WASATCH
GLOBAL INVESTORS

Quarterly
Commentary

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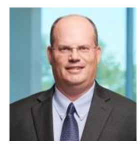
# Wasatch Global Value Fund

JUNE 30, 2023

## Despite Positive Investor Sentiment and Performance In 2023, We're Cautious of Where We Are in the Economic And Market Cycle


FUND MANAGER



**David Powers, CFA, CAIA, CPA**
Lead Portfolio Manager

9 YEARS ON FUND / 9 YEARS AT WASATCH


### OVERVIEW

Global equities finished the quarter in positive territory. Sentiment was supported during the quarter as the U.S. Federal Reserve (Fed) took a more incremental approach to raising interest rates in response to easing inflation. Markets were further encouraged by economic growth and corporate earnings that were more resilient than anticipated. While these factors allowed stocks in aggregate to post gains, performance leadership was concentrated among a handful of mega-cap technology-related stocks. Many of the quarter's top performers were companies that investors viewed as likely beneficiaries of a rapid expansion in commercial applications for artificial intelligence (AI).

The Wasatch Global Value Fund returned 0.70% in the second quarter of 2023, underperforming the MSCI AC World Value Index, which returned 2.98%. The Fund's more defensive positioning—the rationale for which we discuss in the Outlook section below—was a headwind in a quarter where investors became more hopeful for an economic "soft

*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 1.20%, Net 1.10% / Institutional Class—Gross 1.14%, Net 0.95%. The Advisor has contractually agreed to limit certain expenses to 1.10% for the Investor Class and 0.95% for the Institutional Class through at least 1/31/2024.***

landing." Positive contributions to performance of the MSCI AC World Value Index were led by stocks within the financials, information technology and industrials sectors. Contributions to the Fund's performance relative to the benchmark were led by its positioning within health care and materials, while positioning within consumer discretionary and communication services detracted most significantly.

## DETAILS OF THE QUARTER

Leading contributors to Fund performance included Johnson & Johnson (JNJ), commonly known as "J&J," within health care. The company had experienced a legal setback with its efforts to contain the financial impact of litigation concerning an asserted connection between its since-discontinued, talcum-based baby powder and ovarian cancer. In April, J&J proposed a reorganization plan that received significant support from claimants. The plan includes a payment of $8.9 billion in present-value terms over 25 years. The proposed compensation wouldn't unduly impact J&J's balance sheet or very substantial free cash flow. In addition, J&J spun out its consumer-product business while retaining a more than 90% stake. The new entity, Kenvue, is now publicly traded. And the restructuring should allow J&J to realize a higher multiple on its remaining pharmaceutical and medical-device businesses.

Within financials, JPMorgan Chase & Co. (JPM) was a standout performer. JPM reported strong earnings while beating estimates on key measures and increasing guidance. More broadly, the company has been viewed as a bastion of relative safety against the backdrop of banking industry turmoil. In that vein, JPM's acquisition of failed First Republic Bank's deposits should only add to the company's earnings going forward. Finally, financial stocks as a whole benefited from the emergence of a "soft landing" narrative during the quarter.

The Fund's position in Chinese industrial conglomerate NWS Holdings Limited proved beneficial as well. NWS's business mix comprises life insurance, infrastructure and aircraft leasing, among other segments. During the quarter, NWS received an offer from a Hong Kong billionaire with substantial holdings of NWS stock to purchase a majority stake, which would enable the company to pay down its significant debt. We're reviewing the offer to understand its impact on the company over the long term.

Within telecommunication services, AT&T, Inc. (T) was the Fund's largest detractor. While the wireless provider's first-quarter earnings came in essentially in line with expectations, cash flow was notably lower than the market anticipated. As management has communicated plans to use cash flow to reduce debt, investor reaction to the shortfall was sharply negative. In our view, the cash-flow miss was largely driven by seasonal factors, and it's unlikely that AT&T will repeat such a disappointment. We added to the position on the view that the stock may be poised for a rebound.

South Korean casino operator Kangwon Land, Inc. posted another poor quarter of performance. Kangwon operates Korea's only casino that's open to the country's citizens. Results have been negatively impacted by a slower-than-expected recovery from Covid-19, which has weighed on casino traffic. An exacerbating factor in the recent weakness is that many high-rolling, VIP Korean gamblers have become accustomed to frequenting Macau, a special administrative region of China referred to as "The Las Vegas of Asia." In addition, Kangwon's results have been squeezed on the expense side as the company has been investing in facility upgrades designed to expand capacity and improve customer experience. Kangwon has a strong balance sheet with virtually no debt and has strong support from the Korean government. We're maintaining the position in anticipation of volumes ultimately recovering.

Utility provider **Duke Energy Corp. (DUK)** posted an earnings miss driven by adverse weather and reduced energy consumption. In addition, Duke has been divesting its renewable energy assets, principally wind and solar. The company sold a major tranche of these assets during the quarter, and the proceeds were below expectations. More broadly, defensive sectors such as utilities were out of favor during the quarter's stampede into growth- and technology-oriented stocks. In addition to being a defensive holding in our view, the stock's dividend yield and attractive valuation are reasons we maintained our position. (*Current and future holdings are subject to risk and change.)*

## OUTLOOK

Despite the positive investor sentiment and stock-market performance seen over much of 2023's first half, we maintain a cautious view of where we are in the economic and market cycle. While the Fed may be approaching the end of its hiking cycle, history suggests the economy has yet to fully reflect the lagging impact of a federal-funds rate between 5% and 6%. An inverted Treasury yield curve is signaling recession even as banks have tightened lending standards, and the money supply is contracting as the Fed trims its bond holdings. Finally, while services demand remains strong, purchasing managers indexes on the manufacturing side are well into contractionary territory.

Given these wide-ranging headwinds, we continue to view the global economy as remaining vulnerable to a hard landing and possibly unforeseen systemic risks. As a result, we remain positioned relatively defensively, with overweights to the utilities, health-care, consumer-staples and telecommunication-services groups, and underweights to consumer discretionary, information technology, materials, industrials and financials. More broadly, the Fund's holdings are high quality based on strong free cash flow and sound balance sheets, while also featuring larger market capitalizations, less expensive valuations, above-average dividends and lower beta (market sensitivity) relative to the value benchmark.

As always, we'll continue to adhere to our discipline in selecting stocks regardless of the short-term direction of the markets in response to a shifting macroeconomic and geopolitical backdrop.

Thank you for the opportunity to manage your assets.

Sincerely,

David Powers

## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

| | Quarter* | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|
| Global Value Fund—Investor | 0.70% | 7.39% | 16.95% | 7.51% | 7.75% |
| Global Value Fund—Institutional | 0.74% | 7.57% | 17.10% | 7.66% | 7.89% |
| MSCI AC (All Country) World Value Index** | 2.98% | 9.95% | 11.82% | 5.16% | 6.19% |

**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 1.10% for the Investor Class and 0.95% 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.*

**Investments in value stocks can perform differently from the market as a whole and other types of stocks and can continue to be undervalued by the market for long periods of time. Investing in foreign securities, especially in emerging and frontier markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Loss of principal is a risk of investing.**

***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 Global Value Fund's investment objectives are to seek capital appreciation and income.

** The MSCI AC (All Country) World Value Index captures large- and mid-cap securities exhibiting overall value style characteristics across 23 developed-market countries and 24 emerging-market countries.

*Indexes are unmanaged. Investors cannot invest directly in these or any indexes.*

*MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.*

*The federal-funds rate is the interest rate at which private depository institutions (mostly banks) lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight. It is the interest rate banks charge each other for loans.*

*The yield curve is a line on a graph that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares three-month, two-year, five-year and 30-year U.S. Treasury securities. This yield curve is used as a benchmark for other interest rates, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.*

*Beta is a measurement of a fund's trailing return in relation to the overall market (or appropriate market index). A beta of 1 indicates the share price will typically move with the market. A beta of more than 1 indicates the share price will typically be more volatile than the market. A beta of less than 1 indicates the share price will typically be less volatile than the market.*

## GLOBAL VALUE FUND — TOP 10 HOLDINGS
AS OF MARCH 31, 2023

| Security Name | Percent of Net Assets |
|---|---|
| TotalEnergies SE | 4.8% |
| Johnson & Johnson | 4.8% |
| Duke Energy Corp. | 4.2% |
| Novartis AG | 4.0% |
| Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen | 3.9% |
| Exelon Corp. | 3.9% |
| Union Pacific Corp. | 3.9% |
| KT&G Corp. | 3.4% |
| Koninklijke Ahold Delhaize NV | 3.4% |
| Bristol-Myers Squibb Co. | 3.3% |
| Total | 39.6% |

*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.*