WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor
WAMVX

Wasatch Micro Cap Value Fund

DECEMBER 31, 2019

Micro Caps Had a Strong Run In the Fourth Quarter

FUND MANAGER

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Lead Portfolio Manager

16 YEARS ON FUND / 16 YEARS AT WASATCH

OVERVIEW

During 2019's fourth quarter, the Wasatch Micro Cap Value Fund rose 11.24%. Despite producing a double-digit gain, the Fund underperformed the benchmark Russell Microcap® Index, which increased 13.45%. For the 12 months ended December 31, 2019, the Fund gained 29.85% compared the 22.43% rise in the benchmark.

Generally speaking, U.S. stocks were bolstered in the quarter by reports of robust household spending and solid orders for factory goods. Moreover, in November, the government indicated that the U.S. economy expanded at a slightly better pace than had been previously estimated. This news added to optimism that conditions would remain positive during the holiday season. Meanwhile, investors seemed to be confident that the U.S.-China trade war would be resolved and that central banks around the world would maintain accommodative monetary policies.

Regarding sectors, the Fund's largest source of underperformance relative to the benchmark was health care. The sector was the best performer in the Index led by biotechnology, an industry in which the Fund is substantially underweight due to our preference for investing in companies that are making, rather than losing, money. Conversely, the

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: 1.74%. The Advisor has contractually agreed to limit certain expenses to 1.95% through at least 1/31/2020.***

industrials sector aided the Fund's performance relative to the benchmark. We are overweight in industrials, and our stocks outperformed their benchmark counterparts. Information technology (IT) added the most to the Fund's return, and our IT stocks slightly outperformed those in the benchmark. In the Fund and in the benchmark, almost all of the sectors were positive for the fourth quarter.

In terms of countries, the Fund's U.S. stocks underperformed primarily due to our low weighting in biotechnology. Overseas, we had strong performance from holdings in the United Kingdom, Japan and Germany.

DETAILS OF THE QUARTER

One of the Fund's top contributors to performance was **Inmode Ltd. (INMD)**, a global developer of cutting-edge minimally invasive and non-invasive medical devices used for beauty treatments. The company manufactures and markets devices that harness radio-frequency energy technology to penetrate deep into the subdermal fat, allowing adipose tissue remodeling. When we purchased Inmode, it was an initial public offering (IPO) that we believed was priced too low. We've since been rewarded for our insight as other investors have now recognized the company's high gross margins, among other positive factors. But, more recently, we've been trimming our position in Inmode due to the stock-price appreciation and the fact that revenues may be lumpy because the company's devices are capital investments for doctors' offices, rather than recurring purchases.

Another strong contributor during the quarter was **i3 Verticals, Inc. (IIIV)**, which offers electronic-payment and software services to education-related, health-care, property-management and other organizations—many of which are non-profit. In the summer and fall of this year, the stock price fell due to slower-than-expected organic revenue growth. The disappointing revenue figures spooked a new crop of investors who had been brought in as part of an additional capital raise. But we visited with i3 management at the company's headquarters and bought additional shares at depressed prices because we thought business conditions were more robust than the consensus among analysts and we liked the company's long-term prospects. We were subsequently rewarded with a significant stock-price rebound.

Another top contributor was **Tactile Systems Technology, Inc. (TCMD)**, a developer of compression devices used in home by patients to effectively treat non-healing wounds and reduce the swelling caused by lymphedema, a serious and often debilitating condition. We have owned the company since its IPO. In Tactile Systems' most-recent quarterly earnings release, management reported year-over-year revenue growth of 37%. With just 4% share of patients, we believe the company has massive headroom for growth.

The largest detractor from Fund performance in the fourth quarter was **Neuronetics, Inc. (STIM)**, a health-care company that develops therapies for chronic psychiatric disorders. While we had previously been optimistic regarding the company's strong organic growth, some upcoming treatments—in particular, new drugs to combat depression—seem to have made the market much more competitive. Our revised view is that the company's revenue growth and margins will be lower than we originally anticipated. As a result, we decided to exit our position in the stock.

The second-largest detractor was **OptimizeRX Corp. (OPRX)**, a provider of digital-marketing services for pharmaceutical and other health-care-related companies. The company's stock price fell during the quarter on a decline in revenue, which was partly due to two large drug-company clients that merged and delayed digital-advertising spending until 2020. We continue to like OptimizeRX as we believe the company offers a cost-effective way for health-care companies to engage patients, enhance their experience and improve outcomes.

Lovesac Co. (LOVE) was also a notable detractor. A direct-to-consumer furniture seller and manufacturer headquartered in Stamford, Connecticut, Lovesac makes a modular sofa called the Sactional that's marketed as "the world's most adaptable couch." The Sactional is also positioned as a long-term or "lifelong" furniture investment. A prospective customer can purchase Sactional modules to build a small sofa—and then buy new modules to expand or change the configuration to accommodate a larger space or a growing family. Sofa coverings are washable and replaceable so they can be updated to reflect changing style and color preferences. For its most-recent quarter, Lovesac reported strong sales growth and increased expenses. The elevated expenses were due to investments in the growth of the business including improving infrastructure, boosting advertising spending, adding employees and opening four new showrooms to bring the total number to about 90. We believe the investments Lovesac has made will begin to bear fruit in the coming year. *(Current and future holdings are subject to risk.)*

OUTLOOK

As for our outlook, we remain optimistic. The U.S. economy is healthy, and stock valuations in the micro-cap space seem reasonable to us—especially in light of very low interest rates. Internationally, although economic-growth rates are generally very modest, micro-cap valuations are typically even more attractive and interest rates are close to zero or are negative in many countries.

We're also pleased to report that most of the companies we own—both in the U.S. and abroad—have continued to deliver healthy results from an operational perspective. But this overall positive operational performance hasn't been uniformly reflected in the stock market. We think this is a good situation because it allows us to buy what we consider high-quality companies at still-attractive prices. Moreover, it means that some of our less-richly valued stocks may perform well while others take a breather.

Other positive factors in the U.S. include progress toward resolution of the U.S.-China trade war. And stocks typically perform well in years with a presidential election, which we will see in 2020.

On the international front, we have planned investment-research trips to the United Kingdom in January and to Japan in March. We think it's likely that Brexit will be resolved in 2020, and that could be a good catalyst for stock prices of British companies that have been performing well operationally. In Japan, our companies and their stocks have generally been firing on all cylinders. We look forward to visiting with the management teams of some existing Japanese holdings and those of other companies that we're considering for investment.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund	11.24%	29.85%	14.46%	12.56%	12.93%
Russell Microcap Index**	13.45%	22.43%	6.39%	6.57%	11.26%

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

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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 1.95% through at least 1/31/2020.** 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 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.

The Wasatch Micro Cap Value Fund has been developed solely by Wasatch Global Investors. The Wasatch Micro Cap Value Fund is not in any way connected to or sponsored, endorsed, sold or promoted by the London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). FTSE Russell is a trading name of certain of the LSE Group companies.

The Index is calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. The LSE Group does not accept any liability whatsoever to any person arising out of (a) the use of, reliance on or any error in the Index or (b) investment in or operation of the Wasatch Micro Cap Value Fund or the suitability of the Index for the purpose to which it is being put by Wasatch Global Investors.

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

Brexit is an abbreviation for "British exit," which refers to the June 23, 2016 referendum whereby British citizens voted to exit the European Union. The referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades.

An initial public offering (IPO) is a company's first sale of stock to the public.

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

MICRO CAP VALUE FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2019

Security Name	Percent of Net Assets
Skyline Champion Corp.	2.5%
Esquire Financial Holdings, Inc.	1.9%
Freshpet, Inc.	1.9%
Fabrinet	1.7%
Arbor Realty Trust, Inc.	1.7%
Kornit Digital Ltd. (Israel)	1.5%
Construction Partners, Inc., Class A	1.4%
NV5 Global, Inc.	1.4%
LGI Homes, Inc.	1.3%
i3 Verticals, Inc., Class A	1.3%
Total	16.8%

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.