



Investor  
WAISX / Institutional  
WGISX

# Wasatch International Select Fund

MARCH 31, 2023

## The Fund Outperformed Its Benchmark, Driven By Strong Returns From Our Largest Holdings

### OVERVIEW

For the first quarter of 2023, the Wasatch International Select Fund—Investor Class gained 11.20% and outperformed the benchmark MSCI EAFE Index, which was up 8.47%.

International equities notched gains for the period but were volatile. Stocks started the year on an upswing, but signs of persistent inflation began to weigh on equity markets in February. Volatility continued in March after a few high-profile bank failures led to concerns about the industry.

On a geographic basis, the Fund's stock selection in Japan and Australia contributed to its outperformance of the benchmark. Conversely, stock selection in Italy and the United Kingdom detracted from relative performance.

At the sector level, stock selection in the industrials and financials sectors aided relative performance. However, stock selection within the health-care sector detracted from relative results.

### FUND MANAGERS



**Ken Applegate, CFA, CMT**  
Lead Portfolio Manager

3 / 8  
YEARS ON FUND / YEARS AT WASATCH



**Linda Lasater, CFA**  
Lead Portfolio Manager

3 / 16  
YEARS ON FUND / YEARS AT WASATCH



**Derrick Tzau, CFA**  
Associate Portfolio Manager

3 / 5  
YEARS ON FUND / YEARS AT WASATCH

*Data show past performance and 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](http://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 does not reflect this redemption fee or taxes. **Total Expense Ratio: Investor Class—Gross 3.34%, Net 1.30% / Institutional Class—Gross 2.37%, Net 0.90%. The Advisor has contractually agreed to limit certain expenses to 1.30% for the Investor Class and 0.90% for the Institutional Class through at least 1/31/2024.***

## DETAILS OF THE QUARTER

The most significant contributor to the Fund's performance during the quarter was **BayCurrent Consulting, Inc.**, a Japan-based business management and information-technology (IT) consultant. Demand for digital transformation projects, a key area of focus for BayCurrent, continues to be strong, which has helped lift the company's stock in recent months. Margins for the business also remain strong after management successfully pushed through price increases to offset rising wages. Such results indicate that our thesis on the company continues to play out. Japan is behind many countries when it comes to digitalization. The pandemic and work-from-home environment underscored its need to catch up. As Japanese enterprises undertake large-scale digitalization projects, we believe domestic IT consultants such as BayCurrent have a strong home-country advantage relative to global consulting firms.

Another top contributor was **Hermes International**. The French luxury-design house specializes in handbags, leather goods, jewelry, clothing and lifestyle accessories, including its globally famous and highly coveted Birkin bags. Strong sales results for the fourth quarter and 2022 calendar year have propelled the stock, as has investor expectation that luxury goods spending will increase as China lifts Covid-19 restrictions and its consumers begin to travel and shop.

**Amadeus IT Group SA** was also a significant contributor. The company provides a range of IT solutions to the travel and hospitality industries, and its stock has been up as international air-traffic volumes recover after the pandemic. Going forward, we 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.

The largest detractor from Fund performance was **DiaSorin SpA**, an Italian health-diagnostics company. The company benefited from heightened demand for its tests used to detect Covid-19. Now that the world is past the height of the pandemic, DiaSorin needs to offset the decline in Covid-19 tests with other diagnostics. This has weighed on the stock recently, but we still like DiaSorin's long-term growth potential and recurring-revenue operating model. The company is a leader in specialty disease testing in Europe, and we believe an acquisition it made in 2021 positions the company to take share in the U.S. disease-testing market.

**Endava PLC** was also a detractor. This British IT company offers software engineering, cloud transformation, test automation, technology consulting and other related services to businesses in a wide range of industries. The company reported quarterly earnings results that were in line with expectations, but the stock was down after management offered weaker guidance for the third and fourth quarters of its fiscal year. The customer sales cycle is becoming a little more elongated as businesses evaluate budgets more closely in light of a softening macroeconomic environment. Despite the short-term pause, nothing has changed in our long-term view of the company. We believe Endava has a long runway for growth in digital financial services and believe the company will continue to benefit from its role as an expert IT outsourcer.

Another weak stock was **Abcam PLC**. The stock of the British health-care company was down after it reported annual revenue that was below consensus expectations due in part to the implementation of a new enterprise resource planning (ERP) system, an undertaking that caused an order backlog in September and October. Covid-19 restrictions also reduced the company's revenues from China. While these were near-term setbacks, we don't believe anything has structurally changed for the firm. Abcam provides biological reagents and tools that are essential to a wide range of fields, including drug discovery, diagnostics and basic research. We expect high demand for these products as health-care innovation pushes forward. In addition, we believe profit margins will expand after an extended period of investment for the firm. *(Current and future holdings are subject to risk and change.)*



## OUTLOOK

Concern about the banking system has injected a new source of volatility into equity markets. So far, regulators have been able to address each troubled bank before contagion occurs, but it's difficult to predict whether other banks will come under pressure, and to what degree.

Within our concentrated portfolio, we don't own any banks. However, we continue to think about how banking turmoil could have knock-on effects on our holdings or the broader economy. Beyond the banking system, a likely effect of recent bank troubles is that the cost of capital for firms will continue to become more expensive. Rising interest rates have already increased capital costs considerably. If banks raise lending rates to offset increases in their deposit rates or become more selective in the customers they lend to, capital costs could increase further.

As the cost of doing business increases, it could hamper economic growth, negatively affecting corporate earnings. But the environment will be most detrimental to weaker firms, which have relied on low-cost debt to fund their growth.

We believe this environment underscores the importance of investing in high-quality businesses. We've mentioned it in prior commentaries, but companies with strong balance sheets, a history of free cash flow generation and a solid, proven operating model can withstand a slowdown and continue funding strategic growth initiatives. In fact, these challenging periods are when we typically see these companies take market share from struggling competitors, setting themselves up for better long-term growth when the economy bounces back.

If international equity markets trade lower on negative macroeconomic headlines and stocks sell off indiscriminately, we'll use that volatility to our advantage, investing further in high-quality businesses that are positioning themselves for better growth ahead.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate, Linda Lasater and Derrick Tzau



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
International Select Fund—Investor	11.20%	-10.06%	4.54%	N/A	2.28%
International Select Fund—Institutional	11.46%	-9.62%	4.90%	N/A	2.73%
MSCI EAFE Index†	8.47%	-1.38%	12.99%	N/A	5.45%
MSCI EAFE Mid Cap Growth Index††	9.77%	-8.09%	8.71%	N/A	2.85%

\*Returns less than one year are not annualized.

\*\*The Wasatch International Select Fund's inception date was October 1, 2019.

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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 1.30% for the Investor Class and 0.90% 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 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.

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](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.**

Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline.

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

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\*The MSCI EAFE Index is an unmanaged index capturing large and mid-cap representation across developed markets around the world, excluding the U.S. and Canada.

\*\*The MSCI EAFE Mid Cap Growth Index is an unmanaged index capturing mid-cap securities exhibiting growth style characteristics across developed markets around the world, excluding the U.S. and Canada.

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

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The "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.

Free cash flow is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. It is the cash a company generates after spending the money required to maintain or expand its asset base.

## INTERNATIONAL SELECT FUND— TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
BayCurrent Consulting, Inc.	8.1%
Amadeus IT Group SA	5.2%
Assa Abloy AB	5.2%
Hermes International	5.0%
ICON PLC	5.0%
Abcam PLC	4.8%
CAE, Inc.	4.8%
Dassault Systemes SE	4.6%
Sugi Holdings Co. Ltd.	4.3%
Dollarama, Inc.	3.9%
Total	50.8%
<p><i>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.</i></p>	