WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMVX / Institutional WGMVX

Wasatch Micro Cap Value Fund

SEPTEMBER 30, 2023

Amid a Negative Quarter for Micro-Caps, Quality Showed Its Importance as the Stocks of Higher-ROE Companies Performed Better Than Those of Lower-ROE Companies

FUND MANAGERS

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20 YEARS ON FUND / 20 YEARS AT WASATCH

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1 YEAR ON FUND / 9 YEARS AT WASATCH

OVERVIEW

During the third quarter of 2023, the benchmark Russell Microcap® Index fell -7.93% on the weight of persistent inflation (e.g., wages and energy prices), higher-for-longer interest rates, government rancor, and fears that an oncoming recession could hurt indebted businesses and consumers who are already stretched. Outperforming its benchmark, the Wasatch Micro Cap Value Fund—Investor Class lost -6.31%. We think our quality-oriented positioning was the main reason for the Fund's outperformance.

More specifically, from a quality perspective, we noticed that the stocks of higher-ROE (return on equity) companies generally performed better than those of lower-ROE companies. For example,

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each of the top three ROE deciles in the Russell Microcap Index outperformed the benchmark's overall return. And each of the bottom three ROE deciles underperformed the benchmark's overall return. The same trends held for the Micro Cap Value Fund, although the Fund had relatively little invested in lower-ROE companies.

Among sectors, our stock selections in industrials, health care and consumer staples contributed to Fund performance relative to the benchmark. Conversely, our stock selections in consumer discretionary and financials—and our low weight in the strong-performing energy sector—were disadvantageous.

Although our financials lagged the benchmark's positions, we note that the financials sector—which includes banks—was one of the best-performing sectors in the benchmark during the third quarter. We attribute this to investors' relief that the banking crisis from earlier in the year has receded. Moreover, based on tangible book values, many bank stocks are attractively priced relative to recent history. For our part, we invest in select banks based on competitive advantages. We avoid banks with potentially troubled loans outstanding. And because of our quality orientation, we pay attention to factors well beyond tangible book values.

As for countries, our U.S. holdings and our non-U.S. names performed similarly overall. Having said that, our positions in the United Kingdom, India and Japan were especially beneficial. Although we've trimmed some positions, we continue to like our non-U.S. companies for their generally more attractive valuations and diversification benefits.

Regarding the United Kingdom in particular, we were pleased to see better performance during the quarter. Previously, U.K. companies and stocks had been held back by the lingering effects of Brexit, high labor costs and general inflation. During the third quarter, however, the government reported a smaller-than-expected increase in the consumer price index.

DETAILS OF THE QUARTER

Many of the Fund's best performers during the third quarter were companies that reported healthy second-quarter revenues and earnings. Moreover, several leading holdings fit the theme we call "defensive growers."

Sterling Infrastructure, Inc. (STRL) was the Fund's top contributor. The company had historically focused on municipal and state contracts for highway paving and bridge, water, sewer and light-rail developments. More recently, Sterling has specialized in site preparation for large data centers and manufacturing facilities. Before the third quarter, we had thought the stock was very inexpensive. Then, the company reported robust earnings growth and the stock's price/earnings multiple also expanded. After such a powerful move, it's often tempting to sell. But we still think Sterling is reasonably priced at a valuation of about eight times EBITDA (earnings before interest, taxes, depreciation and amortization).

Another strong contributor was Instem PLC, a U.K. company that provides information-technology (IT) applications to global life-sciences businesses—including contract research organizations—for research and early development of drugs and chemicals. Instem's applications aid in compliance functions and help clients collect, analyze and report data to regulatory agencies. The stock was up because Instem agreed to be acquired at a valuation of about three times sales and approximately 20 times trailing-year EBITDA. Although this valuation may seem attractive at first glance, we're disappointed that management became impatient and wasn't able to negotiate an even better price based on the dynamic, highly profitable nature of Instem's IT applications.

Grid Dynamics Holdings, Inc. (GDYN) was also a contributor. 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 has benefited from the secular move toward digitalization. However, Grid has a significant number of employees in Ukraine. That factor, plus a temporary slowdown in the digitalization trend, hurt Grid's stock beginning in 2022. During the third quarter of this year, the stock was up again on optimism about a potential resurgence in digitalization. Even companies that have reported only mediocre improvement in digitalization revenues have seen their valuations rise. Although we've periodically traded our position based on opportunities afforded by a volatile stock price, we continue to own Grid because we've been impressed by management's ability to navigate inevitable challenges and thrive in the digitalization space.

Karat Packaging, Inc. (KRT) performed well, too. The company makes environmentally friendly, recyclable containers for food packaging. Karat is valued at about 12 times EBITDA and is expected to see strong secular growth in an underpenetrated market that demands "green" packaging.

Impinj, Inc. (PI) was the third quarter's largest detractor from Fund performance. The company, a pioneer in helping develop the "Internet of Things," provides an infrastructure by which everyday things—such as car parts and even shipping containers—communicate over the internet. Impinj deploys wireless inventory management and tracking platforms for customers in retail, manufacturing, health care and other areas. The company also provides tiny radio-frequency identification chips to connect, count and track individual items. During the past several months, the stock has fallen due to a slowdown in platform deployments and chip orders. The slowdown has occurred because customers had previously stocked up with extra inventory based on fears over Covid-related supply-chain disruptions. Despite the slowdown, we expect deployments and orders to ramp up in 2024. And we still like the company for its long-term growth potential.

Another significant detractor was Harmonic, Inc. (HLIT), which designs, manufactures and markets digital and fiber-optic systems that enable cable, satellite and wireless operators to deliver video, internet, telephony and high-speed data services. The company's solutions also assist cable providers and multi-service operators (MSOs) in the very capital-efficient upgrading of networks. The stock was down due to a report that Q2 revenues and earnings declined compared to year-ago results. Harmonic attributed the declines to hardware sales delays as customers digested existing inventories. While the company forecasts better results in quarters beyond Q3, investors have been skeptical of revenues and earnings that are more heavily weighted further into the future because a recession could derail optimistic projections. In our view, the stock could jump if Harmonic performs better than investors fear. Moreover, regardless of what happens in the short term, we like the company's longer-term positioning—which includes signed contracts with new customers. Regarding the competitive cable market, we believe Harmonic has carved out a unique niche that enables outsized economics as the category leader. The company has favorable partnerships with Comcast and Charter Communications, the two largest MSOs in the industry, and we think other MSOs will join Harmonic over the next three to five years.

Chefs' Warehouse, Inc. (CHEF) was also a detractor. The company distributes premium specialty foods primarily to chefs who own or operate restaurants, catering services and fine-dining establishments. While restaurant stocks have generally been weak since the end of 2021, Chefs' stock had held up well until succumbing in the third quarter of this year due to concerns about the possibility of soft consumer spending ahead. We don't take these concerns lightly, especially since Chefs' management hasn't made a compelling counterargument. But the company is valued at only about eight times EBITDA, which we consider inexpensive. And we think high-end diners will be relatively unaffected by a potential recession because eating out is an affordable luxury for them.

Viemed Healthcare, Inc. (VMD) performed poorly, too. The company provides health-care services, including respiratory-disease management, neuromuscular care, home sleep testing, sleep-apnea treatment and oxygen therapy. Viemed also offers rentals of ventilators and peripheral equipment. We've been involved with the company for several years, buying it when we thought the valuation was attractive and selling when the valuation appeared unwarranted. The speculative excesses surrounding Covid-19 have recently subsided, and the company has been achieving sustainable organic growth of greater than 20% annually. Moreover, Viemed has acquired another business in a deal that's been accretive to earnings. We think the third quarter's stock-price decline was simply a normal pullback from a strong gain that began in early 2022. We also believe the company is well-funded and relatively insulated from economic fluctuations. (*Current and future holdings are subject to risk and change.)*

BUYS AND SELLS

Among our recent buys, we added GEN Restaurant Group, Inc. (GENK) just before the start of the third quarter. The company owns GEN Korean BBQ, a fast-growing experiential restaurant chain with over 30 locations in seven states of the U.S. GENK offers customers a unique dining experience where they serve as their own chefs, preparing meals on embedded grills in the center of each table. The extensive menu consists of traditional Korean and Korean-American food, including high-quality meats, seafood and mixed vegetables. We bought GENK as an initial public offering (IPO). Afterward, we purchased additional shares on the open market. During the year prior to the IPO, we met with the management team and visited the restaurants several times—and our qualitative assessment was extremely positive. In terms of our quantitative assessment, we were impressed with GENK's contribution margins in the vicinity of 20% and its EBITDA valuation, which was below high-quality peers in the restaurant business.

We also added HighPeak Energy, Inc. (HPK), an exploration & production (E&P) company that performs geological and geophysical services, petroleum engineering and drilling. HighPeak is focused on developing unconventional oil and natural gas reserves primarily in the Midland Basin of Texas. We like that the company's energy reserves contain fewer byproducts than typically found in the reserves of competitors. Prior to our purchase, the stock was down because HighPeak had taken on too much debt. Under the leadership of Jack Hightower, the new chairman and CEO, the company has raised equity—largely from the management team—and has refinanced the debt. Going forward, we think HighPeak is attractive as an independent company or as an acquisition target of a larger competitor. Our confidence in HighPeak is enhanced by Mr. Hightower's track record of success in the E&P industry and his willingness to put his own money where his mouth is.

Cross Country Healthcare, Inc. (CCRN) was another addition. The company offers traveling and per diem nurses, radiology technicians, rehabilitation therapists and staff for clinical research trials. We think the stock is priced inexpensively because other investors expect to see less of a need for traveling nurses. Our view is that the shortage of hospital-employed nurses is more structural, which plays to Cross Country's advantage. Additionally, the company is well-managed, generates strong cash flows and has little debt.

As for our sells, we exited OptimizeRx Corp. (OPRX), which was a detractor from Fund performance during the third quarter. The company provides digital marketing services for pharmaceutical and other health-care-related businesses. Historically, OptimizeRx experienced resilient revenues and earnings amid weakening economic environments. But Q2 numbers were down unexpectedly, which may indicate that the company's perceived value among customers has changed. In the future, we may come back to the name if further research shows that the company's value proposition remains intact.

We also exited Veritiv Corp. (VRTV), a full-service provider of packaging, printing, logistics and facility solutions for various industries. The company has a track record of generating robust cash flows that are relatively insulated

from economic slowdowns. Although Veritiv was a successful investment for the Fund, we sold our position on the announcement that the company would be acquired by an affiliate of private-equity firm Clayton, Dubilier & Rice.

Sterling Bancorp, Inc. (SBT) was another name that left the Fund. Sterling provides retail and institutional banking services and wealth management in Michigan, California and New York. We had thought that Sterling was undervalued due to a regulatory issue. And our assessment was that the issue would be resolved with only minor consequences. Although we were correct in our assessment, Sterling has failed to gain the traction we had expected. As a result, we decided to move on from our investment.

OUTLOOK

As described above, we think banks and financials more generally are on sound footing after the crisis earlier in the year. We don't anticipate this assessment will change unless the economy goes into a deep recession. That said, we expect to remain underweighted in financials because differentiated business models tend to be less plentiful in this sector.

Regarding initial public offerings, we think the aforementioned GENK is part of a broader trend of more IPOs that will continue to be evident in the Fund going forward. Over 20 years of managing Micro Cap Value portfolios, we frequently participated in IPOs. And we often invested opportunistically in the post-IPO stocks through the secondary market, both at a higher price if the company gained traction and at a lower price if the company stumbled temporarily.

From a broader perspective, we don't expect the U.S. economy to experience a deep recession in the coming year. But a moderate recession or a slow-growth, muddle-through environment seems like a plausible alternative to the "Goldilocks" soft landing that many pundits predict.

We think our high-quality, cash-generating companies position the Fund well for most economic scenarios. In fact, we believe the overall quality of our holdings has never been better. Additionally, we think our international names give us added diversification in terms of valuations, political conditions and economic cycles. The international names also increase the probability that some of our companies will be acquired at premiums to their stock prices.

The Fund has significantly outperformed its benchmark during the year-to-date period. But, because the economy has been robust, the Fund might have done even better if it had a more aggressive growth orientation. That doesn't bother us because we prefer to have what we think is a lower-risk balanced orientation. This preference has led us to the "defensive growers" mentioned above. And during the third quarter, defensive growers proved their mettle in a down market. Going forward, initiatives such as the U.S. Infrastructure Investment and Jobs Act should continue to provide a bit of a tailwind for our defensive growers like Sterling Infrastructure.

Beyond tilting defensively in the Fund, we're reducing the number of positions we hold. If we go into a more difficult investing environment, we want to own fewer companies that depend on potentially cash-strapped consumers, and we want to have greater position sizes in companies benefiting from favorable business dynamics. But this doesn't mean we're pessimistic. Again, the quality and reasonable prices of our holdings should work to the Fund's advantage over the longer term regardless of what happens in the short term.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow and Thomas Bradley

TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	-6.31%	6.45%	4.36%	6.15%	9.65%
Micro Cap Value Fund—Institutional	-6.27%	6.41%	4.46%	6.27%	9.71%
Russell Microcap® Index**	-7.93%	-1.35%	4.85%	0.23%	5.25%

**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. 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.

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 Value Fund's investment objective is long-term growth of capital.

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***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, and 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.

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

Return on equity (ROE) measures a company's efficiency in generating profits from shareholders' equity.

Diversification is a strategy that mixes a variety of investments within a portfolio in an attempt to reduce risk. Diversification does not eliminate the risk of experiencing investment losses.

The price/earnings (P/E) ratio, also known as the P/E multiple, is the price of a stock divided by its earnings per share.

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, 2023

Security Name	Percent of Net Assets
Skyline Champion Corp.	3.1%
Impinj, Inc.	2.3%
Esquire Financial Holdings, Inc.	2.3%
Sterling Infrastructure, Inc.	2.2%
Construction Partners, Inc. Class A	2.1%
ICF International, Inc.	2.0%
HCI Group, Inc.	1.9%
JDC Group AG	1.8%
Weave Communications, Inc.	1.7%
Chefs' Warehouse, Inc.	1.7%
Total	21.1%

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.