

Wasatch Frontier Emerging Small Countries Fund

JUNE 30, 2023

Conviction in Company Fundamentals Has Played a Large Role in the Fund's Outperformance Thus Far In 2023

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

7 / 11
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

The Wasatch Frontier Emerging Small Countries Fund—Investor Class returned 4.71% in the second quarter, outperforming the benchmark MSCI Frontier Emerging Markets Index, which returned 2.00%.

Strong stock selection meant the financials and consumer-staples sectors were large contributors to the Fund's performance relative to its benchmark. Conversely, stock selection in the consumer-discretionary and communication-services sectors detracted from relative results.

On a geographic basis, our exposure to Brazil and India aided the Fund's relative results, while Singapore detracted from absolute and relative performance due to our only holding in the country.

Beyond sector and geographic positioning, the Fund's outperformance of the benchmark for both the quarter and year-to-date period has been due to conviction in the underlying fundamentals of our companies, which

*Data show past performance, which 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 do 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.***



enabled us to stay the course with our investment process during a challenging 2022. Our “North Star” for investing has always been company-specific fundamentals.

When the Fund was underperforming its benchmark last year, we pointed out that the vast majority of the Fund’s losses stemmed from price/earnings (P/E) multiple contraction as growth stocks fell out of favor with investors in a rising interest-rate environment. Throughout that difficult period, our research continued to indicate that fundamentals for our companies were still strong. Moreover, for the vast majority of companies in the portfolio, the long runways for growth we saw in their businesses remained intact. As such, we maintained our conviction, holding or increasing position sizes in our favorite companies at attractive prices when their stocks lost ground. This year, that conviction has paid off as investors have shown their appreciation for the strong fundamentals of these companies by pushing up their stock prices.

DETAILS OF THE QUARTER

NU Holdings Ltd. (NU), a Brazilian digital-banking company, was the top contributor to Fund performance for the quarter. The stock was up after the company released robust quarterly results, including high user growth, a record level of average revenue per active customer, rising profitability and higher net interest margins. We believe the company has strong long-term growth prospects as it takes market share from traditional banks, that have historically catered to wealthier clientele and in many cases underserved middle-class consumers. NU could also continue to fuel its rapid growth by expanding beyond Brazil into markets such as Mexico, where NU recently acquired a million customers in just a month.

Another top contributor was **Bajaj Finance Ltd.** A non-bank financial company, Bajaj offers a broad spectrum of lending services. Consolidated profit after tax rose 30% in the company’s most recent quarter on 32% growth in revenue from operations versus the year-ago quarter. The results, which were better than expected, helped ease concerns about the planned entry of a new competitor into the financials sector.

Raia Drogasil SA, a leading Brazilian drugstore operator, was another top contributor. Raia Drogasil has continued to gain market share, and its increased scale now presents enhanced opportunities for growth on both the top and bottom lines. Because costs associated with establishing Raia Drogasil’s physical and digital footprints are largely fixed, the company enjoys significant operating leverage to potentially enhance profitability.

The greatest detractor from Fund performance for the quarter was **Sea Ltd., ADR**. Based in Singapore, the company provides e-commerce, digital entertainment and financial services in Southeast Asia. Factors weighing on this holding included lackluster revenue growth tied to weak consumer sentiment throughout much of the region. Investors have also been concerned about how the company will balance growth with profitability going forward. Although we’re closely monitoring a new competitive threat, we believe Sea’s focus on earnings and core markets continues to support a positive long-term outlook.

MercadoLibre, Inc. (MELI) was another detractor. 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. After substantial gains in prior months, the stock gave back some ground in the second quarter. However, fundamentals remain intact and revenue growth remains strong. We believe MercadoLibre has a long runway for growth as digital payments and e-commerce shopping keep gaining traction in Latin America.

Another weak stock was **Wilcon Depot, Inc.** The firm is the leading operator of home-improvement stores in the Philippines, selling hardware and tools, flooring, paints, furniture, building materials and household appliances.



Earnings growth decelerated in Wilcon's most recently reported quarter, which weighed on the stock. The deceleration was somewhat expected due to persistent inflation, which increases costs for the company and reduces demand for large home improvement projects. However, the short-term results don't change our long-term view. With a target to reach 100 stores in the Philippines by 2025, Wilcon enjoys a scale advantage relative to smaller, independent home-improvement stores. This has given Wilcon more bargaining power with suppliers, allowing it to offer a wider selection of goods at better prices. The company also offers many popular private labels and exclusive brands, which tend to drive better profit margins. We expect Wilcon to continue growing and taking market share in the coming years. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

One area to note in this quarter's outlook is Latin America. Roughly a quarter of the Fund's weight is made up of holdings in Brazil, Mexico and Peru. After visiting Brazil in 2022 and Mexico in June 2023, we continue to have a high level of conviction in our companies within the region.

As we mentioned earlier, bottom-up research into the fundamentals of individual companies guides our investment decisions. But our Mexican and Brazilian companies also benefit from favorable macroeconomic tailwinds that would be the envy of most other developed or emerging markets. Unlike the developed world, where central banks are still battling inflation and are still raising interest rates, inflation has rolled over in many Latin American countries. In Brazil, there is even discussion of interest-rate cuts later this year.

Additionally, Latin America is largely outside of geopolitical crosshairs and has been relatively unaffected by rising tensions between the U.S. and China. For the most part, Latin America stands to benefit from the rivalry between these two large economies, as U.S. companies look to nearshore their supply chains. Mexico in particular could benefit. During our visit to Mexico, sentiment on the ground was more positive than during our previous trips, and we noted the effect nearshoring is already having on real estate and industrial manufacturing.

In reflecting on the last few years, it's remarkable how much the macroeconomic environment has changed in Brazil and Mexico. When interest rates were rising and the operating environment was more challenging for businesses, our companies within those countries continued to take market share and compound their revenue and earnings growth. We look forward to seeing how these businesses perform with the wind finally blowing at their backs.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	4.71%	14.68%	1.56%	2.61%	0.24%
Frontier Emerging Small Countries Fund—Institutional	4.63%	15.29%	1.82%	2.83%	0.43%
MSCI Frontier Emerging Markets Index†	2.00%	4.10%	2.98%	-1.33%	0.44%
MSCI Frontier Markets Index†	2.13%	-2.34%	3.79%	0.83%	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 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 do 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 frontier and 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. 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.

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

The price/earnings (P/E) ratio, also known as the P/E multiple, is the price of a stock divided by its earnings per share.

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF MARCH 31, 2023

Security Name	Percent of Net Assets
MercadoLibre, Inc.	9.9%
FPT Corp.	8.2%
Bajaj Finance Ltd.	6.6%
Bank for Foreign Trade of Vietnam JSC	6.1%
Qualitas Controladora SAB de CV	5.2%
WEG SA	5.1%
Discovery Ltd.	4.9%
Wilcon Depot, Inc.	4.5%
NU Holdings Ltd.	4.4%
Sea Ltd. ADR	4.1%
Total	58.9%

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.