WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMVX / Institutional WGMVX

Wasatch Micro Cap Value Fund

SEPTEMBER 30, 2022

Due to Macro Headwinds, We're Especially Careful to Resist Complacency and We've Stepped Up Efforts to Review Our Holdings

FUND MANAGERS

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Lead Portfolio Manager
19 YEARS ON FUND / 19 YEARS AT WASATCH

Thomas Bradley
Associate Portfolio Manager
<1 YEAR ON FUND / 8 YEARS AT WASATCH

OVERVIEW

During the third quarter of 2022, micro-cap stocks—succumbing to relentlessly higher interest rates—gave up early gains and finished the period in negative territory. The Wasatch Micro Cap Value Fund—Investor Class fell -3.13% and underperformed the benchmark Russell Microcap® Index, which declined -0.48%.

Among sectors, our stock selections in information technology and consumer discretionary—and our zero weighting in the poor-performing real-estate sector—were sources of strength relative to the benchmark. On the other hand, our stock selections in health care and consumer staples—and our overweight position in declining industrials—were disadvantageous. In health care, our stocks were up overall but lagged the benchmark positions—which included strong-returning biotechs that don't usually fit our criteria because they're prone to being all-or-nothing investments.

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—1.66% / Institutional Class—Gross: 1.61%, Net: 1.60%. 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.***

From a country perspective, a significant portion of the Fund's underperformance came from our non-U.S. holdings—which felt the pain of weakening currencies versus the dollar. Having said that, we continue to believe non-U.S. valuations are much lower. But companies outside the U.S. generally face greater risks from the war in Ukraine. Moreover, non-U.S. companies could be impacted if the greenback continues to rise. For our part, we're willing to tolerate international headwinds because we like the valuations and the diversification benefits of our non-U.S. names.

DETAILS OF THE QUARTER

Sharps Compliance Corp. (SMED) was the top contributor to Fund performance during the third quarter. The company provides services for the safe disposal of medical waste including injection needles. As we had expected, when Covid-19 vaccines came to market, there was a surge in demand for the disposal of vaccine-related needles. As a risk-control measure, we sold our position in Sharps at the then-elevated valuation. More recently, we bought the stock back as it had dropped significantly on investor worries about market volatility and a general avoidance of off-the-radar names. In July, the stock was up again—this time on an announcement that Sharps would be acquired at a large premium by a private-equity firm. Apparently, the private-equity firm recognized what we've known all along: Sharps has a great, highly cash-generative business. Going forward, we expect more acquisitions of companies like Sharps because private-equity firms are currently well-funded.

Another meaningful contributor was Napco Security Technologies, Inc. (NSSC). The company offers electronic security systems for access control, alarm warnings and video surveillance. With component prices elevated because of supply-chain constraints, Napco chose to temporarily sacrifice gross margins on its systems hardware in order to take market share from competitors. This strategy has now paid off in the form of higher-margin recurring revenues 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 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. Earlier in the year, we had maintained our position in Impinj based on our belief that supply constraints, which 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.

JDC Group AG, based in Germany, was the greatest detractor from Fund performance during the third quarter. The company is an independent provider of advice and financial products and services. We think the stock was down based on rising interest rates and an uncertain investment environment. Over the long term, however, we like that JDC's platform includes some of the biggest and best insurers in Europe. While JDC sells insurance policies, it doesn't incur underwriting risks. The company's annual revenue growth rate has been around 10% for the past several years, and we think it will be in the vicinity of 20% going forward. Moreover, our estimate is that margins will grow by about two percentage points per year.

Another significant detractor was SiTime Corp. (SITM), a developer of silicon-based timing components—which are superior to less-expensive quartz-based components. The company manufactures oscillators, clock generators and embedded resonators used for ethernet switches, computing devices, graphics cards, disk drives, mobile phones and subscriber-identity cards. The stock was down because the company lowered earnings guidance based on temporarily weaker consumer demand. We recently visited SiTime in Santa Clara, California, and we came away from the visit even more optimistic that consumer demand will rebound over the long term. Additionally, the company doesn't have many supply-chain challenges because it has greater in-house control of its manufacturing processes compared to typical electronics businesses. Nevertheless, we acknowledge that SiTime benefited from orders amid the pandemic that are unlikely to recur going forward.

Mortgage Advice Bureau Holdings Ltd. was also a detractor. The company provides mortgage services throughout the United Kingdom. Services include brokerage, mortgage-payment protection, insurance on buildings and contents, buyer's protection and advice. Mortgage Advice Bureau doesn't underwrite mortgages. Instead, the company uses technology to streamline what's normally a laborious process of sourcing a mortgage, completing applications and closing on a property. We think the stock was weak based on higher interest rates and the economic slowdown in the U.K. *(Current and future holdings are subject to risk.)*

PORTFOLIO POSITIONING

Regarding new positions during the third quarter, we purchased CS Disco, Inc. (LAW), a legal-technology company that provides a cloud-based platform of artificial-intelligence-powered legal solutions for e-discovery, legal-document review and case management. Because the company has a limited history as a publicly traded firm and is spending cash aggressively to fund its growth, skeptical investors drove down the stock price earlier in the year as economic uncertainty rose. We took advantage of what we think will prove to be temporary price weakness. Our view is that CS Disco's large cash position will enable 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.

We also bought Allied Motion Technologies, Inc. (AMOT), which designs, manufactures and sells motion-control products for a wide variety of markets. The company tends to generate slow-but-steady organic growth. Allied Motion complements this organic growth with acquisitions of businesses that typically produce faster growth and higher margins. We believe the combination of organic growth and acquisition-based growth is often a winning formula, and we're especially optimistic regarding Allied Motion.

As for positions sold during the quarter, we exited top-performing Sharps Compliance as described above. In addition, we moved on from the Gym Group PLC, which operates 24/7 gyms throughout the United Kingdom. We decided that the company has too much sensitivity to consumer spending, which may weaken during a likely recession in the U.K. Among pet-related names that we believe are also vulnerable to a recession, we sold U.S.-based Freshpet, Inc. (FRPT) and PetIQ, Inc. (PETQ).

Aside from buys and sells, we've raised the cash position in the Fund to nearly 7%. Over decades of managing money, we've found that holding a higher cash position during particularly volatile environments prepares us to quickly invest in "Fallen Angels" at discounted prices. For example, some housing-related stocks may be on our shopping list if the group continues to be hit by higher interest rates. In our experience, we don't have to wait until bad news has stopped—we just have to wait until the stock price already reflects the potential trouble ahead.

OUTLOOK

For the most part, our companies reported strong earnings for the second quarter. Where earnings were soft, we had generally expected the softness and the stocks had already reflected the news in the reports.

Third-quarter earnings have not yet been reported. But in these reports and in earnings reports going forward, we'll see how well companies are confronting macro headwinds. From our perspective, we're most concerned about the following:

- The U.S. Federal Reserve is intent on continuing to raise interest rates, and quantitative tightening (stepping away from bond purchases) still has a long way to go.
- Even if it ebbs a bit, inflation—especially for wages and energy—will probably remain elevated.
- The war in Ukraine is likely to persist, which may be especially hard on Europe.
- Indications are that China won't hesitate to shut down businesses in pursuit of zero-Covid.
- Even though our investments don't focus on Europe and China, U.S. companies are impacted by international challenges.

Due to these macro headwinds, we're especially careful to resist complacency and we've stepped up efforts to review our holdings. We're focused on trying to avoid disappointments amid third-quarter earnings reports. Due to persistent inflation, one area we're particularly excited about is labor-saving software. Another attractive feature of software companies is that they tend to be less economically sensitive.

As we've discussed before, good news regarding any of the headwinds listed above could spark a massive rally in stocks—especially in international names. But we think good news may be hard to come by in the short term. Having said that, macro forecasts—including our own—are inherently unreliable.

From our perspective, the major offset to macro headwinds—irrespective of when they die down—is that we hold many companies at what we consider are reasonable, or even inexpensive, valuations. Moreover, most of our companies have cash-rich balance sheets. And with a holding period that's long enough, we think reasonably priced companies will eventually turn out to be attractive investments regardless of the mostly unpredictable macro forces.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow and Thomas Bradley

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	-3.13%	-32.60%	9.86%	8.51%	12.20%
Micro Cap Value Fund—Institutional	-3.10%	-32.31%	10.07%	8.64%	12.26%
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—1.66% / Institutional Class—Gross: 1.61%, Net: 1.60%**

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. 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. Indexes are unmanaged. Investors 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.

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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.

Diversification does not eliminate the risk of experiencing investment losses.

"Fallen Angel" is a Wasatch term for a company with a solid long-term growth history and outlook whose current earnings have gotten off track.

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

MICRO CAP VALUE FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2022

Security Name	Percent of Net Assets
JDC Group AG	2.3%
EZCORP, Inc., Class A	2.2%
Skyline Champion Corp.	2.1%
Evolution Petroleum Corp.	2.1%
Esquire Financial Holdings, Inc.	2.1%
Addus HomeCare Corp.	2.0%
Napco Security Technologies, Inc.	2.0%
Instem PLC	1.9%
Impinj, Inc.	1.8%
Radiant Logistics, Inc.	1.8%
Total	20.4%

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.