WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WMICX / Institutional WGICX

Wasatch Micro Cap Fund

DECEMBER 31, 2022

Because Difficult Business Conditions May Have Become The "New Normal," We Want Our Companies To Be Positioned Well With Respect To Balance Sheets And Cash Flows

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

The stocks of U.S. micro-cap growth companies moved higher during the fourth quarter of 2022, carried by optimism about the future of inflation and interest rates. The benchmark Russell Microcap® Index gained 4.72%. Underperforming its benchmark, the Wasatch Micro Cap Fund—Investor Class declined -2.45%.

From a sector perspective, the Fund's primary sources of weakness relative to the benchmark were disappointing returns in industrials, financials and health care. An overweight position and underperformance in information technology (IT) were also detrimental.

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.***

At the other end of the spectrum, relative strength came from robust returns in consumer staples.

While there's no doubt that business conditions have improved since the height of the Covid-19 pandemic, it seems likely that challenges will continue to crop up. As a result, we're not counting on macro improvements to provide a tailwind for our investments. Instead, we're focused on companies that have excellent management teams and that can grow in a variety of economic environments.

We're pleased to report that our travel schedule to visit companies has ramped up. Most recently, we went to Texas for meetings with the management teams of TaskUS, Inc. (TASK) and CS Disco, Inc. (LAW). TaskUS is a newer holding for us. The company is a leader in business-process outsourcing, including customer service and content monitoring. The company's strong execution has earned it a reputation as the go-to partner for high-growth technology businesses. The bear market and some minor company-specific issues pushed down the market capitalization of TaskUS into the micro-cap range, enabling us to add this high-quality company to the Fund.

CS Disco has faced significant challenges recently. This legal-technology company provides a cloud-based platform of artificial-intelligence solutions for e-discovery, legal-document review and case management. Because CS Disco has a limited history as a publicly traded company and is aggressively spending cash to fund its growth, skeptical investors drove the stock price down. Moreover, the legal-document review segment of the company's business depends on incremental usage that's extremely volatile because the segment is very early in the adoption cycle. Based on our visit and our discussions with customers, we're cautiously optimistic that adoption will ramp up, volatility will decline and revenue per client will grow. In addition, CS Disco's large cash position could help the company to realize the market opportunity for its cloud-based platform, which we believe has the potential to make the legal industry much more efficient.

DETAILS OF THE QUARTER

Grid Dynamics Holdings, Inc. (GDYN) was the greatest detractor from Fund performance during the fourth quarter. The company provides *Fortune 1000* businesses and other firms with a range of technology services—including consulting, software design, internet business development, cloud computing and legacy replatforming—and thus had benefited from the secular move toward digitalization. However, Grid has a significant number of employees in Ukraine. After a period of relative calm in major Ukrainian cities, recent escalating Russian attacks on power plants and other vital infrastructure have once again raised concerns. But we've been impressed by the ability of Grid's management to navigate these challenges over a difficult year, and we expect management will continue to find ways to thrive in the digitalization space, which we think will be resilient in the face of a potential recession. As such, we added to our position when the recent retracement in the stock price created an attractive buying opportunity.

Another significant detractor was Inotiv, Inc. (NOTV). The company, a contract-research organization that serves the biotechnology industry, is a major buyer of non-human primates (NHPs) for medical testing. NHPs are vital for medical advances and are often necessary to gain regulatory approvals for drugs and other treatments. A mid-quarter announcement that Inotiv's main provider of NHPs was associated with an indictment related to animal smuggling raised concerns that the company might have trouble securing a sufficient allotment in the future.

Looking ahead, the fate of NHP supplies is uncertain. But given the overall supply shortage due to Covid-19 even before the indictment, it's possible that the interested parties—including regulators—will reach a rapid resolution with minimal disruptions. Nevertheless, we'll closely monitor developments and adjust our position in Inotiv accordingly.

Simulations Plus, Inc. (SLP) was also a detractor. The company produces drug discovery and development software designed to help pharmaceutical firms shorten the time required to bring drugs to market. As life sciences businesses continue to adopt modeling and simulation, we believe Simulations Plus is well-positioned for growth in a high-margin industry. The company's scientific consulting services are also experiencing strong demand, and its sales team has demonstrated success in cross-selling to existing customers. The stock's weakness during the quarter was the result of lumpy financial results caused by the timing of contract renewals, which should gradually even out as Simulations Plus grows.

Agilysys, Inc. (AGYS) was the top contributor to Fund performance during the fourth quarter. The company develops application software for point-of-sale, property-management, inventory and procurement applications. Agilysys specializes in the hospitality and retail industries world-wide, and its solutions can be implemented on wireless and mobile devices. The company recently modernized its software, which has proved fortuitous as post-pandemic consumer and business travel has accelerated. On December 15, Agilysys announced an agreement to deploy its cloud-based property-management system software across Marriott's luxury, premium and select service hotels in the United States and Canada. Beyond the incremental earnings and cash flows related to Marriott, the agreement should help Agilysys win new customers on an ongoing basis.

Another meaningful contributor was UFP Technologies, Inc. (UFPT), which designs and manufactures a range of high-performance cushion packaging and specialty foam and plastic products for industrial and consumer markets. In the past, UFP also made precision-molded fiber packaging primarily from recycled paper. But the company recently divested from that business segment due to margins being lower than those in other business segments. Conversely, UFP has made acquisitions of firms serving the higher-margin medical industry. The company's recent revenues and earnings were strong, which boosted the stock price. Moreover, with elective medical procedures ramping up after declines amid the pandemic, we expect UFP will start to experience faster growth and even better margins.

Impinj, Inc. (PI) was also a contributor. The company, a pioneer in helping develop the Internet of Things, provides an infrastructure by which everyday things such as car parts and even shipment data communicate over the internet. Impinj offers a wireless inventory-management and tracking platform for customers in retail, manufacturing, health care and other areas. Tiny radio-frequency identification (RFID) chips are used to connect, count and track individual items. Because Impinj is heavily reliant on integrated circuits, which were in short supply during the post-pandemic rebound, today's slowing economy helps reduce this supply-and-demand imbalance, benefiting the company's profitability. The stock soared when Impinj's third-quarter earnings report and management's forward guidance were well-received by investors. Given the magnitude of the move in the stock, we sold some of our shares but maintained a healthy position. *(Current and future holdings are subject to risk.)*

OUTLOOK

As described above, rather than counting on macro improvements of business conditions, we're focused on companies that we believe can effectively navigate ongoing challenges. In practice, this means that instead of being told conditions are difficult, we want to hear from management teams that they have a robust operating model and are positioning themselves for success. After all, difficult business conditions may be the "new normal" for many companies.

We also want to make sure the Fund is generally well-positioned with respect to our companies' balance sheets and cash flows. For holdings that are spending cash at higher levels, we analyze their balance sheets to ensure enough cash is on hand to meet burn rates and alleviate liquidity concerns.

In terms of recent additions to the Fund, we're finding some attractive valuations in restaurants and other consumer-related names. With commodity prices off their highs and wages moderating, input costs have come down and margins have improved for many restaurants and consumer-products companies. Moreover, these companies often have deeply discounted stock prices even though their businesses show significant possibility for growth.

One restaurant company we bought during the quarter was the Tex-Mex chain Chuy's Holdings, Inc. (CHUY). We had owned Chuy's in the past, so we're very familiar with the company and its loyal customer base. Today, we find the stock's valuation to be attractive based on the company's healthy balance sheet, strong free cash flows, and ability to add locations and improve sales per location over the long term. Management also did a great job navigating the Covid-19 pandemic, and the result is a business that uses labor more efficiently and manages costs better than it did before the pandemic. Going forward, lower prices for food and other inputs should also provide a tailwind to company margins.

Among consumer-products companies, we bought another name that we had held in the past—Purple Innovation, Inc. (PRPL). The company produces and markets mattresses, pillows, sheets, other bedding products and cushions. Purple's injection-molded GelFlex Grid is made from a proprietary polymer and provides cushioned comfort while maintaining support. After experiencing some business-development challenges a few years ago, we think Purple is now well-positioned to take market share in a growing industry. What adds to our confidence is that the company's new CEO is experienced in building excellent management teams, reducing costs and partnering with top-notch retailers.

We've also invested in companies with countercyclical growth potential. For example, lending company EZCORP, Inc. (EZPW) serves less-affluent individuals who may struggle amid high inflation or recession. The company owns and operates pawn stores that generate very strong cash flows. Customers can buy merchandise at discounted prices, sell unneeded belongings or receive loans based on items of value.

Regarding long-term trends that we'd like the Fund to benefit from, it's clear that U.S. infrastructure needs to be upgraded nationwide and that government spending has been prioritized accordingly. As a result, we've invested in companies that we think are recession-resistant such as Construction Partners, Inc. (ROAD), which specializes in projects such as highways, bridges and airports. Moreover, any commodity price inflation that's been incorporated in the company's contracts may help improve margins going forward.

Finally, while we're aware that many IT companies are facing customers with tight budgets, the good news is that the sector has received an important message: The mantra of "growth at all costs" is no longer acceptable, and profitability must now be a high priority. In this new environment, we think we'll be in a better position to find more IT companies—like the aforementioned Agilysys—with the potential to generate strong cash flows over the long term.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Korngiebel and Natalie Pesqué

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Fund—Investor	-2.45%	-40.64%	0.96%	8.47%	12.18%
Micro Cap Fund—Institutional	-2.27%	-40.47%	1.04%	8.52%	12.20%
Russell Microcap® Index**	4.72%	-21.96%	4.05%	3.69%	8.86%

**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% 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.*

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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.

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.

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

MICRO CAP FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
ICF International, Inc.	3.1%
Addus HomeCare Corp.	3.0%
Transcat, Inc.	2.9%
Agilysys, Inc.	2.8%
CyberArk Software Ltd.	2.6%
Grid Dynamics Holdings, Inc.	2.5%
UFP Technologies, Inc.	2.5%
Construction Partners, Inc. Class A	2.4%
Silk Road Medical, Inc.	2.3%
Heritage-Crystal Clean, Inc.	2.3%
Total	26.5%

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.