WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAAEX / Institutional WIAEX

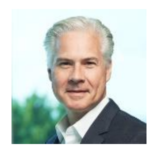
Wasatch Small Cap Growth Fund

MARCH 31, 2024

Amid AI Excitement, We’re Staying the Course and Focusing on Company Fundamentals

FUND MANAGERS

Ryan Snow
Lead Portfolio Manager
6 YEARS ON FUND / 24 YEARS AT WASATCH



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

JB Taylor
Portfolio Manager
11 YEARS ON FUND / 27 YEARS AT WASATCH

OVERVIEW

The Wasatch Small Cap Growth Fund—Investor Class gained 4.03% for the first quarter but underperformed the benchmark Russell 2000® Growth Index, which rose 7.58%. The broader Russell 2000 Index increased 5.18%. Among sectors, our selections in health care and consumer staples—and our zero weights in materials, utilities and communication services—contributed to Fund performance relative to the benchmark. Conversely, our selections in information technology and consumer discretionary—and our zero weight in energy—were disadvantageous.

Recently, the financial press has widely reported on the importance of the “Magnificent Seven” tech companies and their dominance in large-cap indexes. The main reason has been the companies’ progress in creating the software and hardware needed for artificial intelligence (AI).

But AI and technology more broadly have driven small-cap indexes too. In this regard, consider the Russell 2000 Growth Index and the 11

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sectors that comprise it. The Index itself was up 7.58% for the first quarter. The information-technology sector (IT), which has a weight of nearly 23%, was up approximately 16%. The other 10 sectors were up about 5% overall. In other words, IT produced approximately half of the Index's total return. Moreover, omitting just the top five stocks out of hundreds in the Index would have caused it to lose about two-thirds of its return for the quarter.

Generally speaking, we think stocks rose or fell during the first quarter based on four main factors:

1. The aforementioned *speculative* activity—rather than *investment* activity—surrounding AI and technology in general
2. The back-and-forth economic debate over recession, soft landing or continued expansion
3. The resulting outlook for inflation and interest rates
4. The reporting of revenues and earnings by individual companies

At Wasatch, we spend very little time and effort on the first three factors. As for the fourth factor, that's a top priority for us. But our investment horizon is measured in years, not quarters. So we typically keep our heads down, tune out most of the macro noise and focus on company fundamentals. We believe that if we consistently capture double-digit revenue and earnings growth—and if we pay rational prices for stocks—investment performance will take care of itself over the *long term*.

Although the *short term* isn't our main concern, there's been an interesting development in this respect. Positive and negative reports regarding revenues and earnings have been having larger and quicker impacts on stock prices. A separate short-term development is that we're generally not seeing as much potential for expansion in price/earnings multiples. These two developments have our senses heightened because there's less margin for error in calculating earnings-growth estimates, which are important components of the models we use to project future investment returns.

DETAILS OF THE QUARTER

The top contributor to Fund performance during the first quarter was Medpace Holdings, Inc. (MEDP). The company is a contract research organization (CRO) supplying clinical development services to small biotechnology businesses. Medpace continues to post strong revenue and earnings growth as it provides critical services for its customers. The stock also benefited in the quarter from optimism that lower rates will help biotech companies more easily secure much-needed funding for future clinical development. Although Medpace isn't a traditional biotech company, we believe it gives us some exposure to the industry without the typically poor cash flows of biotech businesses. Moreover, Medpace has continued to defy the skeptics by generally maintaining strong growth (often in double digits) and healthy fundamentals for years on end—even during several periods when biotech businesses have struggled.

Nova Ltd. (NVMI), a key provider of metrology equipment used in the production of semiconductor chips, was also a meaningful contributor. The company has benefited from surging global chip demand, which has partially resulted from needs related to AI. We own Nova based on our view that the company deploys research and capital wisely—and is well-positioned to introduce new equipment and increase market share over the next several years. This view isn't predicated on AI trends. So, with AI euphoria becoming heightened, we sold some shares of Nova as a risk-control measure. Because semiconductor producers and related equipment manufacturers typically face cyclical demand, our approach when investing in such companies is to trim our positions on excessive optimism related to the semiconductor cycle and add to our positions on excessive pessimism.

Another substantial contributor was HealthEquity, Inc. (HQY), the largest U.S. non-bank custodian for health savings accounts (HSAs). Along with its primary business of offering HSAs, the company facilitates employer-sponsored lifestyle and commuter benefits. The stock was down late last year because investors were expecting an environment of lower interest rates that would cause the company to earn less income from money held on deposit for customers. Our analysis gives us visibility into HealthEquity's long-term earnings-growth potential, which we believe will remain strong for years to come. This insight gave us confidence to add to our position when the stock price dropped. During the first quarter, the stock climbed based on strong revenue and earnings growth—and we think the company's annual growth rates will stay in the double digits for the next several years.

The greatest detractor from Fund performance during the first quarter was YETI Holdings, Inc. (YETI), which designs, markets and distributes drinkware, coolers, and other outdoor and recreational gear. Although YETI's drinkware segment has performed reasonably well and its rollout of YETI-branded stores has shown promise, strong competitive threats have recently emerged in the drinkware space. So while YETI's stock price is attractive, we're maintaining a small position as we weigh whether the company can offset its slowing U.S. growth by successfully expanding internationally.

Clearwater Analytics Holdings, Inc. (CWAN) was also a major detractor. The company develops cloud-native software that allows clients to simplify their investment-accounting operations. Although management projected robust revenue growth of about 18% for the 2024 calendar year, analysts had been hoping for even better growth. As a result, the stock sold off. In our experience, Clearwater's management team tends to underpromise and then overdeliver. As a result, we bought more shares on the stock-price weakness. And we still expect annual revenue growth to exceed 20% for the next several years.

Another significant detractor was Five9, Inc. (FIVN), which offers cloud-based software to help contact centers more efficiently interact with customers and prospects. We own the company for its competitive advantages in a "remote" world where contact centers are strategically more important as the key points of customer engagement. Even with its growth rate slowing somewhat, Five9 has continued to generate strong operating results. We think the stock was down primarily on investor concerns that AI may pose a threat to the company. In fact, Five9 is already using AI to handle some interactions and the results have been positive. As part of our ongoing research, we're analyzing both sides of the AI debate and how our companies could be affected by AI over the long term. *(Current and future holdings are subject to risk and change.)*

PORTFOLIO TRANSACTIONS

In the Small Cap Growth Fund, we've been seeking to increase overall portfolio diversification by adding more positions. Among our buys during the first quarter, we added Agilysys, Inc. (AGYS), which develops application software for point-of-sale, property-management, inventory and procurement applications. The company specializes in the hospitality and retail industries world-wide, and its solutions can be implemented on wireless and mobile devices. Agilysys recently modernized its software, which has proved fortuitous as post-pandemic consumer and business travel has accelerated. Late in 2022, the company announced an agreement to deploy its cloud-based property-management 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. In a recent report, Agilysys highlighted strong growth rates across several markets including hotels, cruise ships and non-gaming resorts.

Among our sells, we exited Neogen Corp. (NEOG), which offers diagnostic test kits and other products for food and animal safety. We had initially been optimistic regarding an acquisition the company made in 2022. And that optimism had seemed justified by some business synergies realized in 2023. More recently, however, we concluded that progress on additional synergies has stalled and that Neogen's organic growth is likely to be lower than we had initially expected.

OUTLOOK AND POSITIONING

As described above, AI and technology more broadly drove much of the market returns during the first quarter. For example, within the Russell 2000 Growth Index, the best-performing companies during the period were MicroStrategy (MSTR) and Super Micro Computer (SMCI), whose stock prices more than doubled and more than tripled, respectively. We didn't own either of these companies, which aren't even small-caps. And we certainly didn't chase the quarter's top stock-market gainers.

Instead, we took note of *all* our companies' revenue and earnings reports. We then embarked on reanalyzing our companies and projecting their future growth rates. For the most part, our companies issued strong reports for the fourth quarter of 2023. And the growth rates we've projected for the 2024 calendar year are generally in double digits. Considering these projections and the reasonable valuations we're finding among small-caps—on an absolute basis *and* relative to large-caps—we're optimistic regarding investment performance going forward.

With respect to AI, we have no doubt that it will create massive positive changes in economies around the world. And these changes are likely to be even more significant than those created by the internet. But the internet revolution and other technological transformations have led to a myriad of very bad investments (the good ones notwithstanding).

In managing the Wasatch Small Cap Growth Fund, we have three main considerations regarding AI:

1. We want to avoid companies whose business models will be materially *disrupted* by AI.
2. We're attracted to companies that will be able to *use* AI to strengthen their competitive positions and/or reduce costs.
3. Where possible, we're interested in *certain* companies directly involved in AI—but we're cognizant of the potential asymmetric risks and unreasonable valuations.

For more information on the current environment and our investment approach, please refer to the April 5th *Wasatch Market Scout* in the News & Insights section at ***wasatchglobal.com***.

Thank you for the opportunity to manage your assets.

Sincerely,

Ryan Snow, Ken Korngiebel and JB Taylor

TOTAL RETURNS
FOR PERIODS ENDED MARCH 31, 2024

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Growth Fund—Investor	4.03%	17.36%	-7.79%	7.96%	8.97%
Small Cap Growth Fund—Institutional	4.07%	17.45%	-7.70%	8.06%	9.08%
Russell 2000® Growth Index**	7.58%	20.35%	-2.68%	7.38%	7.89%
Russell 2000® Index†	5.18%	19.71%	-0.10%	8.10%	7.58%

**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 1/31/2025.** 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. 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.

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***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.

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

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.

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.

As of March 31, 2024, the Wasatch Small Cap Growth Fund was not invested in MicroStrategy, Super Micro Computer or any of the "Magnificent Seven" companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla).

SMALL CAP GROWTH FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2023

Security Name		Percent of Net Assets
RBC Bearings, Inc.		4.1%
Nova Ltd.		3.9%
Ensign Group, Inc.		3.9%
CyberArk Software Ltd.		3.8%
Medpace Holdings, Inc.		3.6%
Pinnacle Financial Partners, Inc.		3.6%
BellRing Brands, Inc.		3.5%
HealthEquity, Inc.		3.4%
Globant SA		3.1%
Five Below, Inc.		3.0%
	Total	35.9%

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.