

Wasatch International Growth Fund

MARCH 31, 2024

We Made A Few Incremental Positioning Changes This Quarter to Reflect Idiosyncratic Headwinds and Tailwinds

OVERVIEW

For the first quarter of 2024, the Wasatch International Growth Fund—Investor Class was down -3.81%, underperforming the benchmark MSCI AC (All Country) World ex USA Small Cap Index, which was up 2.11%.

At the sector level, the Fund's stock selection in the industrials and information-technology (IT) sectors detracted most from its performance relative to the benchmark. Meanwhile, the Fund's holdings in real estate and communications services contributed most to relative performance.

On a geographic basis, our holdings in Japan and the United Kingdom detracted most from relative performance. Conversely, stock selection in Australia and Germany contributed to relative results.

DETAILS OF THE QUARTER

The Fund's largest detractor this quarter was **Endava PLC**. The British IT-services company provides digital-transformation consulting, agile software development and various automation solutions to businesses.

FUND MANAGERS



Ken Applegate, CFA, CMT
Lead Portfolio Manager

8 / 9
YEARS ON FUND / YEARS AT WASATCH



Linda Lasater, CFA
Portfolio Manager

10 / 17
YEARS ON FUND / YEARS AT WASATCH



Derrick Tzau, CFA
Associate Portfolio Manager

4 / 6
YEARS ON FUND / YEARS AT WASATCH

*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—1.41% / Institutional Class—1.29%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.35% for the Institutional Class through at least 1/31/2025.***



The stock was down after Endava lowered revenue guidance for the rest of its fiscal year. Although there were signs in late 2023 that spending on IT consulting was beginning to recover, Endava and many of its competitors have indicated that spending continues to be pushed back. According to Endava and other industry participants, companies have budgeted for large-scale IT projects that require consultants, but given the uncertain economic environment, they're pausing some projects. While the recovery in spending may have been pushed back a little, Endava is still a company we want to own for the long term. Endava invested in its business during the downturn, which we think should better position it against competitors as spending on large-scale IT projects recovers. Over the long term, digital transformation remains a business imperative for most firms, and we believe Endava will play a critical role in helping many firms pivot their operations.

BayCurrent Consulting, Inc. was another detractor. Like Endava, BayCurrent provides IT consulting services and is focused on digital transformation. Japan hasn't experienced the slowdown in IT spending that is occurring in much of the world, largely because the country's businesses are behind when it comes to digitalization and are now spending to catch up. However, BayCurrent's recently reported net profit margins were lower than expected, which weighed on the stock.

While the stock price was down, we believe our long-term thesis on BayCurrent remains intact. Demand for IT consulting services remains high in Japan. And BayCurrent's position within the market remains strong, in our view. But with demand growing and the labor market for IT professionals remaining tight, BayCurrent has had to hire less-experienced consultants to help grow the business. Having less experience, these professionals require training and have a longer ramp-up period. We reduced our position size in recent months due to our concerns about staffing. However, we now see signs that the labor market for top IT talent may finally be improving. On our most recent trip to Japan, we found that some of BayCurrent's larger global competitors have been shedding talent to cut costs. We wouldn't be surprised if BayCurrent scooped up some of the more talented professionals.

SMS Co. Ltd. also detracted. The Japan-based company provides medical care, nursing care, and other life services for the elderly. There was no change in fundamentals driving the stock lower during the month. We believe the stock simply gave back some of its gains from the fourth quarter. We continue to like SMS and have been adding to the position size in recent months. In our view, the company provides valuable labor liquidity in a medical- and elder-care career market that remains in structural deficit. In addition, SMS has gone through a significant investment cycle, hiring more health-care professionals, and we believe the company will see revenue and earnings growth from those hires this year.

The largest contributor to Fund performance in the first quarter was **Netwealth Group Ltd.** The Australian company offers portfolio administration, superannuation, retirement, investment and managed-accounts services. The stock was up after Netwealth released solid operating results, including strong earnings growth. We believe our thesis on the company continues to play out. Netwealth is benefiting from a tidal shift in assets moving away from legacy banks and into specialist investment platforms. The shift comes after the Australian government exposed widespread misconduct in the vertically integrated wealth business of some large banks.

Qualitas Controladora SAB de CV was another contributor. We believe the Mexico-based auto insurer is hitting an inflection point where a lot of business 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. More recently, Qualitas raised prices in response to its increased costs. Those price increases are driving premium growth, which is now more than offsetting the cost inflation they've faced. Another



favorable factor for Qualitas came from repricing and extending the duration on its investment portfolio at higher interest rates, so it's earning more from those investments. All these factors are improving top-line and bottom-line growth, which has driven the stock higher. Longer term, we think the company will continue to benefit as the market leader in an underpenetrated Mexican insurance market.

Another top contributor was **CyberArk Software Ltd.** The stock of the Israel-based cybersecurity company was up after management shared better-than-expected earnings results for the fourth quarter of 2023. Looking ahead, we continue to think CyberArk will benefit from the increasing need for businesses to protect their IT systems from cyber threats. However, we used recent price strength to trim the position and fund other ideas. *(Current and future holdings are subject to risk and change.)*

POSITIONING

Our positioning hasn't changed much from the prior quarter, but there were a few more marginal changes than normal, which we wanted to share. At the broadest level, the Fund's largest geographic weights remain in Japan and the U.K. And at the sector level, our largest weights are in the IT and industrial sectors. These countries and sectors are areas of the market where we continue to find a lot of company-specific opportunities.

However, this quarter we made more changes to position sizes than we normally do. Those changes fall into three main camps. First, we took some profits and trimmed the position sizes of a few stocks that were nearing our valuation target. We also felt there were industry-specific risks on the horizon for some of those stocks. Second, we've added to the position sizes of several companies whose stock prices have declined amid a cyclical slowdown. In these cases, we really like the companies' long-term growth potential coming out of that slowdown. Finally, we also added to the position sizes of some companies that are either exiting a period of heavy investment that we think should improve growth or that are emerging from a company-specific setback and now look poised for improved profitability, in our view.

To reiterate, these changes were incremental. But unlike a period of global macroeconomic strength or weakness in which the earnings of companies all tend to move in tandem, we see more idiosyncratic headwinds and tailwinds facing companies, industries and even countries. As such, we wanted to be proactive in positioning our portfolio for what may lie ahead.

OUTLOOK

While our Japanese stocks were a source of underperformance this quarter, we have high conviction in the growth potential of those holdings. In fact, a recent two-week trip to the country bolstered our views about the earnings potential of the businesses we own in the years to come. The trip also reinforced some of our views about why Japan has become a country ripe with investment opportunity.

One reason we feel good about our holdings in Japan is that underlying earnings trends remain strong. Average earnings growth for our Japanese holdings was roughly 22% as of the end of February, and valuations remain extremely attractive. Many of our Japanese stocks are trading at levels rarely seen in the last decade.

Business conditions in Japan also remain favorable. A key observation from our Japan trip is that after decades of deflationary pressures, inflation appears embedded in the Japanese economy. In recent years, companies have been affected by rising costs, particularly wage inflation. But businesses had challenges raising prices enough to offset those costs. Finally, we're seeing more businesses able to pass through those higher costs via higher prices for goods and services.



Additionally, we continue to see signs that companies in Japan are becoming more shareholder-friendly. This is a theme we've discussed a few times over the years, but in short, when Shinzo Abe was elected prime minister a decade ago, he introduced a series of policies and structural reforms aimed at reviving Japan's economy. One of the broad policy goals was to improve corporate governance and business competitiveness. Change occurred with just a small number of dynamic companies at first, but with each visit we've seen an increasing number of companies that are doing more for shareholders.

On this trip, quite a few firms had their own interpreter, which used to be rare for a small-cap company. More than 80% of the companies we met had materials presented in English. This is in stark contrast to years ago when companies had no presentation at all—much less English disclosures.

The actions businesses are taking also signal they're listening to shareholders. For example, drugstore companies are responding to shareholder pressure by consolidating the industry and seeking to improve shareholder returns. That specific change was particularly positive, as it supports the underlying investment thesis of one of the drugstore operators we own.

Finally, we were encouraged to see Japanese businesses innovating and adapting. For example, amid wage inflation, greater labor mobility and a general war for talent among firms, employee attrition rates are increasing. At first, businesses responded by hiring more graduates, but this practice has become mainstream. Now we're seeing the better companies get creative. Innovative companies are improving training, engagement and incentivization of their employees. For example, on the training front, one company we visited designed an online workflow tool to help employees collaborate and share best practices. Other companies are finding ways to improve the work-life balance of employees instead of grinding them down. These concepts wouldn't seem new everywhere, but they're new in Japan, where corporate culture has always been more rigid.

Given the positives we see in Japan broadly—and our companies specifically—we believe our Japanese holdings will be a source of relative outperformance over the long term.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Linda Lasater and Derrick Tzau



TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2024

| | Quarter* | 1 Year | 3 Years | 5 Years | 10 Years |
|---|----------|--------|---------|---------|----------|
| International Growth Fund—Investor | -3.81% | 1.24% | -8.49% | 1.33% | 2.88% |
| International Growth Fund—Institutional | -3.78% | 1.35% | -8.39% | 1.44% | 2.98% |
| MSCI AC World ex USA Small Cap Index** | 2.11% | 12.80% | 0.38% | 6.24% | 4.74% |
| MSCI World ex USA Small Cap Index† | 2.58% | 10.04% | -0.93% | 5.39% | 4.54% |

*Returns less than one year are not annualized.

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. To obtain the most recent month-end performance data available, please visit wasatchglobal.com. The Advisor may absorb certain Fund expenses, without which total returns would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total Expense Ratio: Investor Class—1.41% / Institutional Class—1.29%**

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 1.75% for the Investor Class and 1.35% 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.

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 International Growth Fund's investment objective is long-term growth of capital.

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***The MSCI AC (All Country) World ex USA Small Cap Index is an unmanaged index and includes reinvestment of all dividends of issuers located in countries throughout the world representing developed and emerging markets, excluding securities of U.S. issuers. This index is a free float adjusted market capitalization index designed to measure the performance of small capitalization securities.*

**The MSCI World ex USA Small Cap Index is a free float adjusted market capitalization weighted index designed to measure the equity market performance of developed markets, excluding the United States.*

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

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Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

Revenue growth is the increase in a company's revenues over a specified period of time, not necessarily one year.

Valuation is the process of determining the current worth of an asset or company.

INTERNATIONAL GROWTH FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2023

| Security Name | Percent of Net Assets |
|----------------------------------|-----------------------|
| Diploma PLC | 3.5% |
| Descartes Systems Group, Inc. | 3.3% |
| SMS Co. Ltd. | 3.1% |
| EQB, Inc. | 3.0% |
| Voltronic Power Technology Corp. | 3.0% |
| CyberArk Software Ltd. | 2.9% |
| Reply SpA | 2.8% |
| Endava PLC | 2.7% |
| Qualitas Controladora SAB de CV | 2.7% |
| GMO Payment Gateway, Inc. | 2.7% |
| Total | 29.7% |

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.