WASATCH GLOBAL INVESTORS

Quarterly Commentary

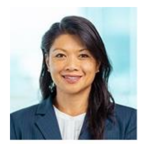
Investor WAIOX / Institutional WIIOX

# Wasatch International Opportunities Fund

JUNE 30, 2023

## We're Navigating an Uncertain Market Environment With Patience and Opportunism

FUND MANAGERS



**Linda Lasater, CFA**
Lead Portfolio Manager

7 YEARS ON FUND / 16 YEARS AT WASATCH

**Dan Chace, CFA**
Portfolio Manager

3 YEARS ON FUND / 21 YEARS AT WASATCH

**Allison He, CFA**
Associate Portfolio Manager

5 YEARS ON FUND / 10 YEARS AT WASATCH

### OVERVIEW

For the second quarter of 2023, the Wasatch International Opportunities Fund—Investor Class was down -1.05%, underperforming the benchmark MSCI AC (All Country) World ex USA Small Cap Index, which gained 2.05%.

While international equities notched moderate gains during the quarter, macroeconomic concerns 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. Economic news from other countries was mixed. Amid the uncertainty, large-cap stocks generally outperformed small- and micro-caps during the quarter.

On a geographic basis, the Fund's holdings in Japan and Australia detracted from results relative to the benchmark. However, the Fund's stock selection in Canada and its lack of exposure to China contributed to relative performance.

*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—1.96% / Institutional Class—1.91%. The Advisor has contractually agreed to limit certain expenses to 2.25% for the Investor Class and 1.95% for the Institutional Class through at least 1/31/2024.***

At the sector level, stock selection in the industrials and financials sectors detracted the most from relative performance. However, the Fund's stock selection in the materials sector and lack of exposure to real estate, which was the lowest-returning sector for the quarter, contributed to relative results.

## DETAILS OF THE QUARTER

Japan Elevator Service Holdings Co. Ltd. was the largest detractor from Fund performance during the quarter. As the company's name suggests, it provides elevator maintenance, repair and renewal services to building owners throughout Japan. Supply-chain issues delayed the firm from getting some of its parts, which has resulted in a slower pace of growth than expected. But nothing has fundamentally changed for the business. We believe the stage is set for the company to experience long, resilient revenue growth. Japan has more than 600,000 elevators built before 1997 that are approaching the end of their normal lifespan and will need to be renewed or replaced. We believe Japan Elevator will continue to gain market share, as the company can offer less-expensive services because it has a lower cost structure than the service companies of elevator manufacturers.

Another large detractor was Future PLC. The British multimedia company owns numerous highly trafficked websites and publishes 78 magazines across the U.K., the U.S. and Australia. Concern about whether an economic downturn might affect digital advertisement spending weighed on the stock during the period. The company also reported a decline in traffic at some of its websites. However, much of the decline was at one site that targets technology enthusiasts. This suggests that the company's general model of developing high-quality content that attracts various niche, special-interest audiences of motivated buyers isn't broken. And while traffic declined in recent months, other digital media companies have reported similar results. Importantly, Future has maintained or improved its audience rankings for most websites and publications, which suggests it isn't losing market share in the current environment. Finally, we were encouraged to see its CEO purchase nearly $1 million worth of stock during the quarter.

Johns Lyng Group Ltd. was another detractor. The Australia-based company works with the country's insurers to restore properties damaged during insured events. Australia is coming off an unusual period of increased disasters from floods and fires, which heightened demand for Johns Lyng's services. This will make year-over-year earnings comparisons challenging in the coming quarters, which has weighed on the stock. However, we continue to like the company for the unique niche it's carved out serving the insurance industry.

Bytes Technology Group PLC was the top contributor to Fund performance. The company is a value-added reseller (VAR) of software, which means it sells Microsoft and other software programs to small- and medium-sized companies. The U.K.-based company reported better-than-expected earnings results, and in the U.K., where valuations are relatively low, that was enough to lift the stock considerably. We think Bytes' growth potential and unique position in the market remain underappreciated. VARs such as Bytes serve as an external sales arm for Microsoft and other software companies. For that service, Bytes receives a portion of the recurring revenue from the software licenses, which tends to be a sticky revenue stream. In addition, larger VARs such as Bytes enjoy a tremendous scale advantage that can become self-fulfilling. Microsoft puts VARs in tiers based on sales volume. The better the tier, the better pricing, rebates and support the VAR receives from Microsoft. That better pricing and support then sweeten the value proposition for businesses to select Bytes as their VAR.

Another top contributor was ATOSS Software AG. The German company specializes in scheduling software that helps large companies manage their workforce. In Germany, niche regulations have built up for various unions and industries over the years, creating a slew of rules around when and how long different employee groups can work.

ATOSS' software helps companies optimize their staffing and stay compliant with the different regulations. We believe such software provides significant value to German companies. We weren't the only ones to find the business model attractive, as a private-equity company took a 20% stake in ATOSS during the quarter, which led to a jump in the stock price.

Canadian bank EQB, Inc. was another top performer. Strong earnings results propelled the stock higher during the period. We spent time with management in Canada recently and continue to like the business. The conservatively managed alternative lender targets its lending and services in niche market segments where Canada's six largest banks don't typically compete. EQB's market leadership position in these specialized markets has allowed it to grow a profitable business in a relatively low-risk fashion. The company's focus on digital and online banking has also been disruptive, allowing it to quickly grow deposits and customers. (*Current and future holdings are subject to risk and change.)*

## OUTLOOK

Micro-cap stocks have trailed large-caps this year, as lingering macroeconomic concerns have made investors hesitant to embrace stocks further out on the risk spectrum. In this uncertain environment, the market has punished the stocks of micro-cap companies that don't produce expected earnings results. We've navigated this environment with a blend of patience and opportunism.

For the vast majority of companies in our portfolio, fundamentals remain strong. In fact, we've been pleased by how well fundamentals have held up in recent years, first through a challenging operating environment during and after the pandemic, and now through a period of choppy economic growth. For these stocks, we remain patient. With a bit more economic clarity, we believe our stocks will get credit for the solid growth they continue to achieve.

For the stocks we hold that have been put in the penalty box for underachieving earnings expectations, we've done thorough due diligence to understand what was behind the miss. In most cases, our investment thesis for the company isn't broken. These companies are still generating strong cash flows, still investing in the business to gain market share, and will likely emerge from a softer economic environment stronger than their competitors. In such instances, we've been opportunistic, using volatility to round up position sizes when valuations present attractive opportunities.

Because fundamentals haven't deteriorated for most companies in our portfolio, our positioning hasn't changed much over the past several quarters. Our largest geographic weight remains in Japan. Within the country, we focus on company-specific opportunities, but many of our holdings fit within a couple of different themes.

First, we're investing in several IT companies that are helping Japanese firms digitalize their businesses. Japan has lagged other developed markets when it comes to digitalization, and we've been encouraged to see firms investing in large-scale IT projects to catch up.

Second, we have exposure to several Japanese industrial companies we believe could benefit from a broad reopening of the economy. And a recent visit to Japan in May reminded us of how early the country is in its post-pandemic recovery. For perspective on the nascent reopening, Japan didn't lift Covid-related border control measures until April of this year. During the visit, executives from some of the Fund's holdings reported accelerated demand for products and services as Japan begins to reopen.

As we look across our portfolio, we really like the Fund's return potential from here. We believe solid company fundamentals and attractive valuations have created a strong three- to five-year return profile, and we look forward to how our companies perform in the quarters ahead.

Thank you for the opportunity to manage your assets.

Sincerely,

Linda Lasater, Dan Chace and Allison He

## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

| | Quarter* | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|
| International Opportunities Fund—Investor | -1.05% | 5.58% | -6.13% | -0.28% | 5.23% |
| International Opportunities Fund—Institutional | -1.03% | 5.86% | -6.04% | -0.16% | 5.38% |
| MSCI AC World ex USA Small Cap Index** | 2.05% | 10.93% | 8.15% | 2.62% | 5.75% |
| MSCI World ex USA Small Cap Index† | 0.49% | 10.05% | 6.42% | 1.83% | 5.97% |

**Returns less than one year are not annualized.*

*Data show past performance, which is not indicative of future performance. 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—1.96% / Institutional Class—1.91%.**

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 2.25% for the Investor Class and 1.95% 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.*

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 micro 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.***

The Wasatch International Opportunities Fund's investment objective is long-term growth of capital.

***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.*

*Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)*

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

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

## INTERNATIONAL OPPORTUNITIES FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2023

| Security Name | Percent of Net Assets |
|---|---|
| Japan Elevator Service Holdings Co. Ltd. | 3.0% |
| YouGov PLC | 3.0% |
| DiscoverIE Group PLC | 2.9% |
| JTC PLC | 2.7% |
| Johns Lyng Group Ltd. | 2.6% |
| Nexus AG | 2.5% |
| Fortnox AB | 2.5% |
| Pro Medicus Ltd. | 2.5% |
| Premium Group Co. Ltd. | 2.3% |
| SIGMAXYZ Holdings, Inc. | 2.3% |
| Total | 26.2% |

*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.*