WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMVX / Institutional WGMVX

Wasatch Micro Cap Value Fund

DECEMBER 31, 2022

Although the Market Found Support in 2022's Fourth Quarter, 2023 Could Be a Challenging Year Requiring A Robust Focus on Portfolio Construction

FUND MANAGERS

Brian Bythrow, CFA
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 fourth quarter of 2022, the benchmark Russell Microcap® Index rose 4.72% as investors became cautiously optimistic about the potential for inflation to moderate and the U.S. Federal Reserve (Fed) to stop raising interest rates. Outperforming its benchmark, the Wasatch Micro Cap Value Fund—Investor Class gained 6.45%.

Among sectors, our stock selections in industrials, consumer discretionary, information technology and consumer staples were sources of strength relative to the benchmark. On the other hand, our stock selections in energy were disadvantageous. Additionally, our cash position was a modest source of weakness given the market's upward trajectory during the fourth quarter.

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, the Fund's outperformance came from our U.S. and non-U.S. holdings alike. Based on returns over a longer period, we continue to believe the valuations of non-U.S. stocks are much lower. But companies outside the U.S. generally face greater risks from the war in Ukraine and potential energy shortages. Moreover, non-U.S. companies are affected by currency fluctuations. For our part, we're willing to tolerate international volatility because we like the valuations and the diversification benefits of our non-U.S. names.

DETAILS OF THE QUARTER

va-Q-tec AG was the top contributor to Fund performance during the fourth quarter. Based in Germany, the company is a pioneer in the design and manufacture of energy-efficient, space-saving insulation products. va-Q-tec's high-tech products include environmentally friendly vacuum-insulation panels and hot and cold storage elements that contain phase-change materials. The company markets its products internationally to the refrigeration, packaging, cold chain logistics, aircraft, automotive, construction and pharmaceutical industries. va-Q-tec benefited from being involved in the temperature-controlled delivery of Covid-19 vaccines. Subsequently, the stock fluctuated to a significant extent with changes in energy prices. Most recently, the stock more than doubled based on a tender offer from a German private-equity firm.

Another meaningful contributor was **Bowman Consulting Group Ltd. (BWMN)**, a company that provides a broad range of real-estate, energy, infrastructure and environmental-management services. Bowman's third-quarter earnings were strong, extending a trend of exceeding expectations. We anticipate that the less cyclical nature of government spending will benefit companies like Bowman, which are involved in public infrastructure projects. Because we also consider the stock underpriced in the context of fundamentals and peer valuations, we're optimistic about the company's future performance.

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 shipments 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 computer chips, 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 and the size of our exposure, we sold some of our shares.

Inotiv, Inc. (NOTV) was the greatest detractor from Fund performance during the fourth quarter. 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.

Another significant detractor was Bioventus, Inc. (BVS), a medical-device company that offers diagnostic systems and equipment to facilitate bone healing and osteoarthritis pain treatments. The company's earnings disappointed investors. Moreover, because Bioventus carries significant debt and operates in a highly competitive environment, we expect that the financial outlook is unlikely to improve in the near term and that the next round of financing will be dilutive to existing shareholders. As such, we chose to exit our position during the quarter.

Grid Dynamics Holdings, Inc. (GDYN) was also a detractor. 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, 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 in Grid when the recent retracement in the stock price created an attractive buying opportunity.

PORTFOLIO POSITIONING

Regarding purchases during the fourth quarter, we initiated a new position in CarParts.com, Inc. (PRTS), an online provider of low-cost aftermarket auto parts and accessories. The company recently posted strong earnings, and we believe it's positioned well to benefit amid a softer economy in the months ahead—particularly as struggling consumers opt to fix rather than replace their cars or to do the necessary repairs themselves. With a stock price approximately 75% lower than the high in early 2021, we believed the recent valuation provided an attractive entry point for investment in a fundamentally strong business. Moreover, we're impressed with CarParts.com's new chief operating officer, who joined from Amazon.com and who has a reputation for increasing sales and improving margins.

We also initiated a new position in Aris Water Solutions, Inc. (ARIS), an oilfield-services company that manages the water supplies used in energy exploration and production (E&P). Aris's recent pipeline investments allow E&P businesses to increase the amount of water that can be recycled, which significantly lowers costs. In Texas, for example, water use is one of the greatest expenses incurred for drilling activities.

As for longer-held names, we added to our position in Knights Group Holdings PLC, a U.K. company that provides legal and professional services including tax advice and debt collection. Knights Group was a strong contributor to Fund performance during the quarter as its earnings were in line with expectations and the chief executive officer bought more shares, increasing investors' confidence in the company. In the future, we expect the company's core legal business to remain less sensitive to the economic cycle. Therefore, growth is likely to persist at a rate near 15%. With the current stock price in the vicinity of just four times earnings, we think our position in Knights Group will continue to benefit the Fund.

Regarding positions sold during the quarter, we exited the aforementioned Bioventus. We also exited Ping Identity Holding Corp. (PING), which provides cloud-based identity- and access-security solutions for workforce, customer and partner applications. While we were pleased with the stock's performance, the company was acquired by a leading software-investment firm before we were able to establish a larger position. *(Current and future holdings are subject to risk.)*

OUTLOOK

Although the market found support in the fourth quarter, we believe 2023 could be a challenging year with relatively high inflation and a possible recession. While we don't anticipate a persistent environment of stagflation, we think the Fed may disappoint investors who are looking for lower interest rates to help bolster a weak economy. Additionally, we believe the market hasn't fully reflected earnings downgrades that have yet to occur.

Nevertheless, we expect that our investment approach will be well-suited to the upcoming environment. Rather than positioning the Fund for a particular macroeconomic outcome, we've diversified our exposures across a range of categories that we believe will result in robust portfolio construction to effectively weather a variety of economic scenarios.

We've invested in companies with countercyclical growth potential, such as lending company EZCORP, Inc. (EZPW), which serves less-affluent individuals who may struggle amid high inflation or recession. Similarly, our holdings in infrastructure-related companies like Bowman Consulting Group, Sterling Infrastructure, Inc. (STRL) and Construction Partners, Inc. (ROAD) are likely to be less sensitive to the rate of inflation or the state of the economy.

We've also invested in companies that are more cyclical but that are trading at valuations indicating a recession is already priced into their stocks. Such companies include Skyline Champion Corp. (SKY), which produces manufactured and modular homes and buildings, and Patrick Industries, Inc. (PATK), which makes products primarily for the housing, furniture and vehicle industries.

Our approach for 2023 is best described by the stoic proverb "Prepare for the worst, hope for the best." And once investors contend with potential disappointments, there are plenty of conditions to be hopeful about—including the following:

- Although the Fed may not lower interest rates anytime soon, we think the tightening cycle is close to an end.
- Because investors seem resigned to challenges coming from China and Ukraine, any persistent good news on these fronts could spark rallies in stock prices. International names may experience especially good news: better earnings, higher stock-price multiples relative to earnings, increased dividends, stronger currencies abroad and greater buyout activity.
- Micro- and small-caps are more attractively priced than large-caps, in our view. Additionally, some lower-capitalization companies are attracting the attention of private-equity firms.
- After inflation peaks and starts to turn down, the environment for micro- and small-caps tends to be positive. Shipping costs and many food prices have already declined significantly.
- There are numerous consumer-oriented companies—with strong balance sheets and reasonable inventory levels—priced at very low multiples of EBITDA (earnings before interest, taxes, depreciation and amortization). Once consumer demand gains momentum, the stocks of these companies could move significantly higher.

Consistent with our long-term investment approach, in 2023 we'll continue to favor companies that have strong earnings irrespective of interest rates, that have the ability to thrive across economic cycles and that can increase market share without having to raise capital from outside sources.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow and Thomas Bradley

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	6.45%	-28.95%	8.26%	8.52%	12.54%
Micro Cap Value Fund—Institutional	6.41%	-28.98%	8.46%	8.64%	12.60%
Russell Microcap® Index**	4.72%	-21.96%	4.05%	3.69%	8.86%

**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.

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 Value 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 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.

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, 2022

Security Name		Percent of Net Assets
Construction Partners, Inc. Class A		2.5%
Esquire Financial Holdings, Inc.		2.4%
EZCORP, Inc. Class A		2.4%
Evolution Petroleum Corp.		2.4%
Impinj, Inc.		2.3%
Skyline Champion Corp.		2.3%
Inotiv, Inc.		2.2%
ICF International, Inc.		2.0%
Napco Security Technologies, Inc.		1.9%
Harrow Health, Inc.		1.9%
	Total	22.5%

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.