WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WMICX / Institutional WGICX

Wasatch Micro Cap Fund

MARCH 31, 2023

As the Economic Outlook Becomes Less Certain, We're Focused on Companies That Can Grow in Any Environment

FUND MANAGERS

Ken Korngiebel, CFA
Lead Portfolio Manager

5 YEARS ON FUND / 7 YEARS AT WASATCH

Natalie Pesqué, CFA
Portfolio Manager

1 YEAR ON FUND / 7 YEARS AT WASATCH

OVERVIEW

The stocks of U.S. micro-cap growth companies moved slightly higher during the first quarter of 2023. The Wasatch Micro Cap Fund—Investor Class gained 10.93%, handily outperforming the benchmark Russell Microcap® Growth Index, which rose just 0.76%.

Failures of three regional banks in the U.S. and the hastily arranged government-brokered sale of troubled Swiss firm Credit Suisse Group AG added a new layer of complexity to an economic backdrop that was already uncertain. Equities weathered the turmoil well, shrugging off talk from the White House and Capitol Hill about tighter regulation of banks and rallying into the end of the quarter. Hopes that the crisis would push the U.S. Federal Reserve (Fed) closer to the completion of its tightening cycle appeared to overshadow lingering fears of financial contagion within the banking system and outweigh broader concerns about the fallout to the general economy.

Despite turbulence in the banking industry, the financials sector was a source of outperformance for the Fund. We're underweighted in banks

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—1.59%. 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 1/31/2024.***

relative to the Index, as we hold just one name—Esquire Financial Holdings, Inc. (ESQ). While the stock traded down in tandem with the industry, Esquire doesn't share the negative characteristics of the banks that ran into trouble. And we believe in Esquire's ability to weather the storm. Additionally, robust returns from our insurance and financial-services holdings more than offset the decline in Esquire and drove a solid gain in the Fund's financials overall.

Holdings in the information-technology, consumer-discretionary and industrials sectors were the Fund's primary sources of strength, both in absolute terms and relative to the benchmark. Moreover, our holdings performed better than the benchmark's positions in every sector in which the Fund was invested.

DETAILS OF THE QUARTER

The top contributor to Fund performance for the first quarter was Napco Security Technologies, Inc. (NSSC). The company makes electronic security devices, fire-detection products, access-control systems, and digital lock equipment for residential, commercial and industrial installations. Napco has been enjoying strong results across its business lines and has been expanding profit margins due to progress in moving its operating model from one based on infrequent hardware purchases (with occasional maintenance and upgrades) to another based on recurring purchases that ensure ongoing functionality. While competitors were hurt by supply-chain difficulties stemming from overreliance on Chinese manufacturing, Napco was able to stay nimble by having less exposure to China and by maintaining a supply of components from a production base in the Dominican Republic.

Transcat, Inc. (TRNS) and PDF Solutions, Inc. (PDFS) were also contributors to Fund performance. Transcat provides calibration and laboratory-instrument services. We've owned the stock since 2018, and we like the fact that Transcat has posted steady organic growth and has complemented this growth with strategic acquisitions. We also see opportunities for Transcat to improve gross margins. As a result, we remain bullish on the stock.

PDF Solutions provides technologies for optimizing the design and manufacture of integrated-circuit chips. The company's stock price soared to record highs in February after quarterly revenues and earnings came in ahead of Wall Street estimates. Factors boding well for the future of PDF Solutions include the company's growing backlog of orders and its emerging Design-for-Inspection System (DFI System™). This new technology seeks to change the current paradigm of visual chip inspection by incorporating proprietary electrical characterization directly into the chip's design, enabling customers to detect previously unknown defects in a non-destructive way.

The biggest detractor from Fund performance for the first quarter was Silk Road Medical, Inc. (SILK), which provides implantable devices to treat blockages in the carotid artery that increase risk of a stroke. Although Silk Road posted a narrower-than-expected loss in its most recently reported quarter, the stock sold off after management offered no guidance as to future earnings. Right now, it's common to see management teams being ultra-conservative when issuing forward guidance, as they're concerned that too much optimism could hurt their companies' stock prices if actual results fall short. On the plus side, Silk Road's revenues rose 42% compared to the same quarter a year ago on the back of increased adoption of the company's Transcarotid Artery Revascularization (TCAR) procedure. In our view, Silk Road's scalable business model, effective sales force and large cash position should provide the company with an ample runway to profitability.

Purple Innovation, Inc. (PRPL) and the aforementioned Esquire Financial Holdings were also detractors from Fund performance. Purple produces and markets mattresses, pillows, sheets and other products. The company's injection-molded GelFlex Grid is made from a proprietary polymer and provides cushioned comfort while maintaining support. The mattress industry has been facing a poor environment in terms of units shipped, which has weighed on Purple's stock price. But the company is working on a new merchandising approach and is looking to cut costs where it makes sense to do so. If the new approach is successful, we expect revenues and earnings to improve.

Esquire Financial is the holding company for Esquire Bank, which provides commercial banking services to law firms. The stock was caught in the downdraft emanating from the failures of Silvergate Bank, Silicon Valley Bank and Signature Bank. But Esquire has little in common with those banks. Esquire is focused on law firms, which tend to hold up well even in soft economic environments. Moreover, less than 30% of Esquire's deposits exceed the FDIC insurance limit, and the bank hasn't seen anything resembling a run on deposits. As mentioned above, Esquire is the only bank in which the Fund is invested. And we think Esquire's unique business model and steady depositor base create a buffer from turbulence in the industry.

NOTABLE PORTFOLIO TRANSACTIONS

Among our buys, we initiated a new position in Xponential Fitness, Inc. (XPOF), which is a boutique fitness franchisor that offers Pilates, indoor cycling, yoga, and many other fitness classes and services. The company has a strong brand-name collection and is savvy about acquiring smaller brands at low prices and then scaling them up. This approach generates healthy cash flows, and it positions Xponential at the forefront of the fitness and health trends that appeal to consumers.

Among our sells, we exited our position in Holley, Inc. (HLLY) due to our perception of deteriorating business fundamentals. The company targets car and truck enthusiasts by offering high-performance automotive parts such as carburetors and fuel-injection systems. But we saw that Holley's business had been unsustainably elevated during the Covid-19 pandemic, when customers spent more time and money on activities that could be done from home. Additionally, we determined that Holley's acquisitions of other firms were weighing on its balance sheet. Finally, we weren't comfortable with some recent management changes at the company. *(Current and future holdings are subject to risk.)*

OUTLOOK

As we began 2023, there was a debate among investors about whether the economy would muddle through with reasonable growth or enter recession—and about how the actions of the Fed would influence the outcome. While that debate carries on, the events of the first quarter of the year have shifted our outlook somewhat.

With the bank failures, we think the scales have now tipped toward recession. Vulnerable consumers and certain segments of the economy are already feeling the initial effects of a broader slowdown. But on the plus side, it seems likely that the Fed may not raise interest rates as aggressively as investors had feared just a few months ago.

The Fund's positioning reflects our caution regarding an economic slowdown. Many of our top holdings and a large percentage of the Fund overall are in what we call "stable compounders"—as opposed to faster-growing "disruptors." We're focused on companies with more predictable organic growth rates, strong cash flows and solid balance sheets. Amid potential economic challenges, we believe our "stable compounders" should still be able to self-fund their growth.

Despite our caution toward the economy, we're screening for new names that have the potential to improve the portfolio. For example, we're looking for opportunities in areas that may be facing headwinds currently but that could eventually offer attractive investments when the headwinds inevitably diminish. Technology, broadly defined, is a prime area where we expect to find well-priced entry points into companies that we believe will be promising long-term holdings.

Uncertainty over inflation and interest rates, the potential for more problems in the banking industry and the increased likelihood of recession may not seem to create a favorable environment for investing. But at Wasatch, we think we do some of our best work amid market volatility. And we're continuing to vet our current holdings as we search for other high-quality companies to invest in. As always, we prioritize solid business models, top-tier management teams, increasing market share, significant returns on capital and relatively low debt. When we can find companies with these characteristics and their stock prices are on sale, we're especially excited about the possibility of outsized returns.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Korngiebel and Natalie Pesqué

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Fund—Investor	10.93%	-18.55%	14.93%	9.59%	12.16%
Micro Cap Fund—Institutional	10.73%	-18.55%	14.95%	9.60%	12.16%
Russell Microcap® Growth Index**	0.76%	-17.98%	10.87%	0.95%	5.82%
Russell Microcap® Index†	-2.83%	-17.93%	17.19%	2.96%	7.27%

**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—1.59%**

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 1/31/2024.** 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 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.

CFA® is a trademark owned by the CFA Institute.

**The Russell Microcap Growth Index is an unmanaged total return index measuring the performance of the micro-cap growth segment of the U.S. equity market.*

†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.

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.

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.

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

MICRO CAP FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
Agilysys, Inc.	3.4%
Heritage-Crystal Clean, Inc.	3.3%
Transcat, Inc.	2.9%
Esquire Financial Holdings, Inc.	2.9%
UFP Technologies, Inc.	2.8%
Allied Motion Technologies, Inc.	2.7%
Helios Technologies, Inc.	2.7%
Kadant, Inc.	2.7%
Napco Security Technologies, Inc.	2.5%
MasterCraft Boat Holdings, Inc.	2.5%
Total	28.5%

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.