WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMVX / Institutional WGMVX

Wasatch Micro Cap Value Fund

JUNE 30, 2020

Stocks Broadly Rebounded From Covid-Related Losses, And the Fund Outperformed Its Benchmark

FUND MANAGER

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Lead Portfolio Manager

16 YEARS ON FUND / 17 YEARS AT WASATCH

OVERVIEW

In sharp contrast to the heavy losses during the first quarter of 2020, most stocks rallied during the second quarter. The Wasatch Micro Cap Value Fund—Investor Class gained 39.74%, exceeding the 30.54% return of the benchmark Russell Microcap Index.

Generally speaking, we can divide companies today into three main categories: 1) those that have actually benefited during the coronavirus pandemic, 2) those that have struggled somewhat during the pandemic but whose long-term prospects we judge to be still very strong, and 3) those that need the economy to approach normalcy relatively soon in order to get their businesses back on track in the years ahead.

While we were fortunate to own several companies in the first category even before the pandemic began, and while we continue to own some now, the stock prices of these companies have largely been bid up to reflect much of the success that the businesses have already achieved and could potentially achieve in the near future.

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.***

The second category has been where we've seen most of our buying opportunities recently. Relative to the end of 2019, we've been able to acquire shares of high-quality companies at attractive prices and upgrade the overall quality of the Fund's portfolio. Broadly speaking, we define company quality in terms of headroom for growth over the next several years, management expertise, business-model viability and balance-sheet health (e.g., a modest level of debt).

As for the third category, we tread lightly. That's not to say there are no good buying opportunities here. It's just that we believe the risks are higher because the companies depend more on macro conditions, which are beyond the control of management teams.

At a basic level, our investment approach during the pandemic has been as follows: We look at the sales, earnings and growth prospects that a company had before Covid-19 became a factor. If we think a company has the potential to return to its pre-Covid status within the next year or so, we generally assume its stock price can also return to the pre-Covid level. As a result, this type of high-quality company with a stock price that's down in 2020 is likely to be an attractive investment.

DETAILS OF THE QUARTER

From a sector perspective, the Fund's outperformance versus its benchmark in the second quarter was mostly attributable to stock selection in financials (mainly related to fintech and residential housing), industrials and consumer-discretionary names. Although our health-care stocks performed extremely well too, our underweight position in the sector—more specifically, in biotech—was disadvantageous. Geographically speaking, the Fund saw good overall results from both U.S. and international holdings. A cash position of approximately 3% was a slight drag on the Fund's relative performance during a very positive quarter.

The top individual contributor to Fund performance was **Lovesac Co. (LOVE)**, a direct-to-consumer specialty furniture company. Lovesac derives the majority of its sales from its unique "sactionals," upholstered seating components that are washable and reconfigurable. The company's "Designed for Life" philosophy emphasizes sustainable products that are built to last a lifetime and evolve with customers' needs. The stock rose partially based on news that online orders were up about 250% in the most recently reported quarter. With showrooms now reopening in the wake of the coronavirus, we expect further increases in sales and earnings. Moreover, in 2021, we anticipate ongoing improvements to Lovesac's supply chains—which had been disrupted by the virus and by an unrelated decision to move manufacturing out of China.

Another strong contributor for the second quarter was **Bandwidth, Inc. (BAND)**, which operates a cloud-based software platform that enables enterprises to create, scale and operate voice or text communications. Use of the company's platform skyrocketed during the first quarter as the pandemic scattered corporate operations to home offices. While we think Bandwidth has the opportunity to grow reasonably well for years into the future, we trimmed our position because the company has moved past the micro-cap threshold and the stock is no longer inexpensive in our view.

Kornit Digital Ltd. (KRNT) was also a significant contributor. Based in Israel, the company produces digital-printing equipment for the textile industry. Shares of Kornit soared after CEO Ronen Samuel said he expected sales growth to reaccelerate during the second half of 2020 as governments lift coronavirus-related restrictions on businesses. Mr. Samuel also noted that disruptions tied to the virus had hastened the shift to e-commerce and exposed inherent supply-chain challenges faced by traditional retail. In his view, Kornit is positioned to benefit as the growing need for flexible inventory management drives increased adoption of on-demand digital-production solutions.

Viemed Healthcare, Inc. (VMD) and **Inovio Pharmaceuticals, Inc. (INO)** were up for the quarter, too. Viemed's respiratory products have been in high demand due to the spread of Covid-19. And Inovio has developed a potential vaccine for the virus. We trimmed our positions in both stocks as they rose on optimistic news. In the case of Viemed, the stock was also bolstered by its inclusion in the Russell 2000® Index.

The largest detractor from Fund performance for the second quarter was **Cyan AG**, a German provider of security solutions for information-technology functions at virtual-network operators, governments and financial-services companies. One of the company's main offerings is an anti-virus application for mobile phones. Although we like Cyan's business prospects over the long term, we now think potential customers will be slower to adopt the company's security solutions than we had previously expected. As a result, we decided to exit our position in Cyan but keep the company on our watch list.

Monmouth Real Estate Investment Corp. (MNR), which specializes in commercial properties and shopping centers, was another significant detractor for the quarter. We sold our position in Monmouth because we think commercial properties and shopping centers may face long-term challenges due to trends in which people are even more comfortable working from home and buying goods online. Incidentally, lower demand for commercial properties could also hurt many banks, which have historically depended on real-estate loans for a signification portion of profits.

Regarding noteworthy transactions in the Fund during the second quarter, we purchased shares in **Cantel Medical Corp. (CMD)**, a health-care company that supplies infection-prevention and infection-control products and diagnostic and therapeutic medical equipment. The company offers products such as flexible and rigid endoscopes, microscopes, image-analysis hardware and software, remote visual inspection devices and photographic equipment. Cantel also provides technical maintenance services. While sales were down as hospitals had other priorities during the early stages of the pandemic, we think the company's growth trajectory should resume over the next several years. Cantel is also held by other Wasatch funds, and as a firm we have extensive long-term knowledge of the company and its markets.

We also bought shares in **Patrick Industries, Inc. (PATK)**—which makes and distributes building products for manufactured housing, recreational vehicles, furniture production, marine supplies, automotive parts and other industries. The company produces vinyl and paper panels, cabinet doors, countertops, aluminum extrusions, drawer sides, pleated shades, wood adhesives and laminating machines. Although we had previously owned Patrick Industries, we made a mistake in selling the stock. Since then, we repurchased it based on our revised view that recreational vehicles may be in high demand as people drive—rather than fly—to vacation destinations amid ongoing threats from Covid-19. So far, we've been rewarded, as the stock is now trading significantly higher than the level where we repurchased it.

Other companies in which we invested for the first time or raised our existing stakes were the **Gym Group plc**, the **Joint Corp. (JYNT)**, **Paysign, Inc. (PAYS)** and **Repay Holdings Corp. (RPAY)**. The Gym, based in the United Kingdom, operates low-cost exercise facilities that are open 24/7. The Joint is a franchisor of chiropractic clinics. Paysign provides payment services, with a large portion of its business coming from blood banks. Repay processes financial transactions for customers.

Even as overall business activity is down, we believe each of these companies now has the opportunity to improve its competitive position—and capture increasing market share in the years ahead. *(Current and future holdings are subject to risk.)*

OUTLOOK

We frequently note that one of the negative aspects of investing in micro caps is they sometimes fall in price with seemingly less rational justification than is usually the case for stocks higher up on the market-capitalization spectrum.

On the other hand, one of the positive aspects of investing in micro caps is once they reach "escape velocity"—meaning they pass the micro-cap threshold—their stocks have the potential to shoot up in price as they gain the recognition of small-cap investors. For this reason, we've learned it's generally not a good idea to completely sell our winning positions too early. Having said that, we often trim our positions in an effort to mitigate risk and maintain appropriate portfolio weights.

During the second quarter, we saw several stocks reach escape velocity. Another phenomenon we saw during the quarter was investors recognizing that certain companies appear likely to resume their pre-Covid status in relatively short order. As a result, the stock prices of these companies have been bid up quickly—not always to their 2019 levels, but reasonably close in many cases.

So, what does all this price action mean? First, we believe it means the ways we repositioned the Fund's holdings amid the early stages of the pandemic have mostly been successful. Second, it also means the stock performance we had expected has, in fact, already occurred—but more quickly than we had anticipated. In other words, prices may have moved somewhat ahead of the economy and company fundamentals. As a result, we wouldn't be surprised if stocks take a breather around current levels.

In terms of portfolio management, here's our assessment:

1) We think it makes sense to trim several winning positions and raise a modest amount of cash for future buying opportunities.

2) After having been through the pandemic, companies may decide to use automation and other forms of technology to enhance productivity and reduce dependence on labor. Consumers may permanently curtail their visits to brick-and-mortar stores in favor of online shopping. Workers may find they need to spend less time at the office, as they also desire to enhance their home environments and potentially leave urban locations. We believe these trends, if they gain momentum, may have implications for the types of companies in which we invest and for the overall level of employment in the economy going forward.

3) Regarding financials, we're generally avoiding banks because they are vulnerable to a diminished level of overall economic activity; they usually have exposure to commercial real estate, which may come under pressure as more work is done from home; they may get hit with a greater-than-expected level of bad debt; and they face tight margins due to the relatively flat yield curve. Instead, several of our financials are involved in fintech and residential housing—areas in which our outlook is positive. Moreover, we think some of our consumer-discretionary names like **LGI Homes, Inc. (LGIH)** and **Skyline Champion Corp. (SKY)** are particularly well-positioned because they focus on housing outside of urban environments.

4) Other than some specialized companies we see as having significant competitive

advantages and particularly strong balance sheets, we're generally not interested in energy, materials, commercial real estate and utilities. In these areas, we believe management expertise and high-quality business models may not be able to sufficiently counter negative macro trends that periodically arise.

5) We're still optimistic regarding our international holdings, which we think have attractive valuations and strong growth prospects. In particular, we believe our U.K. names may be poised to catch up because they generally haven't kept pace with the recent rally. One of the advantages of holding international companies is that they provide the diversification of being exposed to different business cycles. Recently, for example, the impact of the coronavirus has varied by country and region.

To summarize, we think markets overall may have gotten ahead of themselves in the short term. No doubt, some of the gains we have seen in equity prices have been due to unprecedented levels of monetary and fiscal stimulus around the world. Nevertheless, our long-term optimism hasn't changed—as the Covid-related declines earlier in 2020 gave us the opportunity to upgrade the quality of companies held by the Fund, which we believe are well-positioned to thrive over the next several years.

While economically sensitive "value" stocks experienced a temporary bounce during the second quarter, our view is that better-quality names with stronger growth prospects will be favored by investors going forward. Our goal is to always own companies we consider high quality. But to the extent that unpredictable macro events like the path of the virus and the upcoming presidential election create additional volatility in stocks, our ongoing bottom-up research helps us to be ready to make any necessary adjustments from a risk/reward perspective.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	39.74%	5.02%	10.80%	10.05%	13.03%
Micro Cap Value Fund—Institutional	40.17%	5.34%	10.91%	10.12%	13.07%
Russell Microcap Index**	30.54%	-4.77%	0.85%	2.86%	9.93%

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.

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.

Sales growth is the increase in sales over a specified period of time, not necessarily one year.

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.

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

MICRO CAP VALUE FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2020

Security Name		Percent of Net Assets
Freshpet, Inc.		2.6%
Bandwidth, Inc., Class A		2.4%
Fabrinet		2.3%
Skyline Champion Corp.		2.0%
OptimizeRX Corp.		1.8%
Esker S.A. (France)		1.8%
PetIQ, Inc.		1.7%
IR Japan Holdings Ltd. (Japan)		1.7%
Nova Measuring Instruments Ltd. (Israel)		1.6%
QAD, Inc., Class A		1.6%
	Total	19.5%

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.