WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAEMX / Institutional WIEMX

Wasatch Emerging Markets Small Cap Fund

MARCH 31, 2023

We Think Recent Developments Could Ultimately Strengthen, Not Weaken, the Case for Investing In Emerging Markets

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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 Small Cap Index rose 3.87% for the quarter. Surpassing its benchmark, the Wasatch Emerging Markets Small Cap Fund—Investor Class generated a total return of 7.60%.

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.

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. Equities in Korea did well, but the Korean stocks in the Fund underperformed the Korean positions in the Index. As a result, Korea was the Fund's primary source of weakness against the benchmark. In China, the benchmark's positions posted a negative return as small-cap stocks struggled. However, the Fund's Chinese stocks logged a solid double-digit gain that helped performance.

Stocks declined in India 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. Because of this, 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

Taiwan accounted for several of the strongest contributors to Fund performance for the quarter. Among these were **ASPEED Technology, Inc.** and **Voltronic Power Technology Corp.** ASPEED 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.

Voltronic has expanded the market for power inverters to exciting new applications in solar energy and electric vehicles, vastly extending the company's runway for growth. Voltronic also designs and manufactures uninterruptible power supplies. Over time, we expect the company's development pipeline of high-power systems to help it capture a growing portion of the global market for uninterruptible power supplies.

Another strong stock in the Fund was **Grupo Aeroportuario del Centro Norte SAB de CV**. Often referred to as "OMA," the company operates international airports in the northern and central regions of Mexico under contracts with the government. Pent-up demand for travel has raised passenger counts and boosted revenues at the company's airports. Consolidated net income rose 12% in OMA's most recent quarter on 37% growth in total revenue compared to the year-ago period. Total passenger traffic increased 21%, exceeding its comparable pre-Covid level.

Although our Indian stocks declined less than the Indian positions in the Index, overweight positioning in India hurt the Fund's relative performance. As the Fund's most heavily weighted country, India accounted for the three biggest detractors in the quarter: **AU Small Finance Bank Ltd., Dr. Lal PathLabs Ltd.** and **Aavas Financiers Ltd.**

Rising short-term interest rates typically create headwinds for banks and other lenders by increasing their borrowing costs and squeezing their profitability. With consumer inflation in India coming in above the central bank's target during January and February, the growing likelihood of additional rate hikes weighed on shares in the financials sector such as those of AU and Aavas. AU Small Finance Bank primarily targets unbanked and underbanked low- and middle-income borrowers. Aavas is a non-bank financial company specializing in housing loans for low- and middle-income borrowers.

Dr. Lal's 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, Dan Chace, Scott Thomas, Kevin Unger and Anh Hoang

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Emerging Markets Small Cap Fund—Investor	7.60%	-19.30%	14.29%	3.23%	2.80%
Emerging Market Small Cap Fund—Institutional	7.51%	-19.37%	14.32%	3.35%	2.90%
MSCI Emerging Markets Small Cap Index**	3.87%	-10.99%	20.68%	1.80%	3.18%
MSCI Emerging Markets Index**	3.96%	-10.70%	7.83%	-0.91%	2.00%

**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—1.91% / Institutional Class—1.78%**

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 1.95% for the Investor Class and 1.80% 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 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 Small Cap Fund's investment objective is long-term growth of capital.

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***The MSCI Emerging Markets and Emerging Markets Small Cap Indexes are free float-adjusted market capitalization indexes designed to measure the equity market performance of emerging markets.*

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

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)

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 SMALL CAP FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
Voltronic Power Technology Corp.	6.1%
AU Small Finance Bank Ltd.	5.9%
Silergy Corp.	5.2%
Larsen & Toubro Infotech Ltd.	4.8%
Globant SA	4.7%
LEENO Industrial, Inc.	4.2%
Dr. Lal PathLabs Ltd.	3.6%
ASPEED Technology, Inc.	3.5%
Grupo Aeroportuario del Centro Norte SAB de CV	3.5%
L&T Technology Services Ltd.	3.2%
Total	44.7%

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.