WASATCH GLOBAL INVESTORS

Quarterly Commentary

Wasatch Global Select Strategy

JUNE 30, 2023

Amid Macroeconomic Uncertainty, We're Pleased With Our Companies' Fundamentals

OVERVIEW

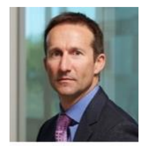
For the second quarter of 2023, the Wasatch Global Select strategy ended the period with a gain but underperformed the benchmark MSCI AC (All Country) World Index, which was up 6.18%.

While global equities notched moderate gains during the period, macroeconomic data was mixed and continued to weigh on stocks. During the period, new data showed the European Union experienced its second quarter of economic contraction in the winter months, and economic data following China's reopening came in softer than many forecasters expected. However, a string of positive U.S. data released in June eased recession fears and helped lift global equities toward the end of the quarter.

On a geographic basis, stock selection in the United States and Japan detracted most from the strategy's performance relative to its benchmark. However, the strategy's stock selection in the United Kingdom and its lack of exposure to China contributed to relative performance.

At the sector level, stock selection in information-technology (IT) and financials detracted most from relative performance, while stock selection in health care and consumer staples contributed to relative results.

PORTFOLIO MANAGERS



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DETAILS OF THE QUARTER

One of the largest contributors to strategy performance for the quarter was Abcam PLC. The stock of the British health-care company was up substantially after its board announced it would explore a sale of the company. We sold out of the position after the news. While Abcam owns some phenomenal assets, executional missteps had already made us question our investment thesis.

Trex Co., Inc. (TREX) was another top contributor. The company manufactures high-performance composite (non-wood) decking and accessories. Signs that the U.S. homebuilding market is finally rebounding were a source of strength for the stock. While Trex would benefit from an increase in homebuilding activity, we believe there are other demand drivers for its products. In short, we believe the company will continue to take market share in composite decking and from traditional suppliers of wood products, which have shorter lifespans and require extra upkeep compared to composites.

Another strong stock in the strategy was Bajaj Finance Ltd. A non-bank financial company, Bajaj offers a broad spectrum of lending services in India. Consolidated profit after tax rose 30% in the company's most recent quarter on 32% growth in revenue from operations compared to the same quarter a year ago. The better-than-expected results helped ease concerns about the planned entry of a new competitor into the sector. Additionally, Indian financials in general got a boost as slowing inflation raised hopes that the RBI will cut interest rates later this year

BayCurrent Consulting, Inc., a Japan-based business-management and IT consultant, was one of the strategy's largest detractors from performance during the quarter. Concerns about the technology spending environment weighed on the stock, but there has been no slowdown in BayCurrent's business. The firm grew revenues by 32% in its most recently reported quarter. Demand for digital-transformation projects, a key area of focus for BayCurrent, continues to be strong in Japan. Many Japanese businesses have found themselves behind the curve when it comes to digitalization and are now using ample cash on their balance sheets to spend on large-scale digital projects to catch up. We believe BayCurrent will continue to be a prime beneficiary of this trend, as it enjoys a home-country advantage over global competitors when it comes to working with Japanese businesses.

Silergy Corp. also detracted. Silergy produces integrated-circuit chips used in a wide array of electronic devices. The company's shares struggled amid competitive pressures and a weak demand environment, which we believe is cyclical and temporary. Lowered short-term expectations for the automotive segment of the business may also have dampened enthusiasm for the stock. Even so, Silergy's value proposition remains attractive in our view, and we think the company could emerge from the current semiconductor cycle in a stronger competitive position.

MercadoLibre, Inc. 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's been called "the Amazon of Latin America" due to its leadership in the region's fast-growing online marketplace. After a substantial increase 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.

OUTLOOK

As we've noted in prior commentaries, the macroeconomic environment is shrouded in uncertainty. Central banks in developed markets are likely in the latter innings of hiking interest rates, but no one knows how strong or weak each economy will emerge from tighter monetary policies.

The lack of clarity makes it hard to pinpoint when markets will fully recover from last year's selloff. However, we've been pleased with how well the fundamentals for our companies have held up in this environment. Aside from some of the more economically sensitive companies, earnings and revenue growth of the strategy's holdings have remained intact. And we've done a lot of due diligence on each of our holdings in recent months to make sure the fundamental growth thesis underpinning each stock remains in place. By and large, our conviction holds, which is why our positioning hasn't changed much.

In terms of that positioning, our weighting to U.S. companies—the largest geographic allocation within the portfolio—remains in line with prior quarters. Within the country, small-cap valuations appear much more attractive than large-caps. We believe relatively attractive valuations could set the stage for a small-cap rally when the economic picture is clearer.

Outside of the U.S., our largest weight in developed markets remains in Japan. Investment team members spent two weeks in the country, visiting more than 50 companies in March. A key takeaway was that Japan is only beginning to experience the post-pandemic economic recovery that other developed-market economies have already enjoyed. Japan was much slower to ease social restrictions and didn't lift Covid-related border control measures until April of this year. On our team's visit, executives from some of the strategy's current holdings reported accelerated demand for products and services as Japan reopens. Their comments have been backed up in recent months by large, global IT companies, who have reported that Japan is one of few areas of the world experiencing strong demand.

In emerging markets, our largest weight remains in India. Members of our emerging-markets team just returned from the country in June, noting that sentiment on the ground seemed high. Even management teams that have historically been more conservative were positive about the country's economic outlook. The team came back with increased conviction in the growth potential of some of the strategy's current holdings and found several investment ideas that may make their way into the portfolio.

In short, we continue to be excited about the growth potential of the companies we invest in around the world. After a valuation reset in 2022, we really like the return potential of our stocks over the next three to five years.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Paul Lambert, Linda Lasater and Mike Valentine

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