

Wasatch Frontier Emerging Small Countries Fund

MARCH 31, 2023

The Fund Outperformed Its Benchmark, as Solid Company Fundamentals Drove Strong Returns for Many of Our Holdings

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

6 / 11
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

The Wasatch Frontier Emerging Small Countries Fund—Investor Class returned 12.65% in the first quarter, outperforming the benchmark MSCI Frontier Emerging Markets Index, which returned 2.39%.

Strong stock selection in the consumer-discretionary, communication-services and industrials sectors were large contributors to the Fund's outperformance relative to its benchmark. Conversely, the Fund's lack of exposure to the materials sector detracted from relative results.

On a geographic basis, stock selection in the Philippines was a large contributor to relative performance. Our holdings in Mexico, a country in which the benchmark has no exposure, also contributed to relative results. Conversely, exposure to India—another country with no exposure in the benchmark—detracted from relative performance, as India was an emerging-markets laggard.

*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—Gross 2.29%, Net 2.19% / Institutional Class—Gross 2.08%, Net 1.99%. The Advisor has contractually agreed to limit certain expenses to 2.15% for the Investor Class and 1.95% for the Institutional Class through at least 1/31/2024.***



Beyond geographic and sector trends, the Fund's outperformance was likely driven by investor recognition of our companies' strong fundamentals, which we maintained conviction in throughout the market's downturn last year.

During 2022, rising rates and inflation sapped investor enthusiasm for growth-oriented stocks, which are valued largely based on expected future cash flows and earnings. However, as many central banks seemed poised to slow or pause interest-rate increases in 2023, investors have begun to reward the strong results of many of our companies, leading to significant gains for many stocks in the portfolio. Some of our top contributors are discussed below.

DETAILS OF THE QUARTER

MercadoLibre, Inc. was the Fund's top individual contributor during the quarter. The U.S.-traded company, headquartered in Uruguay, operates an online e-commerce, payments, and credit system in 18 Latin American countries. It has been called "the Amazon of Latin America" due to its leadership in the region's fast-growing online marketplace. MercadoLibre has experienced considerable growth this year, with fourth-quarter revenue up 56.5% from the same period last year and operating income jumping from \$24 million to \$349 million. MercadoLibre also benefitted as an important rival in Brazil was engulfed in an accounting scandal that led to the departure of its CEO and CFO.

Mexico's **Qualitas Controladora SAB de CV** was another top performer. The auto insurer is rebounding from a difficult period when mobility trends and accident frequency returned to pre-pandemic levels while inflation simultaneously increased the cost of spare parts for vehicle repairs. As the company and industry raise prices and inflation settles down, we think profitability should recover on the back of improving underwriting results and the company's investment portfolio benefitting from higher interest rates. Looking ahead, we continue to like the company's long-term growth potential and stability as the market leader in an underpenetrated Mexican insurance market. Qualitas is also expanding geographically and diversifying into the relatively nascent Mexican health-insurance business.

Sea Ltd., a communications and e-commerce company based in Singapore, was another strong contributor to the Fund's return. The company owns Shopee, a leading e-commerce platform in Southeast Asia and Taiwan, and the gaming platform Garena. Sea released surprisingly strong financial results for the latest quarter, reporting positive net income for the first time. The results reflected disciplined cost-cutting as well as continued growth in Shopee and its SeaMoney digital-payments operation.

The largest detractor from Fund performance for the quarter was **Bajaj Finance Ltd.** A non-bank financial company (NBFC), Bajaj offers a broad spectrum of lending services in India. Shares of Bajaj declined in sympathy with other Indian equities as a selloff in Gautam Adani's sprawling conglomerate spilled over to the broader market and weighed especially heavily on financials. The stock moved lower again in March, in part due to investors reacting negatively to reports that Bajaj was planning to purchase an Indonesian bank in a deal potentially valued in the hundreds of millions of dollars.

We continue to have confidence in Bajaj's management team, which has an outstanding track record, and we see significant opportunities ahead for this non-bank lender. Bajaj is outpacing the stodgy traditional banks and



their notoriously poor customer service by lending to affluent urban and semi-urban consumers and offering credit cards, mortgages and loans for durable goods. The company is a leader in employing sophisticated data analytics to identify opportunities and reduce credit risk, all while lowering its broader risk profile as it reinvests its fee income from higher-risk products into lower-risk areas like mortgage lending.

VEF AB also detracted from performance. The Swedish firm invests in growth-stage financial-technology companies in frontier and emerging markets. The stock was down after a Brazilian company in its investment portfolio tabled its initial public offering and a Mexican holding ran into liquidity issues, raising concerns about whether VEF could sustain its growth. Some setbacks are inevitable with startups, but we continue to believe that VEF is investing in companies with savvy management teams that have structured their businesses to withstand challenges. Importantly, we think these companies represent the future of finance in their target markets.

Ngern Tid Lor Public Company Ltd., known as Tidlor, was another detractor. The company is a collateralized lender and insurance brokerage in Thailand. It describes its typical clients as "self-employed microentrepreneurs" who need loans to buy motorcycles and trucks for business and often have to rely on "less legitimate financial solutions."

The stock has been weak, in part due to Tidlor working its way through some government-mandated debt-relief programs for borrowers affected by Covid-19. In our view, this is a short-term issue that doesn't change the company's longer-term potential to consolidate and take share from fragmented informal lenders and conventional banks. The company offers an attractive alternative for borrowers and is adept at using technology to create a sophisticated pricing model that controls credit risk. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

Even as the global banking sector shudders in response to high-profile meltdowns at U.S. and Swiss banks, we continue to see a bright future for the innovative businesses we own within emerging and frontier markets.

To be sure, an extended banking crisis or recession in developed markets could create headwinds everywhere. We would note, however, that the worst of the rate-related tumult affecting the developed world has, in many cases, already passed in emerging and frontier markets. Interest rates in these markets remain very high, but some key central banks, including Brazil's, have already stopped their increases.

Importantly, many of our holdings may not need the strongest economic backdrop to thrive because they're tied to strong secular tailwinds. The Fund remains focused on companies at the forefront of the longer-term social and technological trends that are transforming the frontier and emerging markets in which they operate. As a result, our positioning diverges significantly from the benchmark.

For comparison, the MSCI Frontier Emerging Markets Index has roughly a 35% combined weight in the energy, materials, industrials and consumer-staples sectors but less than a 2% weight in the information-technology (IT) and consumer-discretionary sectors. Conversely, companies in the IT sector comprise nearly a fifth of the Fund's portfolio. The Fund also has significant exposure to consumer-discretionary companies that are benefiting from e-commerce trends. Put simply—we believe that the MSCI Frontier Emerging Markets Index looks like these countries' past, and our portfolio represents their future.



For example, some of our largest holdings include: IT companies enabling digital transformation for businesses and consumers; financial-service firms facilitating safer and frictionless digital transactions for a growing middle class; hospital chains improving quality of life within local markets; and retail companies and communication-services firms aligned to new purchasing and consumption trends. We believe these companies have a long runway for growth, and we look forward to watching these themes play out in 2023 and beyond.

Thank you for the opportunity to manage your assets.

Sincerely,
Scott Thomas



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	12.65%	-19.06%	10.35%	-1.31%	-0.04%
Frontier Emerging Small Countries Fund—Institutional	12.85%	-18.79%	10.70%	-1.06%	0.15%
MSCI Frontier Emerging Markets Index†	2.39%	-16.63%	7.51%	-3.99%	-0.35%
MSCI Frontier Markets Index†	3.10%	-17.55%	7.90%	-2.85%	2.73%

*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 2.15% for the Investor Class and 1.95% 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 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 frontier and 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 Frontier Emerging Small Countries Fund's investment objective is long-term growth of capital.

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*The MSCI Frontier Emerging Markets and MSCI Frontier Markets indexes are free float adjusted market capitalization indexes designed to measure equity market performance in the global frontier and emerging markets.

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

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An initial public offering (IPO) is a company's first sale of stock to the public.

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
FPT Corp.	8.9%
Bajaj Finance Ltd.	8.6%
MercadoLibre, Inc.	7.4%
Bank for Foreign Trade of Vietnam JSC	5.9%
WEG SA	5.2%
Discovery Ltd.	5.1%
Qualitas Controladora SAB de CV	4.9%
Wilcon Depot, Inc.	4.8%
NU Holdings Ltd.	4.2%
DCVFMVN Diamond ETF	3.5%
Total	58.6%
<p><i>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.</i></p>	