WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAAEX / Institutional WIAEX

Wasatch Small Cap Growth Fund

JUNE 30, 2020

Especially if the Economy Is Stuck in Low Gear, We Want to Own Growth Companies With Strong Returns on Capital

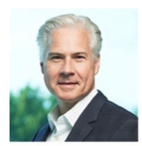
OVERVIEW

At the beginning of the second quarter, we wrote that Covid-related stock losses had likely created attractive valuations. At the time, we thought stocks would recover somewhat. But we certainly didn't expect the pace or magnitude of the rebound that's occurred. For the quarter, the benchmark Russell 2000 Growth Index gained 30.58%, while the Russell 2000 Index rose 25.42%. Outperforming both indexes, the Wasatch Small Cap Growth Fund—Investor Class leapt 40.46%.

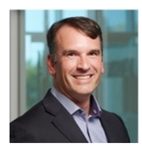
What are the reasons for the dramatic increase in the market? Here the common-sense thoughts from the financial pages seem plausible to us: Investor optimism was fueled by actions from the U.S. Federal Reserve and other central banks to support asset prices and enhance liquidity. Governments around the world also provided direct relief to unemployed workers and vulnerable businesses. Beyond these unprecedented monetary and fiscal measures, investors were periodically encouraged by news of economic reopenings and multiple reports of progress on potential coronavirus therapeutics and vaccines.

FUND MANAGERS

JB Taylor
Lead Portfolio Manager
7 YEARS ON FUND / 24 YEARS AT WASATCH



Ken Korngiebel, CFA
Portfolio Manager
2 YEARS ON FUND / 4 YEARS AT WASATCH



Ryan Snow
Portfolio Manager
2 YEARS ON FUND / 20 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. 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 1.17% / Institutional Class—Gross: 1.09%, Net: 1.06%. The Advisor has contractually agreed to limit certain expenses to 1.50% for the Investor Class and 1.05% for the Institutional Class through at least 1/31/2021.***

COMPANY FUNDAMENTALS OVER MACRO EVENTS

Frankly, we're not putting much weight on broad economic and health-care events because they're outside the control of the companies in which we invest (notwithstanding our vaccine-related biotechs). We're much more focused on trying to make sure we're invested in companies that—because they have solid, low-debt balance sheets—can endure prolonged cash-flow disruptions without having to raise capital on disadvantageous terms. In addition, our efforts are directed at attempting to hold only those companies that have top-notch management teams, that employ innovative business models and that operate in markets with headroom to expand for years on end.

As for a forecast regarding how Covid-19 will impact the global economy in the shorter term, again the most we can offer is a common-sense view. And one of our favorite pieces of common sense comes from the late economist John Kenneth Galbraith, who said, "There are two kinds of forecasters: those who don't know, and those who don't know they don't know." Count us among the former.

Does it bother us that we don't know what the future holds for the global economy? From an investment perspective, we'd say, "Not particularly." To understand this, just consider all the macro events that have occurred during the past several years. Then ask yourself, "If I had correctly predicted each of these events, would my predictions have helped or hurt my investment performance?" For us, we estimate that such predictions would have hurt.

Why is this? We believe the reason is that political, societal and economic systems have very complex interactions. So it's hard, if not impossible, to know ahead of time how a macro event will affect companies' operations—let alone their stock prices.

Having said that, in the present moment, macro events do create waves of excessive optimism and pessimism for stocks. Our standard game plan is to use these emotionally driven price changes to trim some of our highflyers whose stocks may have gotten expensive relative to their projected growth rates and to increase positions in some of our favored names that we think are "on sale." This is exactly what we did during the second quarter. In fact, for five of the Fund's top 10 contributors during the quarter, we sold some shares and invested the proceeds in companies whose stocks we believed had been unfairly punished during market pullbacks.

So while we're certainly aware of macro events, they usually haven't affected our long-term outlooks for the business fundamentals of the companies we like. Take a country's gross domestic product (GDP) as an example. We're always looking for companies that can grow much faster than overall GDP. As a result, we wouldn't expect our companies to be highly dependent on quarter-to-quarter changes in GDP. Our investment horizon is much further out, generally five years or longer.

Moreover, we try to find companies that we believe can perform relatively well from a business-operations perspective—rather than from a stock-market perspective—regardless of general economic conditions. In an economic expansion, this may mean that our companies have the potential to improve their already-strong returns on capital. In an economic downturn, this may mean that our companies will suffer somewhat but will seek to position themselves to gain market share in the future. If we're correct in our assessments of which companies will grow sales and earnings at double-digit rates over the long term, we think stock prices will take care of themselves and macro events will matter less to our performance.

DETAILS OF THE QUARTER

Every sector in the Russell 2000 Growth benchmark was positive for the second quarter, with utilities posting the smallest gain. And apart from utilities, which is a tiny weight in the benchmark, sector performance ranged from 18% for financials to 54% for consumer-discretionary names. The Fund had no holdings in the utilities sector.

The remarkable return in consumer-discretionary stocks was nearly double the overall return for the benchmark itself—and was an enormous bounce-back from the first quarter when consumer discretionary was the second-worst-performing sector. Fortunately, we added to our favorite consumer-discretionary holdings when they were down.

In the Small Cap Growth Fund, our stock selection benefited performance relative to the benchmark—and was particularly strong in health care, information technology and consumer discretionary. Beyond purely sector-oriented factors, there were also four main trends that aided Fund performance during the quarter. We discuss these trends later in this commentary.

The Fund's top individual stock contributor was **Ollie's Bargain Outlet Holdings, Inc. (OLLI)**. The company sells closeout, overstock, salvage, irregular and manufacturer-refurbished items. Merchandise for sale includes hardware, books, stationery, carpet, groceries, toys, seasonal products and sporting goods. Since the coronavirus pandemic began, Ollie's stores have remained open because they sell items necessary for daily living. While the virus has crimped sales by more than 10% in the short term, the company has over $100 million of cash on hand and has access to a credit line of an additional $100 million.

Going forward, we expect Ollie's to more than make up for lost sales because new stores are opening and we think struggling consumers, compared to last year, are in even greater need of value-priced merchandise. Apparently, other investors came to the same conclusion and drove up the stock price during the quarter—while we trimmed our position as a risk-control measure.

Another strong contributor was **Paylocity Holding Corp. (PCTY)**, a developer of cloud-based human-capital-management software for payroll, health benefits, retirement plans, time tracking, tax filing, recruitment, screening and training. Paylocity is a good example of a company taking advantage of the ongoing shift from on-premises legacy software to cloud-based Software-as-a-Service (SaaS), which offers many benefits to all stakeholders. Since Paylocity charges subscription fees for its software, revenues and earnings are largely recurring.

Like the previous quarter, **DocuSign, Inc. (DOCU)** and **Five9, Inc. (FIVN)** again contributed meaningfully to Fund performance. DocuSign offers e-signature software that enables businesses to digitally prepare and execute agreements. The company has been experiencing rapid sales gains and improved prospects for future growth. Five9 provides contact-center software that's managed and hosted from the cloud. The company offers real-time and historical reporting, quality monitoring, and workforce and customer-relationship-management integrations.

The largest detractor from Fund performance was **Barnes Group, Inc. (B)**, a global provider of highly engineered products, differentiated technologies and innovative solutions that serve a wide range of aerospace, automotive and other industrial customers. With industrials being impacted by Covid-19 and longer-standing trade conflicts, investors have grown nervous on the stock. But we believe the company's fundamentals, including its margins and manufacturing capacity, were trending in the right direction last year. And we think Barnes Group will be back on track for the long term once the pandemic subsides.

Helios Technologies, Inc. (HLIO) was another detractor. The company develops and manufactures hydraulic and electronic control products. Helios offers cartridge valves and manifolds that regulate force, speed and motion as integral components in fluid power systems. The company has faced two main challenges: First, it's an industrial company whose business is cyclical—a characteristic that hasn't been well-liked in the recent environment. Second, Helios had a major management change that may have unnerved investors. But our view is that the company's deep bench of talent and strategic vision are still in place. Moreover, we invest with a long horizon, and we think the company has the potential for significant growth even if there's just a modest pickup in the economy.

FOUR MAIN INDUSTRY TRENDS

As discussed, we don't believe that we—or anyone else—can consistently make accurate predictions about short-term macro events. And if we could, we're not sure it would improve our investment performance. What we do believe is that we can frequently find great companies with world-class management teams and business models operating in markets that have significant room to grow.

Something else that we believe we can do fairly well is identify attractive long-term industry trends. This is very different from trying to figure out how macro conditions will unfold and what the consequences will be. Industry trends, like company fundamentals, can be studied and understood—not with 100% certainty but with reasonable success in our view.

During the second quarter, there were four main trends that contributed to the Small Cap Growth Fund's performance advantage. While these trends were successful from a portfolio-management perspective in the short term, immediate performance isn't what motivates us. We had identified the four trends well in advance of the quarter, and our assessment was focused squarely on the extended future—which we think continues to look bright.

The first trend is the rise of niche consumer-discretionary companies that can thrive in the age of Amazon.com. We believe such companies include Five Below, Inc. (FIVE) and Ollie's Bargain Outlet. Because they sell inexpensive and discounted items, Five Below and Ollie's are less vulnerable to the growth of online orders—which require relatively costly delivery services. In addition, these companies offer shoppers the thrill of browsing through physical stores in search of great deals.

The second trend is the digital transformation of business. For example, DocuSign, Five9 and Paylocity all play roles in enabling customers, workers and businesses to operate from remote locations using cloud-based software and storage. While Covid-19 may have accelerated the use of digital services, the pandemic wasn't the reason for our initial investments in these companies—and isn't the reason we're maintaining our positions.

The third trend is the ongoing need for homebuilding and home improvement. Well before the novel coronavirus appeared in the news, we thought there had been a yearslong underinvestment in housing. And by the time the virus hit, the data were confirming our view. While the home-building and home-improvement trend took a pause immediately after the pandemic began, the trend has since reasserted itself to the benefit of companies like Floor & Decor Holdings, Inc. (FND) and LGI Homes, Inc. (LGIH).

The fourth trend is the enjoyment of residential and recreational outdoor living and, more recently, "staycations." Again, this trend has been accelerated by Covid-19 but was growing for years before that. Obvious beneficiaries have included Freshpet, Inc. (FRPT), SiteOne Landscape Supply, Inc. (SITE) and YETI Holdings, Inc. (YETI).

SiteOne Landscape Supply is self-explanatory. As for Freshpet, the company provides high-quality refrigerated dog and cat food—which has been in especially high demand due to increased dog and cat ownership and more at-home interactions with pets during the pandemic. YETI designs, markets and distributes coolers, beverage holders, seat cushions, cable locks and other types of outdoor gear. *(Current and future holding are subject to risk.)*

OUTLOOK AND INVESTMENT GAME PLAN

Over the past several years, we've seen wild swings in the markets. But we've been fortunate because our investment team is more cohesive than ever. In addition, based on our long-term approach—supplemented with fine-tuning in response to changing valuations—the Small Cap Growth Fund has generally outperformed its benchmark both in broad up markets and in broad down markets.

Now that many of our stocks have recouped much or all of their Covid-related losses, some shareholders have been asking about how we view our holdings. Our response is that we felt well-positioned before the selloff. We felt well-positioned at the market trough. And we feel well-positioned today. Moreover, even though it doesn't change the way we invest, our sense of optimism is bolstered by the unprecedented monetary and fiscal support around the world and by the massive scientific progress in combating the new coronavirus.

In this commentary where we give a nod to common sense, we end with another of our favorite quotes. This one has been attributed to Baseball Hall of Famer Yogi Berra: "It's tough to make predictions, especially about the future." And while we agree that the future is highly unpredictable, what we have been able to do is look at unpredictable events as opportunities after the fact.

We've adjusted our holdings to stay invested in what we think are the best long-duration growth companies—but at valuations and position sizes that we believe are most attractive from a risk/return perspective. Going forward, our game plan remains unchanged. And if the overall economy remains stuck in low gear for a while, with interest rates offering anemic returns, we'll be especially comfortable owning innovative growth-oriented companies that have the potential to generate strong returns on capital.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Ken Korngiebel and Ryan Snow

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Growth Fund—Investor	40.46%	14.78%	19.96%	13.06%	15.26%
Small Cap Growth Fund—Institutional	40.47%	14.89%	20.12%	13.21%	15.34%
Russell 2000® Growth Index**	30.58%	3.48%	7.86%	6.86%	12.92%
Russell 2000® Index†	25.42%	-6.63%	2.01%	4.29%	10.50%

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—1.17% / Institutional Class—Gross: 1.09%, Net: 1.06%**

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 1.50% for the Investor Class and 1.05% 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 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 small cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds. 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 2000 Growth Index measures the performance of Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

*The Russell 2000 Index is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. The Russell 2000 is widely used in the industry to measure the performance of small company stocks.

You cannot invest directly in these indexes.

The Wasatch Small Cap Growth Fund has been developed solely by Wasatch Global Investors. The Wasatch Small Cap Growth 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.

All rights in the Russell 2000 Growth and Russell 2000 indexes vest in the relevant LSE Group company, which owns these indexes. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license.

These indexes are 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 these indexes or (b) investment in or operation of the Wasatch Small Cap Growth Fund or the suitability of these indexes for the purpose to which they are being put by Wasatch Global Investors.

CFA® is a trademark owned by the CFA Institute.

The Small Cap Growth Fund's primary investment objective is long-term growth of capital. Income is a secondary objective, but only when consistent with 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.

Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.

Return on capital is a measure of how effectively a company uses the money, owned or borrowed, that has been invested in its operations.

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

SMALL CAP GROWTH FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2020

Security Name	Percent of Net Assets
Five9, Inc.	3.7%
Medpace Holdings, Inc.	3.3%
RBC Bearings, Inc.	3.3%
Paylocity Holding Corp.	3.2%
Monolithic Power Systems, Inc.	3.0%
ICON plc (Ireland)	3.0%
DocuSign, Inc.	2.9%
Barnes Group, Inc.	2.9%
Ollie's Bargain Outlet Holdings, Inc.	2.7%
Euronet Worldwide, Inc.	2.7%
Total	30.8%

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.