



Quarterly
Commentary

Investor
WAFMX / Institutional
WIFMX

Wasatch Frontier Emerging Small Countries Fund

MARCH 31, 2024

We're Encouraged by How Our Companies Navigated 2023, And We're Constructive on Future Earnings Growth

FUND MANAGER



Scott Thomas, CFA
Lead Portfolio Manager

7 / 12
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

The Wasatch Frontier Emerging Small Countries Fund—Investor Class posted an increase of 5.41% during the first quarter of 2024, underperforming the benchmark MSCI Frontier Emerging Markets Index, which added 5.58%.

At the sector level, stock selection in the information-technology and consumer-discretionary sectors detracted from the Fund's performance relative to its benchmark. Conversely, the Fund's stock selection in the financials sector and its lack of exposure in the real-estate sector, which performed poorly this quarter, contributed to relative results. On a geographic basis, the Fund's exposure to India detracted from relative performance. However, the Fund benefited from its holdings in Brazil and Vietnam.

While the Fund underperformed its frontier markets benchmark, frontier markets outpaced emerging markets this quarter, and the Fund

*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 2.34%, Net 2.19% / Institutional Class—Gross 2.64%, 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 1/31/2025.

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outperformed broad emerging markets indexes such as the MSCI Emerging Markets Index. This outperformance was largely due to the Fund's exposure to Vietnam and lack of exposure to China, a market that has struggled amid geopolitical tensions, a weakening economy and a troubled real-estate market.

DETAILS OF THE QUARTER

One of the largest detractors from Fund performance during the quarter was **Globant SA**, a global IT-consulting firm. Even though the firm's earnings were ahead of expectations, the stock price fell after management issued conservative full-year guidance. Our views on the company remain unchanged. Globant continues to grow faster than many of its competitors, and we believe it will benefit as other companies seek help digitalizing their business and incorporating artificial intelligence into a wide range of functions.

Another detractor was **Raia Drogasil SA**, a leading Brazilian drugstore operator. The company's revenue growth has remained solid, in our view, but profit margins haven't improved as much as we expected. However, we continue to believe the company will gain market share in Brazil. Further, because costs associated with establishing Raia Drogasil's physical and digital footprints are largely fixed, the company enjoys significant operating leverage and should improve margins over the long term.

Wilcon Depot, Inc. was another detractor this quarter. The firm is the leading operator of home-improvement stores in the Philippines. Same-store sales were lower in the fourth quarter due to softness in home-improvement spending. We're not surprised to see spending soften in the near term, as consumers are continuing to adjust to inflation. But we continue to like the company's long-term growth prospects. Wilcon's large scale is an 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.

Nu Holdings Ltd., a Brazilian digital-banking company, was the top contributor to Fund performance. During the quarter, Nu released impressive operating results, including strong customer growth in Brazil and in Mexico, the latter of which is a nascent market for the company. Additionally, credit quality is improving at Brazilian banks, signaling that the credit cycle may be on the upswing. While this is good for the entire banking industry, it is particularly positive for newer banks such as Nu, whose ability to emerge from the worst of the credit cycle relatively unscathed is a testament to its less-tested credit and risk-pricing models.

Another leading contributor was **FPT Corp.**, a Vietnam-based company providing outsourced information-technology (IT) services. In our view, the company continues to grow at an impressive clip, with 30% earnings per share growth in the fourth quarter of 2023. FPT has enjoyed stronger growth than many of its competitors, due in part to a diversified, worldwide customer base. FPT has also benefited from a cost advantage relative to other outsourced IT service providers, as the typical Vietnamese IT engineer's salary is much less than that of an IT engineer in China or India.

Qualitas Controladora SAB de CV was another contributor. We believe the Mexico-based automobile insurer is hitting an inflection point where many factors are turning positive. After the height of the pandemic, people started traveling more, which naturally raised the number of accidents on the road and, in turn, raised costs for Qualitas. At the same time, supply-chain issues made it more costly for Qualitas to fix automobiles, given high inflation on spare parts. But recently, Qualitas raised prices in response to those increased costs, and price increases are driving stronger premium growth, which is helping the company get ahead of the aforementioned cost-inflation issues. Another factor turning in Qualitas's favor is that it repriced its investment portfolio at higher interest rates and has been extending the duration of its portfolio as rates have peaked, so the company is earning more from those



investments. All these factors are improving top- and bottom-line growth, which has driven the stock higher. We think that over the longer term, the company is likely to remain the market leader in an underpenetrated Mexican insurance market. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

As we examine frontier and emerging markets, the macroeconomic backdrop seems favorable for the countries in which we have our largest portfolio weights. For example, in Vietnam, the Fund's largest geographic weight, tourism is picking up, and several manufacturing and export-driven industries are strengthening.

Over the longer term, we believe several macroeconomic and demographic tailwinds should continue to support investments in Vietnam. For example, the country's population is growing, giving rise to a budding consumer market. A more skilled labor force is also making Vietnam an attractive destination for foreign companies. Over the next decade, we believe the country will be one of the largest beneficiaries of global companies diversifying their supply chains and adding manufacturing capabilities outside of China.

Some of our other largest geographic weights include Mexico and Brazil. Here, too, the macroeconomic environment is constructive. Mexico has benefited tremendously as U.S. companies relocate many of their manufacturing plants closer to U.S. borders. Meanwhile, Brazil appears to have managed a global inflationary cycle far better than most would have imagined and was aggressive in hiking rates as inflation spiked in 2021 and 2022. After one of the most aggressive rate-hike cycles in the world during the time period, Brazil's central bank started reducing interest rates last year, and it expects inflation in 2024 to be at the midpoint of the bank's targeted range. Meanwhile, economic growth has remained stable.

While we're feeling positive about the economic outlook for each of these countries, top-down, macroeconomic views are not the primary driver of our portfolio construction process. Company-specific, fundamental analysis always plays a larger role in our decisions. On this front, we're also encouraged. With the vast majority of companies in our portfolio reporting year-end earnings results as of this writing, the portfolio's weighted average earnings growth for 2023 stood at 77%.

That earnings growth comes on the heels of a very difficult operating environment for most businesses. In the past few years our companies have endured a global pandemic, supply chain issues, inflation and, in many markets, tighter lending standards. Our companies had the balance sheet strength and resilience to withstand each of these issues and, in many cases, to continue investing in their business and emerge stronger.

The best from these businesses may still lie ahead. We've mentioned it in prior commentaries, but many of our companies are technology firms or financial-technology (fintech) businesses that are rewriting the way consumers communicate, shop, borrow and transact. Many emerging- and frontier-market countries are at an inflection point in which the digital infrastructure is finally in place to enable these trends to push forward. As such, we are excited about the earnings potential of our companies going forward.

Thank you for the opportunity to manage your assets.

Sincerely,

Scott Thomas



TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2024

	Quarter*	1 Year	3 Years	5 Years	10 Years
Frontier Emerging Small Countries Fund—Investor	5.41%	19.93%	-5.24%	5.03%	0.73%
Frontier Emerging Small Countries Fund—Institutional	5.31%	19.93%	-4.95%	5.27%	0.92%
MSCI Frontier Emerging Markets Index†	5.58%	15.32%	2.37%	0.44%	0.38%
MSCI Frontier Markets Index†	5.25%	13.97%	0.92%	3.02%	1.79%

*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 1/31/2025.** 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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Earnings per share or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.

FRONTIER EMERGING SMALL COUNTRIES FUND – TOP 10 HOLDINGS

AS OF DECEMBER 31, 2023

Security Name	Percent of Net Assets
FPT Corp.	10.8%
MercadoLibre, Inc.	9.0%
Bajaj Finance Ltd.	8.2%
Qualitas Controladora SAB de CV	7.2%
NU Holdings Ltd.	6.7%
Bank for Foreign Trade of Vietnam JSC	5.4%
Globant SA	4.4%
Raia Drogasil SA	4.0%
Baltic Classifieds Group PLC	3.8%
Cholamandalam Investment & Finance Co. Ltd.	3.3%
Total	62.8%

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.