WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAESX / Institutional WIESX

Wasatch Emerging Markets Select Fund

MARCH 31, 2023

Emerging Markets Continue to Offer Appealing Valuations and Favorable Growth Prospects

OVERVIEW

During the first quarter of 2023, emerging-market equities pared early gains as worries about the health of the financial sector stoked fears of global recession. The benchmark MSCI Emerging Markets Index rose 3.96% for the quarter. Surpassing its benchmark, the Wasatch Emerging Markets Select Fund—Investor Class generated a total return of 9.19%.

Failures of three regional banks in the U.S. and the hastily arranged, government-brokered sale of troubled Swiss firm Credit Suisse Group AG added a new layer of complexity to an economic backdrop that was already uncertain. Growing optimism that central banks were nearing the end of their interest-rate increases seemed to evaporate in February after a string of strong economic data challenged the consensus view that inflationary pressures had peaked. The sudden arrival of a banking crisis in March further clouded the path forward for policymakers, who now must also contend with risks to financial stability as they struggle to bring inflation under control.

FUND MANAGERS

Ajay Krishnan, CFA
Lead Portfolio Manager
10 YEARS ON FUND / 28 YEARS AT WASATCH

Neal Dihora, CFA
Portfolio Manager
1 YEAR ON FUND / 6 YEARS AT WASATCH

Scott Thomas, CFA
Associate Portfolio Manager
7 YEARS ON FUND / 11 YEARS AT WASATCH

Matthew Dreith, CFA
Associate Portfolio Manager
5 YEARS ON FUND / 11 YEARS AT WASATCH

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—1.32% / Institutional Class—1.14%. The Advisor has contractually agreed to limit certain expenses to 1.50% for the Investor Class and 1.20% for the Institutional Class through at least 1/31/2024.***

Taiwan and Mexico posted above-average returns that set them apart from most other components of the Index. In the Fund, both of these emerging markets were sources of outperformance relative to the benchmark, driven by overweight positioning and outsized gains in our holdings. Early signs that the semiconductor cycle may be bottoming fueled a surge of foreign buying in Taiwan's tech-heavy stock market. And in Mexico, the peso's appreciation of more than 8% against the U.S. dollar boosted equity returns as the Bank of Mexico, the country's central bank, raised its policy interest rate to 11.25%.

China's reopening from zero-Covid restrictions helped spark an upturn in sentiment throughout the region. As a result, the Fund's underexposure to China and Korea were headwinds to performance relative to the benchmark.

India was the biggest source of weakness in the Fund as a blistering short-seller report attacking companies linked to billionaire Gautam Adani shook investor confidence. Economic growth in India slowed to a three-quarter low of 4.4% in the October-to-December 2022 quarter as rising borrowing costs weighed on manufacturing and consumption. Consumer prices in India rose 6.4% in February compared to a year earlier, exceeding the target of India's central bank for a second straight month. This means the Reserve Bank of India may continue to raise interest rates. Since May 2022, the central bank has increased its policy interest rate by 2.5 percentage points to rein in stubbornly high inflation.

DETAILS OF THE QUARTER

Driven largely by MercadoLibre, Inc. (MELI), which we consider a Brazilian holding for portfolio-management purposes, Brazil was the Fund's single-biggest source of outperformance relative to the benchmark. MercadoLibre provides e-commerce platforms and payment solutions in Latin America. The company's stock price rose sharply in January after reports of accounting inconsistencies at rival firm Americanas SA, which later filed for bankruptcy. Already a dominant player in the markets it serves, MercadoLibre is expected to gain additional share as the woes of Americanas hinder its ability to borrow, grow and invest in its business. In February, MercadoLibre's stock rose further after a solid financial report. For the recent quarter, the company posted greater than 40% year-over-year revenue growth, helped by robust increases in total payment volume and gross merchandise volume.

Other top contributors to Fund performance during the quarter included ASPEED Technology, Inc. Headquartered in Taiwan, the company is a fabless designer of integrated circuits, specializing in areas that include server management and audio-visual extensions. An upswell of enthusiasm during February about artificial intelligence (AI) helped push ASPEED's stock price higher. Investors reckoned that the massive data-processing requirements of AI's large language learning models may lead to increased demand for the company's chips.

Grupo Aeroportuario del Pacifico SAB de CV was another strong stock in the Fund. Often referred to as "GAP," the company operates 12 airports in the Pacific region of Mexico under contracts with the government. Pent-up demand for travel has raised passenger counts and increased revenues at the company's airports. In GAP's most recent quarter, revenues from aeronautical and non-aeronautical services jumped 31% compared to the same quarter a year ago. Total passenger traffic rose 23.9%, exceeding its comparable pre-Covid level.

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 in India. Shares of Bajaj declined in sympathy with other Indian equities, as a selloff in the shares of Gautam Adani's sprawling conglomerate spilled over to the broader market and weighed especially heavily on financials. 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.

Meituan was also a significant detractor from Fund performance. The company operates leading online platforms for consumer products and retail services in China. Stocks in China faced headwinds during the first quarter as optimism about the country's reopening from zero-Covid gave way to doubts about the ability of consumers to spend. Worries about increased competition in Meituan's business also impacted the company's share price.

Another weak stock in the Fund was **Dr. Lal PathLabs Ltd.** 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. (Current and future holdings are subject to risk.)

OUTLOOK

Although emerging markets felt the effects of turmoil at U.S. and European banks, recent stresses in the global financial system didn't originate in developing nations. Instead, developed markets have been the source of this recent market volatility.

Many investors are of the view that U.S. Federal Reserve officials had been behind the curve on interest-rate hikes for some time, which has required them to aggressively raise rates over the recent period. Higher interest rates, the resulting surge in bond yields and deposit outflows have clearly stressed the balance sheets of some U.S. banks. That said, regulators' swift actions—including providing full insurance of deposits at two of the troubled banks (Silicon Valley Bank and Signature Bank) and providing a new funding facility—appear, for now, to have stabilized the broader U.S. banking industry.

Conventional wisdom holds that regulatory standards are higher in developed countries than in emerging markets. As the events of the past month illustrate, that may not always be the case.

On the regulatory front, one positive development in emerging markets has been the Chinese government's recent initiative to ensure the integrity of financial regulation. Under a revised structure, the regulatory duties of China's central bank will be reassigned to a new national bureau, which will supervise all financial-sector industries except the securities industry. Local regulators currently performing financial development and other economic functions will be placed under the authority of the new bureau and focus only on regulation. This new configuration seeks to reduce competing priorities and conflicts of interest that exist under the current system.

Broadly speaking, we think recent developments could ultimately strengthen, not weaken, the case for investing in emerging markets. In our view, the selloff that swept through global capital markets in March appeared to have been triggered by instability in developed countries—not in emerging markets. Over time, emerging markets may actually benefit if problems at U.S. banks result in lower global interest rates and a weaker U.S. dollar. Moreover, events in developed markets have exposed risks in their financial systems that had previously gone unnoticed. Relative to developed countries, emerging markets may not be as risky as investors have been led to believe.

We think emerging markets continue to offer more appealing valuations and better growth prospects. For example, Moody's Investors Service, a global credit-rating agency, currently forecasts real gross domestic product (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, Neal Dihora, Scott Thomas and Matthew Dreith

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging Markets Select Fund—Investor	9.19%	-18.24%	17.14%	6.50%	4.05%
Emerging Markets Select Fund —Institutional	9.25%	-18.05%	17.32%	6.72%	4.33%
MSCI Emerging Markets Index†	3.96%	-10.70%	7.83%	-0.91%	2.00%
MSCI Emerging Markets Mid Cap Growth Index††	2.72%	-12.66%	11.16%	-1.14%	2.67%

**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 1.50% for the Investor Class and 1.20% 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.

Investing in foreign securities, especially in emerging markets, entails special risks such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. 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.

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.

Diversification does not eliminate the risk of experiencing investment losses.

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

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WASATCH GLOBAL INVESTORS

†The MSCI Emerging Markets Index captures large- and mid-cap representation across 24 emerging-market countries.

††The MSCI Emerging Markets Mid Cap Growth Index measures the equity market performance of mid-cap securities exhibiting growth style characteristics in emerging-market countries.

Indexes are unmanaged. Investors cannot invest 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.

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

EMERGING MARKETS SELECT FUND— TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name		Percent of Net Assets
HDFC Bank Ltd.		6.8%
Bajaj Finance Ltd.		6.3%
MercadoLibre, Inc.		5.5%
Voltronic Power Technology Corp.		5.2%
Chailease Holding Co. Ltd.		5.2%
Globant SA		4.7%
Lasertec Corp.		4.5%
WEG SA		4.4%
Silergy Corp.		4.2%
Grupo Aeroportuario del Pacifico SAB de CV		3.7%
	Total	50.4%

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.