WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor / Institutional
WAMVX / WGMVX

Wasatch Micro Cap Value Fund

SEPTEMBER 30, 2020

Strong Performance Continued During the Quarter, But We Got a Glimpse of Rotation in The Market

FUND MANAGER

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17 YEARS ON FUND / 17 YEARS AT WASATCH

OVERVIEW

During the third quarter of 2020, the Wasatch Micro Cap Value Fund—Investor Class outperformed the benchmark Russell Microcap® Index by a wide margin. The Fund gained 11.62%, while the benchmark increased 3.69%.

Although we've recently been expecting a pause in the stock market, that hasn't yet happened to any significant degree. And regardless of this expectation, our investment approach remains unchanged because we're fully aware that the market often delivers returns in unpredictable ways—particularly for micro-cap stocks. The good news is that we've been very pleased with the Fund's long- and short-term performance. This trend of strong performance continued during the quarter even as we saw signs of market rotation, particularly in September.

We believe many investors are struggling with how to position their portfolios for two potential scenarios. The first scenario is that the economy returns to normal in relatively short order. The second scenario

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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. 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, leading to higher total shareholder returns. 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 1.74% / Institutional Class 1.59%. The Advisor has contractually agreed to limit certain expenses to 1.95% for the Investor Class and 1.60% for the Institutional Class through at least 1/31/2021.***

is that the economy continues to muddle along with certain segments of business and society partially or completely shut down.

If confidence builds for the first scenario, perhaps due to the widespread use of effective coronavirus vaccines and/or therapeutics, we'd expect a broad rally in the stock market—potentially favoring some value-oriented companies like banks, brick-and-mortar retailers, restaurants, airlines, hotels and other travel-related businesses. If the second scenario stays in force, we'd expect growth-oriented companies to be the relative leaders in the stock market because many growth names—in information technology and health care, for example—are well-suited to an economy that just muddles along.

During the quarter, among small and micro caps, we got a glimpse of what a longer-term rotation in the market might look like. Some value-oriented stocks rallied amid optimism that new Covid-19 cases in the U.S. were decreasing, vaccines and therapeutics were being tested, and many businesses and schools were reopening. Meanwhile, there were declines in the stocks of some growth-oriented companies that may have previously received too much attention as beneficiaries of the shelter-in-place and work-from-home trends.

Beyond the factors mentioned above, the actions of the U.S. Federal Reserve (Fed) have been just as important—or perhaps more important—in driving optimism among investors. While it had already been leading other central banks around the world, the Fed recently unveiled an even more accommodative approach with respect to monetary policy. Speaking at the virtual Jackson Hole Economic Policy Symposium in August, Fed Chairman Jerome Powell announced a shift toward letting inflation and employment run higher. Chairman Powell's comments provided an additional tailwind for stocks world-wide.

From a sector perspective during the quarter, the Fund benefited from stock selection in financials (mostly related to fintech and mortgages), health care, industrials and information technology. Lagging performance in the Fund primarily came from consumer-discretionary names. From a geographic perspective, the Fund saw a positive overall return in every country that had a meaningful weight.

DETAILS OF THE QUARTER

SiTime Corp. (SITM), a developer of silicon-based timing components, was the top contributor to Fund performance during the third quarter as the company made a special announcement to raise its earnings guidance. SiTime manufactures oscillators, clock generators and embedded resonators used for ethernet switches, computing devices, graphics cards, disk drives, mobile phones and subscriber-identity cards. With time-keeping devices transitioning from quartz to silicon, which improves accuracy, we think the company is particularly well-positioned as a technology leader that's years ahead of the competition. As we've communicated before, SiTime is an almost ideal example of a holding we like for the Fund. The company ranks exceedingly well in our assessment of its balance sheet, business model, management team, market share and growth potential. Moreover, we want to own SiTime in good environments and in bad ones too.

Another strong contributor was **Open Lending Corp. (LPRO)**, which specializes in loan analytics, risk-based pricing, modeling and automated decision technology for automotive lenders. Although classified in the financials sector, Open Lending is an example of our unique approach to financials because the company doesn't incur any credit risks—a characteristic that's very attractive to us. Instead, the company offers a fee-based platform that's particularly good at helping lenders assess the safety of providing financing for car buyers who are neither top-tier nor bottom-tier borrowers. In turn, the lenders have a better sense of what interest rate to charge on a specific auto loan. Because Open Lending's platform is so effective, business has been quite strong. Moreover, adding customers isn't particularly capital- or labor-intensive. So a high percentage of revenue drops to the bottom line.

We had good timing in our purchase of Open Lending, which we did by investing in a special-purpose acquisition company (SPAC). In the past, SPACs were often viewed negatively due to many quality problems. But they've improved quite significantly in recent years. When it was announced that a SPAC was going to acquire Open Lending, we had time to do our intensive investment research. As a result, we bought a large position just before the SPAC was converted into the operating company that is now Open Lending Corp.

We think we have an advantage because we're willing and able to invest in SPACs. Many other money managers are only able to invest after a SPAC has been converted into an operating company. By the time that's occurred, the stock price may have already risen.

Based in Germany, **va-Q-tec AG** was also a large contributor to Fund performance. The company is a pioneer in the design and manufacture of energy-efficient, space-saving insulation products. va-Q-tec's high-tech products include environmentally friendly vacuum-insulation panels and hot and cold storage elements containing phase-change materials. The company markets its products internationally to the refrigeration, packaging, cold-chain logistics, aircraft, automotive, construction and pharmaceutical industries. We bought va-Q-tec based on the belief that the company was improving its operations after lackluster performance. Since our purchase, we've been pleased with the company's operating results. More recently, the stock has been bid up on prospects of va-Q-tec being involved in the temperature-controlled delivery of a coronavirus vaccine. And we're currently evaluating the company's newly elevated valuation.

Fund holding **OptimizeRX Corp. (OPRX)** was up during the quarter too. The company provides digital-marketing services for pharmaceutical and other health-care-related businesses. In 2019, the company's stock price fell based on a decline in revenue, which was partly due to the delayed digital-advertising spending of two large pharmaceutical-business clients that merged. Back then, we continued to like OptimizeRX because we were impressed with the company's cost-effective program to engage patients, enhance their health-care experiences and improve outcomes. Our willingness to stay the course has now been rewarded with a large gain in the stock based on the revenue and earnings growth we had correctly anticipated in 2019. OptimizeRX is currently under review due to our concern that the valuation may have gotten a bit ahead of fundamentals.

The greatest detractor from Fund performance during the third quarter was **Paysign, Inc. (PAYS)**. The company develops and manages payment services, prepaid-card programs and customized payment plans. A large portion of Paysign's business comes from blood banks. With many of the usual blood donors receiving government assistance and limiting their personal interactions, activity at blood banks has declined. At the lower share prices recently available, we increased our position in Paysign because we think payment activity will accelerate as the economy continues to reopen and people resume more of their normal routines.

Another large detractor was **Inovio Pharmaceuticals, Inc. (INO)**, even though we had trimmed our position size when the stock price was higher. A biotechnology company, Inovio is developing a Covid-19 vaccine candidate, INO-4800. Following an upswell of optimism from

March through June, the company's stock price headed lower during the third quarter amid worries that Inovio may be falling behind its competitors in the race to develop a vaccine for the disease. Concerns grew in late September after the company disclosed in a press release that the U.S. Food and Drug Administration (FDA) had placed a partial hold on a combined Phase 2/3 clinical trial of INO-4800 that Inovio had planned to initiate by the end of the month. According to the company, the FDA had additional questions, including about the vaccine-delivery device to be used in the study.

On the positive side, Inovio stated that the FDA's partial hold didn't result from any adverse events in its ongoing Phase 1 trial. Nor does the hold affect the advancement of the company's other pipeline assets. Should INO-4800 eventually gain approval, we think its advantages—especially with respect to safety, storage and administration—would position it as a potentially valuable weapon in the vaccine arsenal that will be needed to quell the pandemic. Inovio's DNA medicines currently in development for various cancers and pre-cancers also offer meaningful upside potential in our analysis.

Regarding notable transactions during the third quarter, we sold **Miroku Jyoho Service Co. Ltd.**, **Systena Corp.** and **USA Technologies, Inc. (USAT)**. Miroku Jyoho is a Japanese firm that assists with financial, accounting and tax-practice systems. The company is relatively inexpensive but we've come to view it as lacking a dynamic competitive advantage.

Systena is a Japanese developer of firmware and software for mobile and internet applications. We no longer viewed the stock as having significant upside potential, so we decided to move on.

As for USA Technologies, we exited our position because the company is heavily involved in payment systems for vending machines installed at stadiums and schools—where we think it may take years for foot traffic to rise to previous levels. Recently, however, our view of USA Technologies has been in the minority.

Two significant purchases during the quarter were **Aspen Group, Inc. (ASPU)** and **BioLife Solutions, Inc. (BLFS)**. Aspen Group is a Colorado-based operator of certificate programs and associate's, bachelor's, master's and doctor's degree programs. We're especially impressed with Aspen's nursing programs, which we consider reasonably priced with excellent job-placement track records. Moreover, enrollments have been increasing at attractive rates.

BioLife Solutions was not only one of our newer holdings, it was also a strong performer for the quarter. The company provides proprietary biopreservation products used in cell therapy, gene therapy and regenerative medicine. BioLife's flagship product, CryoStor,® has garnered increased attention from investors because of its potential use in coronavirus vaccines requiring storage at very cold temperatures. In addition, the company offers thawing products, a cold-chain transport system and high-capacity freezers—all of which also have applications to the prospective distribution programs of certain vaccine candidates for Covid-19. *(Current and future holdings are subject to risk.)*

OUTLOOK

As we stated at the outset of this commentary, we think many investors are grappling with two potential scenarios: (1) the economy returns to normal in relatively short order, or (2) the economy muddles along with certain segments of business and society partially or completely shut down.

While we saw some signs during the quarter that were consistent with the first scenario, our positioning during the past several months has mostly been in alignment with the second scenario. Fortunately, based on the Fund's strong absolute and relative performance, this has been a good decision.

Now the question is: Should we shift our positioning to be more in alignment with the first scenario? Our response is a wavering yes. Our reason is that some of the stocks likely to benefit from the first scenario look attractively priced while some of the stocks that have already benefited from the second scenario look relatively expensive.

But our response is wavering because although we believe the economy will eventually approach some level of normalcy, we don't believe that will happen "in relatively short order." Moreover, we think many recent changes in the economy will linger on for years to come—or will even become permanent.

So how do our views translate into actions? First, we've trimmed some of our especially strong growth-oriented companies like **Bandwidth, Inc. (BAND)**, **Freshpet, Inc. (FRPT)** and Open Lending Corp.—which have benefited to an exceptional degree during the pandemic.

Second, we've continued to add, increase or hold positions in more modest growth companies and in more value-oriented companies that have relatively limited exposure to credit risk. These companies include Aspen Group, the **Gym Group plc**, **Johnson Service Group plc**, **Lawson Products, Inc. (LAWS)** and **Trainline plc**. Aspen is described above. The Gym Group operates low-cost, 24/7 gyms throughout the United Kingdom. Johnson Service Group is a U.K. company that provides workwear and linens for hotels, restaurants and catering. Lawson produces various types of hardware and tools. Finally, Trainline is a U.K. company that sells train tickets online.

While the Fund still has a strong growth orientation, you can see from the transactions described above that we've taken some profits in what we think are more expensive names and we've deployed the proceeds into companies that should benefit from a wider reopening of the economy. Having said that, we think the Fund may underperform the stocks of deep-value companies if the economic reopening is much faster and much broader than we expect. For example, we don't own many banks or brick-and-mortar retailers—which are some of the most economically sensitive companies in the benchmark.

Over the short term, we don't expect the Fed to change its accommodative approach with respect to monetary policy. But we think the political situation is much more fluid. Currently, the Republicans control the White House and the Senate. The Democrats control the House of Representatives. If the Democrats were to make a clean sweep of all three in the November elections, we'd expect a temporary market selloff—but not a crash. If the Republicans were to keep at least one of the three, we'd probably see less pressure to increase taxes and regulations. It seems to us that the prospects of higher taxes and more regulations are the main factors that would likely spook the market. In other words, we think divided government is generally more conducive to positive market psychology.

For the long term, we like our positioning regardless of what happens over the short term. In this regard, we acknowledge the fact that stocks are claims on the cash flows of companies for years into perpetuity. So if we're correct in our assessments of management, business quality and headroom for growth, these assessments should have way more influence on long-term relative performance than accurately predicting the exact timing and scope of the economic reopening, the actions of the Fed or the results of the November elections.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	11.62%	24.17%	12.11%	14.25%	13.49%
Micro Cap Value Fund—Institutional	11.59%	24.51%	12.21%	14.31%	13.52%
Russell Microcap Index**	3.69%	4.44%	-0.09%	6.72%	9.50%

A fund's performance for very short time periods may not be indicative of future performance.

**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 return 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—1.74% / Institutional Class—1.59%**

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 1.95% for the Investor Class and 1.60% for the Institutional Class through at least 1/31/2021.** 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.

Performance for the Institutional Class prior to 1/31/2020 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 1/31/2020 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 micro cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds. Investments in value stocks can perform differently from other types of stocks and from the market as a whole and can continue to be undervalued by the market for long periods of time. Investing in foreign securities, especially in emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus.

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 Russell Microcap Index is an unmanaged total return index of the smallest 1,000 securities in the small-cap Russell 2000 Index along with the next smallest 1,000 companies, based on a ranking of all U.S. equities by market capitalization. The Russell 2000 Index is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index. The Russell 2000 is widely used in the industry to measure the performance of small company stocks.

You cannot invest directly in these or any indexes.

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The Wasatch Micro Cap Value Fund's investment objective is long-term growth of capital.

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

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

MICRO CAP VALUE FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name		Percent of Net Assets
Skyline Champion Corp.		2.4%
PetIQ, Inc.		2.0%
Kornit Digital Ltd. (Israel)		1.8%
Lovesac Co. (The)		1.8%
Bandwidth, Inc., Class A		1.7%
Ooma, Inc.		1.7%
Fabrinet		1.7%
SiTime Corp.		1.7%
IR Japan Holdings Ltd. (Japan)		1.7%
eGain Corp.		1.7%
	Total	18.2%

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.