WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAAEX / Institutional WIAEX

Wasatch Small Cap Growth Fund

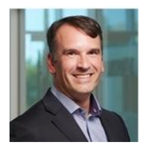
DECEMBER 31, 2023

With Market Sentiment Improving, We're Also Seeing an Acceleration in the Earnings Growth of Many of Our Companies

FUND MANAGERS

JB Taylor
Lead Portfolio Manager
10 YEARS ON FUND / 27 YEARS AT WASATCH

Ken Korngiebel, CFA
Portfolio Manager
6 YEARS ON FUND / 8 YEARS AT WASATCH



Ryan Snow
Portfolio Manager
6 YEARS ON FUND / 23 YEARS AT WASATCH

OVERVIEW

During the fourth quarter of 2023, we saw an acceleration of the trend in which high-quality companies' strong operating results were reflected in their stock prices. In addition, interest-rate-sensitive stocks—with less regard for quality—moved up due to optimism surrounding the Federal Reserve's (Fed's) announcement that the fed-funds rate would likely be cut three times in 2024.

The Wasatch Small Cap Growth Fund—Investor Class gained 12.08% for the quarter but lagged the benchmark Russell 2000® Growth Index, which rose 12.75%. The broader Russell 2000 Index increased 14.03%. For the full year, the Fund gained 21.24%, ahead of the Russell 2000 Growth's 18.66% and the Russell 2000's 16.93%.

Among sectors, our stock selections in information technology (IT) and consumer staples—and our zero weight in energy—contributed to Fund

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—1.15% / Institutional Class—Gross 1.06%, Net 1.05%. The Advisor has contractually agreed to limit certain expenses to 1.50% for the Investor Class and 1.05% for the Institutional Class through at least 1/31/2024.***

performance relative to the benchmark during the fourth quarter. Conversely, our selections in consumer discretionary, industrials and health care were disadvantageous.

In our year-ago commentary, we included the following optimistic projections:

> *Equity prices in the year ahead may begin to reflect the dynamics of debt and cash flows to a much greater extent than they recently have. During 2022, the selling of growth stocks was largely indiscriminate. There was little reason for investors to differentiate between higher-quality and lower-quality companies because business conditions were still mostly favorable. Instead, the stocks of growth companies declined across the board as higher interest rates made discounted future cash flows less valuable in the present.*
>
> *We think some of this is likely to change in 2023. High-quality companies have strong businesses that produce substantial cash flows. Because they also often carry below-average levels of debt compared to their peers, more of the cash they generate can typically be used for other purposes. High-quality companies, for example, are positioned to take advantage of falling equity prices—by buying back their own stock and making acquisitions at attractive valuations. Their cash flows can also be used to fund capital-spending initiatives designed to support and enhance the long-term growth of their businesses.*
>
> *We believe the upcoming environment will be one in which our companies really earn their stripes.*

In calendar year 2023, our optimism for a rotation from low quality to high quality was realized—and the stocks of our companies performed especially well.

A comparison between 2022 and 2023 illustrates how Wasatch's investment approach can fare amid market movements. During both periods, our companies delivered strong revenue and earnings growth. In fact, growth was much higher in 2022, but the performance of our stocks was poor. Growth was lower in 2023, but the performance of our stocks was excellent.

If Wasatch believes earnings growth drives stock performance, why were there disconnects between them in 2022 and 2023? The reasons were that broad swaths of investors can be slow to recognize the sustainability of earnings growth, and emotions can get in the way of good decision-making—especially when major macro forces (e.g., rising inflation and interest rates) dominate the headlines. In other words, what sets great investors apart is their willingness to be patient. They resist the temptation to chase the latest fad because they never know exactly when they'll "get paid" for their fundamental research work.

So while earnings growth drives stock performance, there's a caveat: Earnings growth drives stock performance *over the long term*, but not necessarily in the short term. And although macro-driven market environments can be frustrating temporarily, they give us opportunities to buy the stocks of great companies at discounted prices when other investors are panicking. Fortunately, Wasatch has a culture that always encourages us to invest with a long horizon in high-quality growth companies—which we think is one of the main reasons why shareholders come to us.

For more information about what occurred during 2022 and 2023, and where conditions stand today, please refer to the January 2024 *Wasatch Market Scout* in the News & Insights section at ***wasatchglobal.com***.

DETAILS OF THE QUARTER

The fourth quarter's top contributor was BellRing Brands, Inc. (BRBR), a relatively new holding for Wasatch. BellRing's offerings include nutritional shakes, powders, bars and other products primarily marketed under the

Premier Protein and Dymatize brands. We like the company's asset-light operating model, which relies on outsourced production. Given the low cost of BellRing's products and perceived value among a loyal and growing group of health-conscious consumers, we believe the company has a durable, economically resilient business. Moreover, we think the intellectual property associated with BellRing's shelf-stable, good-tasting products is relatively difficult for competitors to replicate. Amid the fallout from the Covid-19 pandemic, the company's production capacity had been severely constrained, impacting revenues and earnings. In 2023, BellRing was able to add new outsourced production facilities—and even more will be added in 2024. Finally, the company and the stock benefited from the proliferation of GLP-1 agonists, such as Ozempic, being used for weight loss. Dieters often consume BellRing's products in an effort to ingest enough nutrients. That said, the GLP-1 trend wasn't part of our original investment thesis and isn't why we continue to own the stock.

Medpace Holdings, Inc. (MEDP) was also a significant contributor. The company is a contract research organization (CRO) supplying clinical development services to small biotechnology companies. Early in the year, the stock fell due to concerns that rising interest rates and tightening credit could make it harder for many of Medpace's customers to fund their research programs. Although short-term risk had increased back then, we believed the company's underlying fundamentals would support attractive long-term growth. Additionally, we liked that Medpace continued to generate significant free cash flows, which could be used to enhance shareholder value by repurchasing stock. Based on these views and our confidence in management, we added to our position in Medpace. During the fourth quarter, we were rewarded for our conviction and patience.

Another strong position in the Fund was Pinnacle Financial Partners, Inc. (PNFP). Based in Nashville, Tennessee, Pinnacle is the bank holding company for Pinnacle Bank. Early in the year, the failures of three regional banks in the U.S. and the government-brokered sale of troubled Swiss firm Credit Suisse Group AG dragged down bank stocks generally. As the year progressed, investors remained worried that the Fed would continue to raise interest rates—and precipitate a recession and more credit defaults, which would clearly hurt most banks. Also, continually rising interest rates can be detrimental because banks then need to pay more to depositors, narrowing the spread between what's paid to depositors and what's received from borrowers. Even though Pinnacle announced strong earnings, the stock remained below its February high for most of the year. Then, in November, the stock began a dramatic rise based on dovish comments from the Fed, which eased worries about credit defaults and interest-rate spreads. We like Pinnacle, in particular, because it follows a responsible banking model with a diversified customer base, appropriate levels of loans and deposits, and a small securities portfolio. Moreover, we believe Pinnacle is well-managed and serves a geographical area with a healthy real-estate market, favorable demographics and above-average economic growth.

The fourth quarter's greatest detractor was Fox Factory Holding Corp. (FOXF). The company manufactures suspension products and other components for cycling and motorsports applications. Investors reacted negatively to news that Fox Factory had entered into an agreement to acquire Marucci Sports, a manufacturer of baseball and softball bats and other sports-related products. Although acquisitions are often met with skepticism, in this case it was especially unclear why Fox Factory had decided to venture outside its core business. The unusual nature of the deal requires us to engage in discussions with management and perform an ongoing evaluation of the purported growth opportunities and operational synergies.

XPEL, Inc. (XPEL) was also a major detractor. 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, a prominent 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. Our initial reaction to the news isn't overly pessimistic 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 in the stock.

Another weak name in the Fund was Paylocity Holding Corp. (PCTY). The company provides software for payroll and human-resources management using the software-as-a-service business model. Facing an uncertain U.S. employment outlook in 2024 and difficult year-over-year comparisons, Paylocity issued forward guidance that failed to reassure nervous investors. Moreover, client funds held on Paylocity's balance sheet provide the company with substantial interest income—which would be expected to decline in an environment of falling interest rates. Our long-term thesis for owning the company has not changed, so we maintained our position. *(Current and future holdings are subject to risk and change.)*

OUTLOOK AND POSITIONING

During the past few months, interest-rate assessments have shifted from "higher for longer" to "higher for long enough." Assuming rates stay within a reasonable band around current levels, we think most of our growth-oriented companies and their stocks have already adjusted to the current normalized environment of interest yields relative to inflation. More specifically, even though we certainly don't focus on the short term, we've noticed that our stocks' daily, weekly and monthly fluctuations have become less erratic.

Given this normalized, less macro-driven environment, we're optimistic that the Fund may hold up well during periodic market downturns—a characteristic we view as more important than outperforming in up markets. And whether the economy goes into a recession or experiences a soft landing, we believe the Fund is strongly positioned for either scenario. We own a well-thought-out balance of companies, including those that are less cyclical (e.g., technology and health care) and those that are more economically sensitive (e.g., consumer/housing and financials).

With revenues and margins improving at many of our companies, we're also witnessing an acceleration in earnings growth. Generally speaking, we saw earnings growth around the high teens in 2022. Growth fell to the low double-digits in 2023. And we now expect 2024 growth to ramp back up, approaching the mid-teens.

Finally, we note that although small-caps recaptured some lost ground during the fourth quarter, they've underperformed large-caps for more than a decade. And small-cap valuations are still quite attractive, especially in light of the companies' robust earnings growth over the past two years. Again, please refer to the January 2024 *Wasatch Market Scout* for more details.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Ken Korngiebel and Ryan Snow

TOTAL RETURNS
FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Growth Fund—Investor	12.08%	21.24%	-7.77%	11.18%	8.63%
Small Cap Growth Fund—Institutional	12.10%	21.33%	-7.69%	11.29%	8.74%
Russell 2000® Growth Index**	12.75%	18.66%	-3.50%	9.22%	7.16%
Russell 2000® Index†	14.03%	16.93%	2.22%	9.97%	7.16%

**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 1.50% for the Investor Class and 1.05% 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. The 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 2/1/2016 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 2/1/2016 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 small 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 Small Cap Growth Fund's primary investment objective is long-term growth of capital. Income is a secondary objective, but only when consistent with long-term growth of capital.

[**]The Russell 2000 Growth Index measures the performance of Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

[†]The Russell 2000 Index is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. The Russell 2000 is widely used in the industry to measure the performance of small company stocks.

Indexes are unmanaged. Investors cannot invest directly in these indexes.

The Wasatch Small Cap Growth Fund has been developed solely by Wasatch Global Investors. The Wasatch Small Cap Growth 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.

These indexes are 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 these indexes or (b) investment in or operation of the Wasatch Small Cap Growth Fund or the suitability of these indexes for the purpose to which they are being put by Wasatch Global Investors.

Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

Free cash flow is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. It is the cash a company generates after spending the money required to maintain or expand its asset base.

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

SMALL CAP GROWTH FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name	Percent of Net Assets
RBC Bearings, Inc.	4.2%
Ensign Group, Inc.	4.1%
HealthEquity, Inc.	3.8%
Nova Ltd.	3.6%
SiteOne Landscape Supply, Inc.	3.4%
BellRing Brands, Inc.	3.3%
Medpace Holdings, Inc.	3.3%
CyberArk Software Ltd.	3.3%
Pinnacle Financial Partners, Inc.	3.0%
Globant SA	3.0%
Total	35.0%

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.