WASATCH
GLOBAL INVESTORS

Quarterly Commentary

Investor WMICX / Institutional WGICX

Wasatch Micro Cap Fund

DECEMBER 31, 2023

Our Focus on High-Quality Companies and Our Bottom-Up Approach to Stock Selection Led to Strong Performance In 2023

FUND MANAGERS

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6 YEARS ON FUND / 8 YEARS AT WASATCH

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1 YEAR ON FUND / 8 YEARS AT WASATCH

OVERVIEW

Micro-cap equities gained traction during the fourth quarter of 2023 as the Federal Reserve forecasted interest-rate cuts in the coming year. The dovish pivot from the Fed was accompanied by labor and economic data that were neither too hot nor too cold. Taken together, the latest batch of data has led many market participants to believe that the economy will avoid a recession and achieve a much-hoped-for soft landing.

Against the improving macro backdrop, the Wasatch Micro Cap Fund—Investor Class rose 12.69% during the fourth quarter. The Fund's return trailed that of the benchmark Russell Microcap® Growth Index, which increased 15.64%. However, compared to the benchmark, the Fund had much better and more consistent performance for the full year, rising 22.58% versus the benchmark's 9.11%.

The performance data quoted represents past performance. Past performance does not guarantee future results. 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. The 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.***

After the stocks of growth-oriented companies performed poorly amid the market rout of 2022, they had a slight edge in 2023. This aligned nicely with our focus on robust companies with the sustainable ability to take market share. Perhaps even more important than our focus on growth was our attention to quality. We choose companies that we believe have great management teams, outstanding business models and strong free cash flows. We also have a disciplined approach to exiting unsuccessful positions where our investment thesis no longer holds up.

For the year, the Fund's holdings in information technology (IT), industrials, financials and consumer discretionary significantly outperformed their peers in the benchmark. Our significant underweight in health care—particularly in pharmaceuticals and biotechnology—was a drag on performance. We're comfortable being underweight in these areas of the health-care sector because most of the companies lack the quality and growth that are hallmarks of our investment process.

In the fourth quarter, stock selection in IT was a strong contributor to performance. Our consumer-discretionary companies delivered gains but trailed the benchmark in large part due to a single holding, XPEL, Inc. (XPEL), which we discuss in more detail below. Health care was also a detractor for the same reasons we outlined in the previous paragraph.

DETAILS OF THE QUARTER

The top contributor to Fund performance for the fourth quarter was Agilysys, Inc. (AGYS). 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 in 2022, 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 mid-2023, however, the stock declined as investors worried that margins would decrease in the short term as Agilysys incurred greater expenses to prepare for a ramp-up in business. We maintained our position in the company because our long-term thesis for profitable revenue growth was unaffected. In late October, Agilysys announced third-quarter results that handily surpassed analyst estimates for both revenues and earnings. Management also increased full-year revenue guidance. The CEO highlighted strong growth rates across several markets, including hotels, cruise ships and non-gaming resorts.

Impinj, Inc. (PI) also contributed to Fund performance. The company, a pioneer in helping develop the "Internet of Things," provides an infrastructure by which items in transit—such as car parts and even shipping containers—communicate over the internet. Impinj provides tiny radio-frequency identification (RFID) chips to connect, count and track individual items. During the fourth quarter, the stock rebounded after a report of solid third-quarter revenues and profitability that exceeded expectations. Earlier in the year, the stock fell due to a slowdown in platform deployments and chip orders. The slowdown occurred because customers had previously obtained extra inventory based on fears over Covid-related supply-chain disruptions, and there was some demand softness in areas where RFID penetration is already high. Despite periodic headwinds, we remain positive on the company with a view that there are large deployments across different product categories that will drive long-term growth.

The greatest detractor from Fund performance for the fourth quarter was XPEL, mentioned above. The company develops and manufactures automotive products, including window tints and cut-to-fit protective films for painted surfaces. The stock was down on news that Tesla, an XPEL customer, started offering color and clear paint-protection film wraps in two California service centers without using XPEL's products. This news caused investors to question how much business XPEL might lose if Tesla's recent move is the start of a broader trend. We aren't overly pessimistic about this news because Tesla vehicles account for only about 5% of XPEL's revenues and because other automobile manufacturers have been increasing the use of XPEL's products. Nevertheless, our senses are heightened as we continue to evaluate our position.

Silk Road Medical, Inc. (SILK) was also a detractor. The company provides medical devices used in its minimally invasive procedure Transcarotid Artery Revascularization (TCAR) to treat blockages in the carotid artery. Silk Road's innovative system to reverse blood flow during TCAR directs any stroke-causing material away from the brain and into a filter, resulting in better outcomes than traditional stenting. Nevertheless, Silk Road has faced questions about the overall size of the TCAR market. Making matters worse, in October the company announced the retirement of its long-time CEO and also projected lower short-term revenue. The stock dropped as a result, and we exited our position shortly after the announcement. However, we recently bought back a small weight in Silk Road because we believe TCAR will eventually become the preferred procedure for carotid artery blockages. Additionally, we believe Silk Road's attractive valuation more than outweighs its current revenue weakness, which we don't think will last.

PORTFOLIO TRANSACTIONS

Mister Car Wash, Inc. (MCW) was a new addition to the Micro Cap Fund during the fourth quarter but has been owned in some of Wasatch's other funds for a few years. The company operates automatic car wash locations with a focus on monthly subscription pricing. We think Mister Car Wash is a well-run business, where each location adds significantly to the bottom line. But the company's market cap had historically been too high for our investment mandate. When the stock came under pressure amid fears of retrenchment in the consumer sector, we felt that investors were overreacting. The selloff gave us an attractive opportunity to own a high-quality company that had dropped into our market-cap range.

We sold TaskUS, Inc. (TASK) because our outlook for the company shifted. TaskUS provides business-process outsourcing, including customer service and content monitoring. In the past, we liked that the company's strong execution had earned it a reputation as the go-to partner for high-growth technology businesses. But as interest rates have risen and growth throughout much of the tech sector has cooled, many clients of TaskUS have embarked on cost-cutting initiatives that have impacted outsourcing providers. While the pullback from the tech sector could be temporary, we think that artificial intelligence (AI) poses a long-term challenge to the company's business model. As a result, we decided to exit our position and focus on opportunities with more attractive growth prospects and better risk-reward profiles. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

After a strong year for equity markets, it's natural to wonder whether stocks will maintain positive momentum in 2024. While lower interest rates could provide a tailwind, especially for small- and micro-caps, there's a concern that lower rates are already factored into current stock prices. And although consumer spending has remained strong so far, an economic soft landing is far from certain. Similarly, there's no guarantee that the Fed will deliver on its forecasted interest-rate cuts.

Despite these unknowns, we're optimistic heading into 2024—particularly with regard to prospects for micro-cap companies. Much of the broad market's increase in 2023 came just from several mega-cap tech stocks linked to AI. Additionally, large- and mid-cap stocks have generally outperformed small- and micro-caps for the past several years. These conditions, combined with strong fundamentals (e.g., growth in revenues, earnings and cash flows), leave smaller companies more attractively priced in our view.

While the higher interest-rate environment has been difficult for many companies to navigate, it's also imposed an extra degree of fiscal discipline that should benefit many companies and their shareholders over the long term. We're certainly seeing fiscal discipline firsthand when we evaluate our management teams. But we're also finding that the teams are striking the right balance between controlling costs and investing in activities to sustain future growth.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Korngiebel and Natalie Pesqué

TOTAL RETURNS
FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Fund—Investor	12.69%	22.58%	-8.50%	12.40%	10.33%
Micro Cap Fund—Institutional	12.85%	22.54%	-8.43%	12.45%	10.35%
Russell Microcap® Growth Index**	15.64%	9.11%	-8.22%	5.97%	3.67%
Russell Microcap® Index†	16.06%	9.33%	0.61%	8.56%	5.79%

**Returns less than one year are not annualized.*

The performance data quoted represents past performance. Past performance does not guarantee future results. 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.

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose.

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.

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***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.

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

MICRO CAP FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name	Percent of Net Assets
Construction Partners, Inc., Class A	3.3%
Esquire Financial Holdings, Inc.	3.1%
Kadant, Inc.	3.0%
Transcat, Inc.	2.9%
Addus HomeCare Corp.	2.9%
XPEL, Inc.	2.6%
ICF International, Inc.	2.5%
DMC Global, Inc.	2.4%
Agilysys, Inc.	2.4%
Veeco Instruments, Inc.	2.4%
Total	27.5%

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.