WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMVX / Institutional WGMVX

Wasatch Micro Cap Value Fund

MARCH 31, 2024

The Solid Economy Supported Stocks, but the Fund's Sources Of Strength Were Very Different From Those of the Benchmark

FUND MANAGERS

Brian Bythrow, CFA
Lead Portfolio Manager

20 YEARS ON FUND / 21 YEARS AT WASATCH

Thomas Bradley
Portfolio Manager

2 YEARS ON FUND / 9 YEARS AT WASATCH

OVERVIEW

During the first quarter of 2024, the Wasatch Micro Cap Value Fund—Investor Class rose 7.44% and outperformed the benchmark Russell Microcap® Index, which gained 4.68%. Most of the companies held in the Fund reported revenues and earnings that met or exceeded expectations. As the quarter progressed, investor sentiment improved incrementally.

On March 20, the Federal Reserve System's Federal Open Market Committee (FOMC) issued the following statement: "Recent indicators suggest that economic activity has been expanding at a solid pace. Job gains have remained strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated."

The FOMC decided to maintain its target range for the federal-funds rate at 5.25% to 5.5% and commented that the range probably

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won't come down until inflation appears to be moving sustainably toward 2%. Although there had been hopes for a more dovish interest-rate policy, the health of the economy and optimism surrounding areas like biotechnology and software gave investors other reasons to cheer. However, the Fund's first-quarter sources of strength were very different from those of the benchmark.

From a quality perspective, there was no clear advantage earned by holding higher-ROE (return on equity) companies during the quarter. In fact, the three lowest-ROE deciles in the benchmark generated some of the best stock returns. This performance profile was partially due to stock rebounds of generally unprofitable companies in the Pharmaceuticals Biotechnology & Life Sciences industry group, which was the second-best returning group in the benchmark. We mostly avoid investing in Pharmaceuticals Biotechnology & Life Sciences companies, so the Fund's outperformance during the quarter was particularly gratifying.

Among the 11 broad sectors, our stock selections in financials, industrials and consumer discretionary contributed to Fund performance relative to the benchmark. Conversely, our stock selections in health care and information technology were disadvantageous. As for countries, our non-U.S. holdings broadly underperformed our U.S. holdings. In particular, our Indian, Israeli and Japanese names struggled. That said, we continue to like our non-U.S. companies over the long term for their generally more attractive valuations, their potential to receive buyout offers and their diversification benefits.

DETAILS OF THE QUARTER

HCI Group, Inc. (HCI) was the top contributor to Fund performance during the first quarter. The company issues property and casualty insurance and reinsurance primarily in Florida. The stock was up as a result of a very strong earnings report and a positive outlook. Because many insurers have left Florida due to increased storm frequency and intensity, HCI has been able to raise premiums as compensation for greater risks. Moreover, Florida recently enacted legislation intended to curtail fraudulent claims. We believe the combination of higher premiums and fewer claims should boost revenues and earnings in the years ahead. From a shorter-term perspective, however, we trimmed our position as a risk-control measure due to the higher valuation and uncertainty regarding the upcoming hurricane season.

Another significant contributor was Aris Water Solutions, Inc. (ARIS), an oilfield-services company that manages the water supplies used in energy exploration and production (E&P). The company's recent pipeline investments allow E&P businesses to increase the amount of water that can be recycled, which significantly lowers costs for Aris's customers. In Texas, for example, water use is one of the greatest expenses incurred for drilling activities. The stock was down in the fourth quarter of 2023 due to poor operating results stemming from bad weather that prevented crews from making expected pipeline connections. At the time, we were undeterred because we didn't think those short-term challenges would materially impact Aris's long-term results. In the first quarter of this year, we were rewarded for our patience as the stock climbed to a 52-week high on the back of excellent earnings, lower capital expenditures and projections for increased cash flows.

Impinj, Inc. (PI), a pioneer in helping develop the "Internet of Things," was also a contributor. The company provides an infrastructure by which items in storage or in transit—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. Early in 2023, 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 of Covid-related supply-chain disruptions. More recently, the stock has rebounded on reports of solid revenues and profitability that have exceeded expectations. Additionally, management has expressed optimism that Impinj's long-term business opportunities remain intact. While our positive assessment of the company is unchanged, we sold some shares because we've learned from experience to trim our position on strength and add on weakness.

Luna Innovations, Inc. (LUNA) was the greatest detractor from Fund performance during the first quarter. The company offers optoelectronics and fiber-optic test products for the telecommunications industry. Luna also distributes fiber-optic sensors for the aerospace and automotive industries. The stock was down due to an accounting mistake related to the timing of recognizing revenues. We believe the mistake was related to differences in U.S. versus international accounting standards. These differences became increasingly important as Luna transformed from a primarily U.S. business to a more global business. The accounting mistake seemed isolated and didn't affect the company's cash flows. Moreover, Luna recently replaced its chief financial officer. As a result, we bought additional shares on the stock-price weakness.

Another significant detractor was Lantronix, Inc. (LTRX), which provides integrated software and application development, software as a service (SaaS) management, intelligent edge computing and a wide range of sensors and trackers. The stock moved higher early in the quarter based on expectations for strong revenues and earnings. But when the numbers were released later in the quarter, the stock plummeted because Lantronix failed to meet expectations. While we were disappointed along with other investors, we note that revenues and earnings did in fact increase—albeit modestly. Considering the attractive valuation currently, we've maintained our position in the company.

BigCommerce Holdings, Inc. (BIGC) was also a detractor. The company provides software that powers online retail sites. BigCommerce has shifted its focus to large enterprise accounts because management believes these accounts offer the greatest opportunity for long-term growth. We like this shift and think the associated workforce reductions will allow the company to achieve profitability more quickly. Additionally, we believe BigCommerce's best-of-breed solution for enterprise-scale e-commerce places the company in a strong competitive position, especially as online retailers broaden their reach. During the first quarter, however, the stock was down because BigCommerce forecasted 2024 revenue growth that fell short of expectations. We think the company was too conservative in its revenue guidance as it attempted to underpromise with the goal of eventually overdelivering. *(Current and future holdings are subject to risk.)*

BUYS AND SELLS

Among our recent buys, we added Landsea Homes Corp. (LSEA), GCM Grosvenor, Inc. (GCMG), Franklin Covey Co. (FC) and a small position in Comtech Telecommunications Corp. (CMTL).

Landsea designs and builds entry-level homes and broader communities across the United States. Prior to our taking a position in the company, we had wanted exposure to a traditional homebuilder but had found it difficult to find a suitable micro-cap investment. Because Landsea had been 100% owned by the Chinese before our investment, the company had been burdened by high-cost debt—which had also dragged down the stock price. Now that Chinese ownership has fallen below 50%, which lowers the perceived risks among lenders, Landsea has been able to refinance the debt on favorable terms. And the company recently made a strategic acquisition in Texas. We're optimistic regarding Landsea because we're impressed with the management team, the quality of the homes, the demand in the market segment and the headroom for growth.

GCM Grosvenor focuses on private equity, infrastructure ventures and credit finance. Institutional investors, including pension funds, have been increasing their allocations to private equity. And we believe this trend will continue. Our history with GCM Grosvenor dates back to 2020, when we bought the stock in the initial public offering. We subsequently sold our position at a higher valuation. Since then, earnings have grown and the valuation has come down. During the quarter, we saw a good opportunity to get back into the stock.

Franklin Covey provides consulting, seminars, educational materials, publications and products designed to make individuals and organizations more effective. Franklin Covey has done well with its "7 Habits" training line and has seen good results from its "All Access Pass" subscription model, which creates recurring revenues. We think the stock is inexpensive based on the company's significant cash flows and relatively predictable future bookings, which are apparent on the balance sheet. Additionally, we believe Franklin Covey is recession-resistant because much of its training can be delivered efficiently over the internet and because businesses have come to understand the importance of investing in people during all economic environments. Indicating management's confidence, the company frequently buys back shares when the stock price is down.

Comtech Telecommunications designs, develops and manufactures electronic products and systems for voice, data, facsimile and video transmissions. The transmissions are done at microwave frequencies in satellite, over-the-horizon microwave, terrestrial line-of-sight and wireless telecommunications. Given the low valuation of Comtech, we'd normally buy more shares. But we're keeping our position small because the company may raise equity or do a debt refinancing.

As for our sells, we exited **the RMR Group, Inc. (RMR)**, **Clearwater Paper Corp. (CLW)**, **Haynes International, Inc. (HAYN)** and **A-Mark Precious Metals, Inc. (AMRK)**.

RMR owns, develops and manages real-estate properties with a focus on senior-living communities, hotels, resorts, cruise ships and full-service travel centers. Clearwater Paper manufactures consumer tissue, bleached paperboard and wood products. We had invested in both companies when we thought they were inexpensive. After their stock prices rose to the point where we saw less upside, we decided to sell.

Haynes International is a world leader in developing and manufacturing nickel- and cobalt-based alloys for use in high-temperature and corrosion-susceptible applications. When we bought Haynes, we believed the company was benefiting from CEO Mike Shor's efforts to improve margins by addressing plant and operating inefficiencies. The company was also capitalizing on a new build cycle in commercial airlines. We sold our position during the quarter because Haynes agreed to be acquired by Acerinox at a premium to the then-current stock price.

A-Mark Precious Metals is a precious-metals trading company. As such, its stock price tends to move in the opposite direction of gold's market value because customers shy away from buying gold when the value is high. Although A-Mark's stock price seems inexpensive, we have no view on gold's market value. Moreover, there are other companies that we'd rather own in the Fund. As a result, we decided to move on from our position in A-Mark. Our decision is a good example of how we invest: We don't look for a low stock price alone; we must also identify a catalyst that's likely to drive the stock price higher.

OUTLOOK

As part of our ongoing process, at the start of 2024 we screened the micro-cap universe in an effort to uncover new investment candidates. We identified several companies for further research, and we've already added some holdings, as described above. We also sold some names that had reached our price targets. But we haven't made major adjustments to the Fund's portfolio. And our macro outlook hasn't changed from what we communicated in recent commentaries.

We continue to believe we're well-positioned because our holdings exhibit some of the highest quality metrics we've seen in the Fund's history. Although quality factors (e.g., significant ROEs, strong cash flows and low debt) weren't universally rewarded during the first quarter, we expect them to be especially beneficial over a full investment cycle. Additionally, our names are priced at quite reasonable valuations.

More broadly, we're also optimistic that micro- and small-caps may be starting to see the investment cycle turn in their favor after more than a decade of large-cap leadership. In our experience, we've noticed that when an investment cycle turns, it can gain momentum and become self-reinforcing.

We also believe it's important for investors to consider that U.S. stocks usually move up during presidential election years. And assuming inflation doesn't reaccelerate, we anticipate the FOMC will make at least *some* cuts in the federal-funds rate during 2024. In isolation, the lower interest rates go, the higher stock prices could rise. But interest rates, other economic factors and company fundamentals don't exist in isolation. So, we think there's no point in making overly specific forecasts.

Suffice it to say that conditions look favorable. Eventual declines in inflation—and resulting declines in interest rates—should disproportionately benefit micro- and small-caps, which had been pounded when rates rose in 2022. Micro- and small-cap companies typically have cash flows that are more heavily weighted in the future, and lower interest rates boost the present value of future cash flows.

Regarding the Fund in particular, we think it's noteworthy that four of our companies were acquired in 2023. These acquisitions were all completed at significant premiums to the preceding market prices and therefore contributed meaningfully to the Fund's performance last year. In 2024, we expect several more of our companies to be acquired at premiums advantageous to the Fund. This is because private-equity buyers have been active in the United States and Europe—especially in the United Kingdom, where stock valuations are still low in the aftermath of Brexit.

Finally, we anticipate that our non-U.S. holdings will drive Fund performance to a greater degree. In recent years, non-U.S. micro-caps have received little attention from investors. But we think that will change as investors widen their lens in search of the best valuations and growth prospects.

Thank you for the opportunity to manage your assets.

Sincerely,

Brian Bythrow and Thomas Bradley

TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2024

	Quarter*	1 Year	3 Years	5 Years	10 Years
Micro Cap Value Fund—Investor	7.44%	16.83%	-1.55%	11.96%	10.64%
Micro Cap Value Fund—Institutional	7.08%	16.72%	-1.54%	12.06%	10.69%
Russell Microcap® Index**	4.68%	17.78%	-4.89%	6.90%	5.96%

**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—1.73% / Institutional Class—Gross 1.65%, Net 1.61%**

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 1/31/2025.** 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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The federal funds rate is the interest rate at which private depository institutions (mostly banks) lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight. It is the interest rate banks charge each other for loans.

The federal funds target rate (also known as the fed funds target rate) is set by a committee within the Federal Reserve System called the Federal Open Market Committee (FOMC). The FOMC usually meets every six weeks, and it is at these meetings that the FOMC votes on whether or not to make changes to the federal-funds target rate.

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.

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

MICRO CAP VALUE FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2023

Security Name	Percent of Net Assets
Skyline Champion Corp.	3.5%
HCI Group, Inc.	2.5%
Veeco Instruments, Inc.	2.2%
Weave Communications, Inc.	2.1%
Grid Dynamics Holdings, Inc.	2.0%
JDC Group AG	1.9%
EZCORP, Inc., Class A	1.9%
ICF International, Inc.	1.8%
Mama's Creations, Inc.	1.8%
Rapid7, Inc.	1.8%
Total	21.5%

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.