WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WMICX / Institutional WGICX

Wasatch Micro Cap Fund

JUNE 30, 2023

With Index Returns Driven by Biotech, We Were Pleased to Outperform Despite a Small Weight in the Industry

FUND MANAGERS

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6 YEARS ON FUND / 7 YEARS AT WASATCH

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OVERVIEW

The stocks of U.S. micro-cap growth companies rose during the second quarter of 2023 as investors became increasingly optimistic about the prospect of a "soft landing" for the economy and the likelihood that the Federal Reserve (Fed) will stop hiking interest rates after just two more increases this year. The benchmark Russell Microcap® Growth Index returned 6.35%. The Wasatch Micro Cap Fund—Investor Class had a slight edge over the benchmark with a gain of 6.46%.

In the Index, health care took the lead and was the only sector to generate a double-digit return. Moreover, within health care, a biotechnology run-up was responsible for more than half of the Index's return. The run-up was triggered by investors' increasing appetite for risk and a consensus view that, following the banking crisis, biotech companies can get the ongoing funding they need for survival.

Given our below-benchmark weight in health care and the stock-price weakness of some of our holdings there, the sector was the Fund's largest source of underperformance relative to the Index. Fortunately,

Data show past performance, which 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 do 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.***

our selections in consumer discretionary and financials were outstanding—and were primarily responsible for the Fund's overall outperformance.

The Index's health-care weight is about 37%, which includes 19% in biotechnology. By contrast, the Fund's health-care weight is approximately 20%, which includes only 4% in biotech. Regarding health care, we certainly find many dynamic companies in the sector and think 20% is an appropriate allocation despite being far short of the Index's 37%. As for biotech, we find the industry risky due to generally high debt, a lack of profitability and the all-or-nothing nature of the businesses. While the Fund's small biotech weight can lead to significant short-term deviations from the Index, we think we'll be better positioned over the medium and long term by holding innovative growth companies in other industries.

An additional factor in the second quarter's positive returns was reasonably good news coming from first-quarter revenue and earnings reports. More specifically, the reports and outlooks for our companies were generally favorable and in line with our expectations. We're cognizant, however, that the macroeconomic environment is slowing in response to the Fed's efforts to contain inflation. And we're taking into account the risks this poses for those companies expected to show accelerating growth in the second half of this year.

DETAILS OF THE QUARTER

Weave Communications, Inc. (WEAV) was the second quarter's top contributor to Fund performance. The company provides small and medium-sized businesses with a customer communications and engagement software platform. Weave also specializes in software for dental offices and niche medical practices and facilitates patient communications. In 2022, the stock declined as investors shunned unprofitable companies and as Weave reorganized its sales force. More recently, however, investors have become optimistic because the company has trimmed expenses faster than it originally promised and has continued to deliver strong revenue growth. After initiating our position last year, we added to our holdings this quarter as the operating performance confirmed our thesis, and the stock's valuation continued to remain inexpensive.

Another meaningful contributor was Dream Finders Homes, Inc. (DFH). The company designs, builds and sells single-family homes and apartments. We bought Dream Finders in its 2021 IPO because the company had generated industry-leading returns on equity and had seen robust growth in sales, earnings and margins. Unfortunately, the stock fell significantly in 2022 because Dream Finders was especially vulnerable as a newly public company in a small-cap bear market precipitated by a rapid rise in interest rates. But with the Fed now likely near the end of its cycle of hiking interest rates and housing still underdeveloped, the stock has rebounded. Going forward, we like that Dream Finders operates in markets that still have significant headroom due to long-term needs for affordable homes. We also like the company's asset-light approach, which means Dream Finders doesn't own the land it develops. Although this reduces the company's upside potential, more importantly, it lowers its risk profile. Finally, we're impressed with how Dream Finders leverages its overhead through large-scale construction projects in concentrated regions.

NeoGames SA (NGMS) was also a contributor. The company is a technology and service provider to state lotteries and other lottery operators. NeoGames offers a full-service solution that includes all the elements required to conduct lottery games via instant tickets, personal computers, smartphones and other devices. The management team has continually impressed us as it has effectively capitalized on the trend of more and more states starting to offer lotteries. The stock was up significantly during the quarter because NeoGames tentatively agreed to an acquisition bid by Aristocrat Leisure Ltd. We sold our entire position on the news.

Impinj, Inc. (PI) was one of the second quarter's largest detractors from Fund performance. The company offers a wireless inventory management and tracking platform for customers in retail, manufacturing, health care and other areas. Tiny radio-frequency identification (RFID) chips connect, count and track individual items. Impinj is heavily reliant on computer chips, which were in short supply during the post-pandemic rebound. The recently slowing economy helped reduce the former supply-and-demand imbalance—and boosted the company's profitability and stock price. But the stock was lower during the second quarter because management reported a slowdown in large deployments across enterprises. Despite this slowdown, we expect deployments to ramp up in the second half of 2023. Over the long term, we still like Impinj for its competitive position and growth potential.

Another significant detractor was Castle Biosciences, Inc. (CSTL). A commercial-stage diagnostics company, Castle offers tests for dermatological cancers. The company's stock price declined in June after Medicare administrative contractor Novitas Solutions rescinded coverage for Castle's tests for squamous cell carcinoma and melanoma. Although this was a definite setback for Castle, we held our position because the company had several avenues to seek a reversal of the decision. In fact, there was some better news for Castle just after the quarter ended. Even with the better news, however, the stock remains near its recent low. Moreover, we believe Castle's depressed valuation doesn't adequately reflect the company's long-term potential for revenue growth and margin expansion. So even if profitability for the company gets pushed out beyond 2024 or 2025, we remain comfortable with our position.

Agilysys, Inc. (AGYS) was also a detractor. 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. Late last year, 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. Initially, the stock jumped higher on the Marriott news. During the second quarter, however, the stock declined as investors worried that margins would decrease in the short term as Agilysys incurs greater expenses to prepare for a ramp-up in business. We maintain our position in the company because our long-term thesis for profitable revenue growth is unaffected. (*Current and future holdings are subject to risk and change.)*

BUYS AND SELLS

Among our buys, we added Q2 Holdings, Inc. (QTWO). The company provides cloud-based, mission-critical software solutions to regional and community banks. We bought the stock on weakness when revenues fell short of expectations amid macroeconomic headwinds and the banking crisis. We think these factors caused some larger customers to defer discretionary projects. On the plus side, Q2's success in landing new contracts highlighted underlying strength in demand and bodes well for future growth.

As for our sells, we exited the aforementioned NeoGames. We also sold Hagerty, Inc. (HGTY), which specializes in insuring classic cars. Additionally, the company facilitates an auto marketplace, drivers club, media offerings, events and other experiences. We still believe Hagerty is a leader in this insurance niche. However, the rollout of its State Farm partnership continues to take longer than expected. And the company is investing heavily in its marketplace initiative. As a result, the profitability jump we had expected when we first invested is being pushed further into the future.

OUTLOOK AND POSITIONING

While supply-chain challenges, inflation and interest rates had dominated the financial news for over a year, artificial intelligence (AI) became front and center during the second quarter. For the most part, AI drove the positive returns of just several mega-cap tech companies. Nevertheless, investors wanted to know how AI would affect all companies, big and small.

In terms of AI repercussions, we think companies can be placed into four main categories: (1) Companies that directly develop or enable AI itself. Such developers and enablers, which include certain semiconductor businesses, have been some of the biggest stock-market winners so far. (2) Companies that are especially vulnerable to being replaced by AI. (3) Companies that can benefit from AI efficiencies. These could include software-as-a-service (SaaS) businesses that can save money and improve quality by using AI to help write and debug code. (4) Companies that are fundamentally insulated from AI. Here, we note that although most businesses will use AI at least to some extent, industrial manufacturers may be impacted less.

We continue to evaluate where our companies are situated among those categories and engage with the management teams to learn how they plan to take advantage of the opportunity or mitigate the risk where appropriate.

Beyond these general parameters, we have a few specific thoughts on AI-related investments. First, because AI depends on large amounts of data, we're more interested in companies that own or control their data than those that rely on third-party data. Second, companies that own their customer user interface should be well-positioned to use AI to enhance their products and services rather than being disrupted by it. And third, because AI could disrupt customer relationships in unexpected ways, we want to ensure as much as possible that our companies create outstanding user experiences and offer multiple reasons for customers to keep coming back.

Regarding general economic and market conditions, we noted above that many investors are hoping for a soft landing. While we certainly don't rule out that scenario, we expect at least a moderate recession in the short term. As a result, we're doing extra due diligence on companies that are counting on a better second half of the year.

As for the longer term, we think we'll see a cycle in which micro- and small-caps outperform large-caps. In fact, such a cycle may have already begun. We say this partially because large-cap index performance during the second quarter was driven by several AI-inspired mega-cap tech stocks. Without these, large-cap performance was much less impressive.

Irrespective of what unfolds in the economy and the market, we're comfortable owning a diversified group of high-quality companies with solid top- and bottom-line growth, substantial returns on capital and healthy balance sheets. At the other end of the spectrum, we're looking to own a few more companies that are priced somewhat less expensively because they're just on the cusp of profitability. But we also want to ensure they have reasonable cash positions, good revenue growth and significant margins on incremental sales.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Korngiebel and Natalie Pesqué

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Fund—Investor	6.46%	10.76%	2.82%	8.26%	12.14%
Micro Cap Fund—Institutional	6.46%	10.76%	2.88%	8.27%	12.15%
Russell Microcap® Growth Index**	6.35%	12.41%	1.45%	0.32%	5.83%
Russell Microcap® Index†	5.29%	6.63%	9.09%	2.07%	7.29%

**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 1/31/2024.** 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 do 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.

***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.

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.

An initial public offering (IPO) is a company's first sale of stock to the public.

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

Revenue growth is the increase in a company's revenues over a specified period of time, not necessarily one year.

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

MICRO CAP FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2023

Security Name		Percent of Net Assets
Heritage-Crystal Clean, Inc.		3.1%
Transcat, Inc.		3.0%
Addus HomeCare Corp.		3.0%
Kadant, Inc.		2.8%
UFP Technologies, Inc.		2.8%
Helios Technologies, Inc.		2.6%
Napco Security Technologies, Inc.		2.6%
Agilysys, Inc.		2.4%
Esquire Financial Holdings, Inc.		2.4%
ICF International, Inc.		2.4%
	Total	27.0%

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.