a headwind to performance.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was **Trent Ltd.** The company operates a leading chain of retail stores specializing in fashion apparel, cosmetics, perfumes and toiletries. Standalone profit after tax jumped 44% in Trent's most recent quarter on 53% revenue growth compared to the same quarter a year ago. Management cited growing relevance for the company's offerings, resilience in its business model and the attractiveness of its differentiated platform. Trent has continued to execute its expansion strategy, opening 49 new stores during the reported quarter.

Persistent Systems Ltd. was also a top contributor. The company provides outsourced software development to clients across a range of industries. Uncertainty in the global economic outlook had caused Persistent's revenue growth to slow as customers pushed out spending and took longer to make decisions and sign contracts. The company's share price moved higher during the latter part of the third quarter as the situation improved. Persistent stands to benefit from its strategic partnerships with hyperscaler cloud providers, which include AWS, Microsoft and Google Cloud. Persistent is launching a suite of Google Cloud-powered solutions designed to help clients identify and implement opportunities to integrate generative AI (artificial intelligence) technologies into their businesses.

Another strong stock in the Fund was **Bajaj Finance Ltd.** A non-bank financial company (NBFC), Bajaj offers a broad spectrum of lending services. Shares of the company moved higher following reports that it was planning to raise up to \$1 billion in new capital. Some investors viewed the move as a sign that management anticipates stronger-than-expected loan growth. Others speculated that Bajaj is accumulating funds to aggressively fend off competition from another NBFC thought to be planning an entry into India's consumer-lending market.

The greatest detractor from Fund performance for the quarter was **HDFC Bank Ltd.** The company provides banking, custodianship and other services to the global corporate sector. Hoping to expand its reach beyond traditional banking, HDFC Bank merged with parent company HDFC Ltd. in July. In September, however, HDFC Bank disclosed that accounting rules and merger regulations required it to value its parent's business about 16% lower than it had reported before the merger. The company also warned that it now expects the merger to negatively impact its return on equity, net interest margins and non-performing loan ratios.

Elgi Equipments Ltd. was also a significant detractor. An industrial firm, Elgi manufactures and sells air compressors and automotive components in India and internationally. Standalone revenue from operations declined -3.6% in the company's most recent quarter as inventory normalization resulted in lower sales to subsidiaries. In



addition, the ongoing implementation of enterprise resource planning (ERP) by customers in the U.S. temporarily disrupted their purchases. Now that ERP implementation appears to have stabilized, Elgi's management expects the company's U.S. sales to rebound to normal levels.

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. Although standalone total revenue in Avenue's most recent quarter grew 18.1% versus the year-ago period, profit after tax was up only 2.3%. Management attributed the slowdown in earnings growth to lower sales contributions from apparel and general merchandise, which typically carry higher profit margins than food. On the positive side, Avenue's general-merchandise contribution appears to be on the upswing and trending toward pre-pandemic levels. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

In June, U.S. President Joe Biden hosted Indian Prime Minister Narendra Modi's first state visit to the United States. High on the agenda were several deals in semiconductors and defense intended to improve military and economic ties between the two nations. India's nascent foray into semiconductors is part of a much broader push to establish a robust manufacturing sector capable of driving the country's next stage of growth and development. Over the past year or so, India's industrialization has emerged as a potentially significant long-term theme in the Fund.

When investing in industrials, a key metric we pay close attention to is the capacity utilization rate. Capacity utilization measures the current output of a business as a percentage of its potential output. It also reveals the extent to which production can be expanded without triggering a significant increase in the cost per unit produced. Because productive capacity typically exists in the form of capital assets such as property, plant and equipment, the utilization rate can indicate an industrial firm's need for future capital expenditures.

As growth-oriented investors, we generally want to own companies whose capacity utilization is rising. A falling utilization rate may indicate weakening demand. Even so, a utilization rate that's too high and rising too rapidly could force a business into a capital-spending cycle that compresses profit margins and reduces returns on capital. In a worst-case scenario, a company might have to raise more capital to build a costly new facility that may take many years to utilize fully. A much better situation is one in which the business can add capacity in a modular fashion, as needed.

The wave of industrialization sweeping across India has caused us to broaden our investment approach. While we continue to seek high-quality companies with strong cash flows and high returns on equity, we're paying increased attention to firms with more room for fundamental improvement. Because these firms typically trade at less-expensive valuations than the highest-quality companies and stand to benefit more from broad-based improvement in India's economy, we believe a wider approach to India is both justified and desirable.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan



TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging India Fund—Investor	0.17%	5.23%	13.87%	11.10%	14.77%
Emerging India Fund—Institutional	0.00%	5.34%	14.00%	11.26%	14.91%
MSCI India Investable Market Index**	4.73%	13.07%	17.00%	10.83%	10.75%

*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 1.50% 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. The 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 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 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. 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.

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, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose.

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

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***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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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.

Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

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.

Net interest margin is typically used for a bank or an investment firm that invests depositors' money, allowing for an interest margin between what is paid to the bank's client and what is made from the borrower of the funds. A positive net interest margin indicates that an entity has invested its funds efficiently, while a negative net interest margin implies that the funds have not been invested efficiently.

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

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.



EMERGING INDIA FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2023

Security Name	Percent of Net Assets
Elgi Equipments Ltd.	8.7%
HDFC Bank Ltd.	8.6%
AU Small Finance Bank Ltd.	8.1%
Bajaj Finance Ltd.	7.4%
Trent Ltd.	5.7%
Divi's Laboratories Ltd.	5.5%
Persistent Systems Ltd.	4.8%
Dr. Lal PathLabs Ltd.	4.5%
Vijaya Diagnostic Centre Pvt Ltd.	4.1%
Avenue Supermarts Ltd.	4.0%
Total	61.4%

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.