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Wasatch Emerging India Fund

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FUND MANAGER

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12 YEARS ON FUND / 29 YEARS AT WASATCH

GDP Growth in India Was Bolstered by a Surge in Manufacturing and a Flurry of Government-Funded Infrastructure Projects

OVERVIEW

Indian stocks joined a strong rally in global equities during the final quarter of 2023. The benchmark MSCI India Investable Market Index (IMI) rose 12.00% for the quarter. The Wasatch Emerging India Fund—Investor Class lagged the benchmark with a 9.98% return. A growing consensus that central banks have largely reached the end of their tightening cycles created a favorable backdrop for world financial markets.

Annual gross domestic product (GDP) growth in India accelerated to 7.6% in the quarter ended September, bolstered by a surge in manufacturing and a flurry of government-funded infrastructure projects. Prime Minister Narendra Modi's government has been ramping up spending on roads, railways, water supplies and electric systems in hopes that voters will return him to power in the upcoming 2024 elections. Most of the government's spending on infrastructure tends to be funneled through India's state-run companies, known as public-sector undertakings

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.***

(PSUs). PSU stocks got a boost earlier this year after Mr. Modi pledged that India's public-sector banks will face less political interference going forward.

In our experience, however, state-run firms in India and other emerging markets tend to operate in the interests of governments instead of shareholders. For that reason, we tend to avoid investing in them, focusing instead on small and mid-sized growth companies that we believe can generate more attractive returns over time. As PSUs in sectors such as industrials, materials and financials benefited from higher capital expenditures by the Indian government and wider interest from investors during the fourth quarter, the Fund underperformed.

Our holdings in the consumer-discretionary and information-technology (IT) sectors were major sources of strength against the benchmark. Helped by healthy growth in revenues and earnings at our companies, the Fund's holdings in these sectors generated returns well ahead of the corresponding components of the Index.

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. Consolidated profit after tax jumped 189% in Trent's most recent quarter on a 52.7% increase in revenue from operations compared to the same quarter a year ago. Management cited strong volume growth at the company's Star brand locations, driven by fresh food, general merchandise and apparel. Trent has continued to execute its expansion strategy, opening 38 new stores during the reported quarter.

Vijaya Diagnostic Centre Pvt. Ltd. was also a top contributor. Through its network of 123 state-of-the-art locations, the company offers diagnostic medical services in 20 cities across India. Vijaya also provides corporate wellness solutions consisting of on-site and off-site health checkups. The company's "All Under One Roof" service approach has helped differentiate Vijaya from competitors and has enabled it to stand out as a distinctive brand. In the company's most recent quarter, after-tax profit rose 43% on a consolidated basis as revenues grew 15% versus the year-ago quarter. Growth in Vijaya's radiology and pathology segments reinforced the effectiveness of the company's integrated business model.

Another strong stock in the Fund was Persistent Systems Ltd. The company provides outsourced software development to clients across a range of industries. Despite an uncertain macroeconomic environment, Persistent experienced strength in its health-care and technology verticals, fueled by the company's digital engineering and enterprise modernization capabilities. Consolidated after-tax profit grew 19.7% in the company's most recent quarter on revenue gains of 17.7% versus the year-ago period. The company stands to benefit from its strategic partnerships with hyperscaler cloud providers, which include Amazon Web Services (AWS), Microsoft and Google Cloud.

Non-bank financial companies (NBFCs) accounted for the two greatest detractors from Fund performance for the quarter: Bajaj Finance Ltd. and Aavas Financiers Ltd., respectively. To ward off risks to financial stability, the Reserve Bank of India (RBI) tightened restrictions on unsecured consumer lending. The surprise move triggered a selloff in Indian financials as investors feared higher funding costs for lenders would eat into profits. NBFCs were hit especially hard because, unlike banks, they have no deposit bases and must obtain their funding through borrowing from external sources.

Aavas specializes in housing loans for low- and middle-income borrowers. Bajaj Finance is the lending arm of the Bajaj Group—a well-regarded Indian industrial house founded in 1926. Also weighing on shares of Bajaj during the fourth quarter was a decision by the RBI in November temporarily banning two of the company's lending products. The RBI found that Bajaj failed to issue certain fact statements to borrowers who used the products. But we believe the RBI's findings are less material than initially thought and that Bajaj will resume most of the affected lending activities in 2024.

GMM Pfaudler Ltd., another weak stock in the Fund, was sold on deteriorating fundamentals. The company manufactures corrosion-resistant reactors for chemical and pharmaceutical applications. Order intake at Pfaudler has declined for the past two quarters because of general weakness in the chemical industry. With the company's valuation still high and limited headroom going forward for Pfaudler's glass-lined segment, we decided to step aside for now. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

During the fourth quarter, easing inflation in the U.S. fueled a growing consensus that the Federal Reserve may begin cutting interest rates in 2024. These were positive developments for India. Lower interest rates in the U.S. tend to hurt the dollar's value against other currencies, boosting the appeal of riskier investments overseas. A cheaper greenback also makes dollar-denominated commodities, such as crude oil, less costly for other countries to import.

That's important for a country such as India, which imports about 88% of the petroleum it uses. Helped by rising exports of services and lower prices for oil and other raw materials, India's current-account deficit narrowed to $8.3 billion in the July-September quarter—down from $9.2 billion in the previous quarter and well below estimates. Because a nation's current-account deficit or surplus can significantly impact the value of its currency, India's improving current-account picture helped keep the rupee on firm footing. In India, as in other countries, maintaining the value of the currency plays a key role in keeping inflation under control.

India's central bank recently cited inflation as the biggest threat to the country's economic growth. In a monthly report released in December, the RBI said inflation was hurting consumer spending and, in turn, holding back the capital expenditures of manufacturing companies. India's inflation rate rose to 5.55% in November from 4.87% in October, driven largely by higher food prices as weak monsoon rains pinched supplies of pulses (e.g., chickpeas and lentils) and vegetables. To curb costs for consumers, the Indian government has restricted exports of staples such as onions, wheat and rice.

A new year offers not only a reason to look ahead but also a chance to review the year just completed. The Fund's Investor Class generated a total return of 20.84% in 2023, lagging the benchmark's gain of 25.13%. Even though a return of over 20% would be considered attractive under most circumstances, we're always looking for ways to do better.

In seeking to refine our investment approach and improve future results, we analyze errors of commission (holdings that performed poorly) and errors of omission (missed opportunities). We attribute most of the Fund's underperformance during 2023 to errors of commission in the financials and industrials sectors. Moreover, our aversion to PSU stocks clearly worked against us. The S&P BSE PSU Index, which includes 56 of India's largest banks, industrials, utilities and materials firms, returned over 60% in 2023—about 2.5 times the benchmark's return.

Additionally, regarding errors of omission we note that we were not invested in some of the heavily indebted, historically slower-growing companies in the market. These companies tended to enjoy stronger performance during 2023 as they benefited from favorable shifts in the macroeconomic landscape. In contrast, we want the companies in which we invest to be prepared for diverse economic conditions, which is why we seek those with strong growth and quality fundamentals (such as low debt levels).

The outcome for our holdings in the industrials sector was somewhat disappointing given that India's industrialization is an investment theme in the Fund. Accordingly, we've fine-tuned some of our screening methodologies in a way that we believe will result in fewer missed opportunities of the types encountered during 2023. With respect to financials, we believe the RBI's tighter loan requirements may benefit the banks owned in the Fund by reducing competition from upstart fintech firms.

Thank you for the opportunity to manage your assets.

Sincerely,

Ajay Krishnan

TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging India Fund—Investor	9.98%	20.84%	9.15%	11.72%	14.36%
Emerging India Fund—Institutional	10.02%	20.94%	9.22%	11.85%	14.50%
MSCI India Investable Market Index**	12.00%	25.13%	14.05%	12.66%	10.80%

**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.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Earnings per share or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.

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.

Long-term debt to capital is a company's debt as a percentage of its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company's debt and shareholders' equity, which includes common stock, preferred stock, minority interest and net debt.

The S&P BSE PSU Index is float adjusted, market cap weighted index designed to measure the performance of PSU stocks, as so designated by BSE, that are part of the S&P BSE 500 Index.

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

EMERGING INDIA FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name	Percent of Net Assets
Bajaj Finance Ltd.	9.4%
Elgi Equipments Ltd.	7.6%
HDFC Bank Ltd.	7.1%
AU Small Finance Bank Ltd.	7.0%
Trent Ltd.	6.2%
Divi's Laboratories Ltd.	5.5%
Persistent Systems Ltd.	5.1%
Dr Lal PathLabs Ltd.	4.7%
Cholamandalam Investment & Finance Co. Ltd.	4.1%
Vijaya Diagnostic Centre Pvt. Ltd.	4.0%
Total	60.7%

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.