

Wasatch Frontier Emerging Small Countries Fund

SEPTEMBER 30, 2023

Saudi Arabian Companies Are Appearing on Our Investment Radar with Greater Frequency

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 posted a decline of -1.04% during the third quarter of 2023, underperforming the benchmark MSCI Frontier Emerging Markets Index, which fell -0.35%. For the year-to-date through September 30, the Fund is up 16.73%, while its benchmark is up 4.07%.

Frontier and emerging market equities were weighed down during the quarter by weak exports, high interest rates, and risk aversion among investors as global economic growth slowed and inflation proved tenacious.

The Fund's underperformance of its benchmark was primarily due to poor performance in some of our Brazilian holdings. Conversely, stock selection in Vietnam was a strong contributor to performance relative to the Index. In sector terms, stock selection in financials was the main detractor from relative performance. But our overweight position in the information-technology (IT) sector contributed to results versus the benchmark.

*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—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.***



DETAILS OF THE QUARTER

Sea Ltd., ADR, a communications and e-commerce company based in Singapore, was the Fund's largest detractor from performance for the quarter. The company owns Shopee, a leading e-commerce platform in Southeast Asia and Taiwan; the gaming platform Garena; and SeaMoney, a digital payments operation. After a strong first quarter, the company announced second-quarter revenue and earnings in August that came in well below expectations. Perhaps worse, the company announced it will offer subsidies for some of its services in an effort to fend off competition. This raised concerns that management was turning its focus away from profitability and back to investing for growth at all costs, which disappointed investors. While we continue to see considerable opportunity in Sea Ltd., our enthusiasm is somewhat tempered, and we reduced our holdings during the quarter.

NU Holdings Ltd., a Brazilian digital-banking company, was another detractor from the Fund's performance during the quarter. Although some aspects of Brazil's economic and political situation are improving, Brazilian equities generally slumped in the third quarter due to concerns of high interest rates globally and continued perceived weakness in the underlying economy. Exports also suffered—most notably due to economic weakness in China, Brazil's top trading partner. NU's stock in particular fell due to stock sales by executives and investor profit-taking after mid-August, by which time the stock had risen considerably. NU Holdings' management described the main insider sales by the CEO as being for philanthropic purposes. We continue to believe that NU Holdings has strong long-term growth prospects. It courts the large population of middle-class consumers that Brazil's traditional banks have often ignored by catering to only the wealthiest citizens. NU Holdings is growing rapidly in the huge Brazilian market and is expanding into other promising markets, including Mexico.

Dino Polska SA, a Polish chain of more than 2,000 small supermarkets in rural areas, also lost ground during the quarter. In our view, Dino has done an excellent job of finding the right mix of store size, quality and product selection. Moreover, it has taken share from both larger supermarkets that can struggle in less-populated areas and traditional small grocery stores that often can't match Dino's quality and selection. But inflation has taken a toll on margins. We think the company needs to recalibrate—as we did during the quarter by reducing the size of our investment in the company.

Strong earnings and revenue growth were the key drivers for several of the Fund's top contributors in the third quarter, including **FPT Corp.** and **MercadoLibre, Inc. (MELI)**. Vietnamese IT provider FPT was the Fund's largest contributor. In September, FPT reported eight-month results that included a 21% increase in revenue and a 19% increase in pre-tax profit. Revenue and pre-tax profit for its core technology segment rose 24% over the same period last year. In addition, FPT has outpaced rivals in penetrating the important Japanese market. We believe it also benefits from a twofold labor advantage: wages for software engineers are lower in Vietnam than in China or India; and FPT has forward-looking recruitment, training and talent development programs that attract top talent within the country.

MercadoLibre is a U.S.-traded company headquartered in Uruguay and operating an online e-commerce, payments and credit system in 18 Latin American countries. In a part of the world where many consumers don't have bank accounts, MercadoLibre has been leveraging its online strength to expand lending to small businesses and consumers that the region's traditional banks tend to ignore or reject. In August, the company reported second-quarter 2023 results that included a 57.2% jump in revenue and a 34% increase in gross profit compared with a year earlier, excluding foreign-exchange effects. Margins expanded, and MercadoLibre reported growth in all the countries where it operates.



Another contributor was **Globant SA (GLOB)**, a global IT-consulting firm. The stock was up sharply after the company announced quarterly results, which included better-than-expected year-over-year revenue growth of 15.9%. Management also said it expects 18.8% revenue growth in the third quarter of 2023, an estimate that was ahead of consensus expectations. Globant's stock has been volatile in recent quarters, but we continue to take a long-term view of the company. We believe Globant will play an important role in helping businesses stay relevant in a fast-innovating digital age. In the years ahead, we expect strong demand for its services as businesses spend to keep up with digitalization. (*Current and future holdings are subject to risk and change.*)

OUTLOOK

While an economic slowdown in developed markets would be an undeniable headwind for frontier and emerging markets, we believe frontier economies, and more specifically the individual companies in which we invest, are relatively well-positioned to weather potentially tougher macroeconomic conditions.

One reason we believe frontier markets are in a better position than in prior downturns is that many frontier and emerging market economies are ahead of the developed world in addressing inflation and are further along in their respective interest-rate cycles. For example, Brazil's central bank cut rates for the first time in three years in August, although rates remain extremely high. In Vietnam—one of the benchmark's largest country weights and an overweight position in the Fund—the State Bank of Vietnam, the country's central bank, has cut interest rates four times this year. Inflation in Vietnam has fallen from 4.9% at the start of this year to 3.7% as of the end of September.

Separately, at the individual company level, the firms in which we invest tend to have strong balance sheets, and many have a history of generating high levels of return on invested capital. Such traits should help them withstand an economic slowdown. Further, many of these businesses are tied to innovative secular trends that we believe could continue to grow even if the economic environment deteriorates.

Given the confidence we have in our companies, our positioning hasn't changed much. At the sector level, we have significant exposure to the IT sector and also to the financials sector, where we own many businesses driven by financial technology (fintech). In both sectors, we believe the companies in which we invest are enabling digital transformation for businesses and consumers across frontier markets. And many of our fintech companies are facilitating safer, frictionless digital transactions for a growing middle class in frontier-market countries.

In terms of geographic positioning, our largest weight remains in Vietnam, a country that has become a major beneficiary of companies' attempts to diversify their supply chains away from China. We remain encouraged by steps Vietnam has taken to establish itself as a reliable manufacturing partner for the world.

We also have large exposure to countries in Latin America. A little more than a quarter of the Fund's weighting is in Brazil, Mexico and Peru. These countries are largely outside of geopolitical crosshairs and are less affected by rising tensions between the U.S. and China. If anything, we believe Latin America benefits from the rivalry, as U.S. companies look to nearshore their supply chains. We mentioned in the previous quarter that we visited companies in Mexico over the summer and could see the impact nearshoring is already having on real estate and industrial manufacturing.

We're increasing our exposure to Saudi Arabia. Our investment in companies within the country is still at a low weight, but we see investment conditions in the country improving. Meanwhile, rising oil prices benefit the Saudi economy in the near term. And in the long term, efforts to diversify its economy and liberalize its culture could be



tailwinds for many companies. We've added three Saudi Arabian companies to the portfolio in recent months and will soon be doing on-the-ground research.

As the year comes to a close, we'll continue to keep an eye out for other new investment opportunities, but we feel constructive about the growth potential of our portfolio as it stands.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	-1.04%	16.73%	-1.44%	2.80%	-0.07%
Frontier Emerging Small Countries Fund—Institutional	-1.02%	17.34%	-1.26%	3.02%	0.12%
MSCI Frontier Emerging Markets Index†	-0.35%	13.60%	1.41%	-1.09%	-0.03%
MSCI Frontier Markets Index†	1.98%	6.48%	1.74%	1.63%	2.25%

*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. 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 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.

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 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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FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2023

Security Name	Percent of Net Assets
Bajaj Finance Ltd.	8.8%
FPT Corp.	8.7%
MercadoLibre, Inc.	7.7%
NU Holdings Ltd.	6.7%
Bank for Foreign Trade of Vietnam JSC	6.4%
Qualitas Controladora SAB de CV	5.8%
Raia Drogasil SA	4.1%
Globant SA	4.1%
WEG SA	4.1%
Discovery Ltd.	3.7%
Total	60.1%
<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>	