WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WMICX / Institutional WGICX

Wasatch Micro Cap Fund

SEPTEMBER 30, 2022

Amid a Generally Negative Quarter, Our Substantial Underexposure to Strong-Performing Biotech Stocks Was A Headwind for the Fund

FUND MANAGERS

Ken Korngiebel, CFA
Lead Portfolio Manager

5 YEARS ON FUND / 7 YEARS AT WASATCH

Natalie Pesqué, CFA
Associate Portfolio Manager

<1 YEAR ON FUND / 7 YEARS AT WASATCH

OVERVIEW

A summer rally in U.S. equities stalled in August after the Federal Reserve (Fed) dashed hopes for an early pivot toward a more accommodative monetary stance. Investors feared aggressive interest-rate hikes by the Fed and other central banks might tip the global economy into recession. In a market largely driven by macro factors and sector dynamics, our bottom-up investment approach struggled to gain traction during the third quarter. The Wasatch Micro Cap Fund—Investor Class declined -3.87% in the quarter, as the benchmark Russell Microcap® Index slipped -0.48%.

Striking a hawkish tone at the Fed's annual Jackson Hole economic symposium in Wyoming, Chairman Jerome Powell said the central bank will continue hiking interest rates until inflation has been brought under control. Financial markets reacted negatively to his comments, which echoed similar statements from other Fed officials the previous week.

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, 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 1.63% / Institutional Class—1.56%. 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 1/31/2023.***

Stocks of growth companies, such as those in which the Fund invests, were hit hard because their discounted cash flows are typically weighted further into the future.

Equities began the quarter on a positive note amid ongoing rumors of a high-profile acquisition in the biotechnology industry. Although the rumored deal failed to materialize, smaller acquisitions stoked enthusiasm about the group. Among all industries, biotechnology made the biggest contribution to the benchmark's third-quarter return. As a result, our substantial underexposure to biotech was a headwind for the Fund.

While the Fund holds positions in several biotechnology companies, we are structurally underweight compared to the benchmark's biotech industry weighting, often by a substantial amount, reflecting the high failure rate of clinical trials in drug discovery combined with biotech companies' insatiable need for capital to fund development. For those companies in which we choose to invest, our focus is on disease states where there is less competition and where the potential payoff for a successful outcome is many multiples of our invested capital.

Sources of strength against the benchmark included industrials and information technology (IT). Our IT stocks and industrials substantially outpaced the corresponding sectors of the Index, and the Fund's overweight positioning in these areas enhanced their positive impact.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was Napco Security Technologies, Inc. (NSSC). The company offers electronic security systems for access control, alarm and video surveillance. With component prices elevated because of supply-chain constraints, Napco chose to temporarily sacrifice gross margin on its system hardware in order to take market share from competitors. That strategy has paid off in the form of higher-margin, recurring revenue from the company's growing installed base. Meanwhile, Napco has boosted hardware profitability through strategic price increases and improvements to the supply chain as demand remains strong, particularly in its school-security business.

Impinj, Inc. (PI) was also a top contributor. The company offers a wireless inventory-management and tracking platform for customers in retail, manufacturing, health care and other areas. It uses tiny radio-frequency identification (RFID) chips to connect, count and track individual items. We had meaningfully increased the Fund's position in Impinj in the belief that supply constraints that had been holding the company back would likely ease. Our research and patience were rewarded in July when better-than-expected quarterly earnings and revenues at Impinj sent its stock price sharply higher.

Another strong stock in the Fund was Construction Partners, Inc. (ROAD). The company works on public and private infrastructure projects such as highways, roads, bridges, airports, and commercial and residential developments. Shares of Construction Partners had been falling since November 2021 as rising costs for materials and labor pressured the company's earnings. Since then, the repricing of contracts has improved profitability. A large backlog of projects driven by increased spending at the federal, state and municipal levels also helped boost the stock during the third quarter.

The greatest detractor from Fund performance for the quarter was Holley, Inc. (HLLY). The company makes high-performance automotive parts for car and truck enthusiasts. Holley's share price declined abruptly in September after the company announced disappointing preliminary quarterly results. Management cited shortages of microchips and other supply-chain challenges that prevented Holley from building and shipping many of its most popular products. Although direct sales to consumers picked up, the increase was more than offset by inventory destocking in the reseller channel. Against an expected backdrop of difficult economic conditions and continued weakness in certain product categories, the company reduced its outlook for the remainder of 2022. The implication of projected lower future cash flows is a more levered balance sheet. In light of this increased risk, we reduced our position size as we await evidence that the shortfall is mainly attributable to a lack of product availability as opposed to a drop in consumer demand.

Vintage Wine Estates, Inc. (VWE) was also a significant detractor. A rapidly growing producer of wine with an industry-leading direct-to-consumer platform, the company operates wineries in California and the Pacific Northwest. Vintage Wine Estates experienced growing pains during its first year as a public company. On the positive side, the firm's new chief financial officer has undertaken a series of initiatives designed to improve and strengthen inventory management, processes and reporting. However, these efforts resulted in a large non-cash charge to inventory that hurt the bottom line in the most recently completed fiscal quarter. Investors reacted negatively to the news, sending the stock price lower. We had been reducing our investment in Vintage Wine Estates prior to mid-September because of indications that the wine category was slowing combined with the company's debt levels. However, with the stock now resetting to levels below the value of its assets, we're holding our current position.

Another weak stock in the Fund was Superior Group of Cos., Inc. (SGC). The company sells workplace uniforms and related accessories. It also operates a branded-products segment offering promotional merchandise, and a call-centers segment that provides outsourced staffing solutions. Earnings from Superior's uniforms business surged during early phases of the pandemic, which accelerated demand for health-care apparel and personal protective equipment and caused many customers to stockpile inventory. Since then, a slowdown in order flow has forced Superior to take write-downs on its excess inventories, producing a net loss in the company's most recent quarter.

Superior's other two segments—branded products and call centers—are growing at higher rates and have better profitability profiles. We expect the uniforms segment to return to revenue growth as inventory in the commercial laundry channel is worked down. However, we're evaluating whether the uniform segment can sustainably grow revenues at sufficiently high organic rates and whether the competitive environment allows for attractive profit margins. *(Current and future holdings are subject to risk.)*

OUTLOOK

The end of near-zero interest rates in the U.S. is quickly reshaping the investment landscape. While these adjustments are bringing pain in the short run, we believe there will also be long-term benefits.

In the world of equities, TINA ("There Is No Alternative") has been replaced by TARA ("There Are Reasonable Alternatives"). For over a decade, cheap money and easy access to capital allowed the CEOs of many technology and other companies to lead their firms down a path of rapid growth, revenue gains and expanding market share—leaving earnings by the wayside. That, in fact, was what financial markets demanded.

No more.

With stocks now having to compete with interest-bearing investments, companies are being forced to elevate profitability to an organizational priority. That's a good thing, in our view. Renewed attention to earnings certainly fits well with our own investment focus—businesses that we think can grow their bottom lines at attractive rates. At Wasatch, we believe earnings drive stock prices over the long run.

For the tough environment immediately ahead, we've loosely positioned the Fund around several key themes. We're emphasizing businesses that stand to benefit from factors such as:

- Increased government funding—in areas such as infrastructure, Covid relief and education.
- Lessening Covid headwinds—easing labor shortages and supply-chain disruptions, and the physical return of customers and patients.
- Significant backlogs—built up while capacity was constrained during the worst of the pandemic.
- Expanding margins—driven by slowing increases in input costs and an improved pricing environment.

Rising interest rates have also allowed borrowing costs and indebtedness to reassert their importance in the investment equation. Though the Fund typically owns companies with low levels of debt, we're now scrutinizing this metric to an even greater degree, given the real possibility of a hard landing for the U.S. economy in 2023.

While the economic outlook is currently challenging, our enthusiasm for finding the next great micro-cap growth company is undiminished. As the world has re-opened post pandemic, we have transitioned from Zoom calls to in-person and on-site meetings with the management teams of companies we own and new candidates for investment. Our stepped-up schedule has reminded us of how much is gained from face-to-face interactions. Identifying world-class leadership, while admittedly subjective, is a differentiated part of our investment process that we believe has contributed to the Fund's longer-term record of outperformance.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Korngiebel and Natalie Pesqué

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Fund—Investor	-3.87%	-39.42%	6.46%	10.48%	12.18%
Micro Cap Fund—Institutional	-3.87%	-39.40%	6.47%	10.49%	12.18%
Russell Microcap® Index**	-0.48%	-27.46%	6.86%	3.11%	8.37%

**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 returns 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—1.63% / Institutional Class—1.56%**

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 1/31/2023.** 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. 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. Indexes are unmanaged. Investors cannot invest directly in these or any indexes.*

The Wasatch Micro Cap Fund has been developed solely by Wasatch Global Investors. The Wasatch Micro Cap 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 Microcap Index vest in the relevant LSE Group company, which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license.

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 Fund or the suitability of the Index for the purpose to which it is being put by Wasatch Global Investors.

CFA® is a trademark owned by the CFA Institute.

The Wasatch Micro Cap Fund's investment objective is long-term growth of capital. Income is an objective only when consistent with long-term growth of capital.

MICRO CAP FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2022

Security Name	Percent of Net Assets
Holley, Inc.	4.1%
Vintage Wine Estates, Inc.	3.8%
Agilysys, Inc.	2.7%
UFP Technologies, Inc.	2.6%
Grid Dynamics Holdings, Inc.	2.6%
Napco Security Technologies, Inc.	2.5%
Addus HomeCare Corp.	2.5%
Construction Partners, Inc., Class A	2.4%
Castle Biosciences, Inc.	2.4%
CyberArk Software Ltd.	2.3%
Total	27.9%

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.