WASATCH GLOBAL INVESTORS

Quarterly Commentary

Wasatch Global Select Strategy

SEPTEMBER 30, 2023

As the Operating Environment Gets Challenging, We Believe High-Quality Growth Companies Will Distinguish Themselves

OVERVIEW

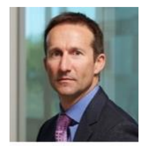
For the third quarter of 2023, the Wasatch Global Select strategy declined and underperformed the benchmark MSCI AC (All Country) World Index, which lost -3.40%.

After rallying for much of 2023, global equity markets cooled in the third quarter. Concerns about a weak economy in China and sticky inflation data in Europe both weighed on equity markets during the period. Additionally, stocks came under pressure after central banks indicated they may need to leave interest rates elevated for longer than previously anticipated.

During the quarter, the strategy's holdings in the financials sector were its largest source of underperformance relative to the benchmark. The strategy's lack of exposure to the energy sector also detracted from relative results. However, our holdings in the industrials and health-care sectors contributed to relative results.

On a geographic basis, the strategy's holdings in Japan detracted most from relative performance. However, the strategy's holdings in the United States contributed to relative results.

PORTFOLIO MANAGERS



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DETAILS OF THE QUARTER

Amadeus IT Group SA was the largest detractor from strategy performance during the quarter. The company provides a range of IT solutions to the travel and hospitality industries. Earlier in the year, the stock was up as investors anticipated a rebound in international air-traffic volumes as countries resume travel after the pandemic. However, air-travel demand hasn't come back as quickly as most investors probably expected, and that likely weighed on the stock in the third quarter. We're being patient with the stock. We continue to believe both the airline and hospitality industries will be under pressure to increase efficiency. Companies in these industries also need to differentiate themselves through better convenience and service to their customers. We believe Amadeus' technology solutions will play a vital role in achieving these aims.

Another weak stock was GMO Payment Gateway, Inc. The Japan-based company provides credit card transaction services for e-commerce firms. GMO's stock was down after its management team suggested that as the company becomes a more strategic payment partner to larger companies, its growth rate could become more volatile from period to period, though we believe it should still achieve its mid-term target of a 25% earnings growth rate. We were less concerned about the guidance. As GMO expands its value proposition and works on bigger projects, we're not surprised to see the growth follow a less linear path. We also believe that as the company grows larger, it wouldn't be surprising if the company adjusts its long-term profit growth target to a 20% compound annual growth rate, or slightly higher. That growth is still impressive, in our view.

HDFC Bank Ltd. was another detractor. An Indian company, HDFC Bank provides banking, custody and other services to the global corporate sector. Hoping to expand its reach beyond traditional banking, HDFC Bank merged with parent company HDFC Ltd. in July. In September, however, HDFC Bank disclosed that accounting rules and merger regulations required it to value its parent's business about 16% lower than it had reported before the merger. The company also warned that it now expects the merger to negatively impact its return on equity, net interest margins and non-performing loan ratios as well.

HealthEquity Inc. (HQY) was the top contributor to strategy performance in the third quarter. The company is the largest U.S. non-bank custodian for health savings accounts (HSAs). HealthEquity is a beneficiary of higher interest rates, because higher rates mean it earns more from reinvesting the cash sitting in customers' HSA accounts. A shifting view that the Federal Reserve will have to leave interest rates higher for longer likely boosted the stock this quarter, but we don't own the company based on a view on interest rates. Instead, we anticipate significant long-term growth for HealthEquity as more employers offer HSAs to attract employees.

Bajaj Finance Ltd. was also a top contributor. A non-bank financial company (NBFC), Bajaj offers a broad spectrum of lending services in India. Shares of the company moved higher following reports that it was planning to raise up to $1 billion in new capital. Some investors viewed the move as a sign that management is anticipating stronger-than-expected loan growth. Others speculated that Bajaj is accumulating funds to aggressively fend off competition from another NBFC thought to be planning an entry into India's consumer-lending market.

Another top performer 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 revenue growth of 16%. Management also said it expects 19% revenue growth in the third quarter, which was ahead of consensus expectations. Globant has been a volatile stock 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.

OUTLOOK

In many ways, the third-quarter market environment seemed similar to 2022, though less severe. As central banks indicated they will likely keep interest rates higher for longer, bond yields rose, and global equities lost ground. Also mirroring 2022, value stocks outperformed growth stocks, large-cap stocks outperformed small-caps, and the energy sector was one of the few bright spots within equity markets.

These trends were headwinds to our relative performance in the third quarter. But we think the stage is being set to favor the types of high-quality growth companies we typically invest in.

While uncertainty remains about just how long the Federal Reserve and other central banks will keep rates high, we believe we're near the top of the interest-rate cycle. That being the case, we don't expect a large valuation reset for growth stocks. Instead, we think investors' attention may turn to companies that can thrive in a higher-for-longer interest-rate environment. It will be a difficult landscape for many businesses to navigate.

In just a little over a year's time, the cost of capital for businesses has increased substantially. Companies that had relied on inexpensive debt to fund their growth initiatives in previous years may have to pare back on those plans now. Meanwhile, as central banks leave interest rates at current levels, or even slightly higher, the risk of a global recession only increases. That would be a headwind to corporate earnings for almost any company, but particularly those with cyclical business models.

We believe an environment of slower growth and rising capital costs should favor the types of high-quality growth companies that Wasatch seeks. Our investment process focuses on firms with strong balance sheets, low levels of debt and a steady history of earnings growth and cash flow generation. These self-funded businesses can continue to carry out their growth plans and take market share during difficult periods that may force their competitors to retrench.

In a higher-for-longer rate regime that creates operating headwinds for many businesses, we expect the market to reward the stocks of the select companies that can grow through that cycle. And we feel very good about our companies' ability to do that.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Paul Lambert, Linda Lasater and Mike Valentine

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Indexes are unmanaged. Investors cannot invest directly in an index.

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