WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAAEX / Institutional WIAEX

Wasatch Small Cap Growth Fund

MARCH 31, 2021

We Still Like Our IT Names Both for Their Own Merit and For Their Balance Versus Our More Economically Sensitive Companies

FUND MANAGERS

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OVERVIEW

The first quarter of 2021 was a strong period for U.S. small caps overall. Stocks of growth-oriented companies lagged the broader group, however. For the quarter, the benchmark Russell 2000 Growth Index increased 4.88% while the Russell 2000 Index rose 12.70%. Performing in line with its benchmark, the Wasatch Small Cap Growth Fund—Investor Class gained 4.08%.

One of the headline events during the first quarter was the outperformance of value-oriented stocks over growth-oriented stocks. For example, the Russell 2000 Value Index was up 21.17% during the quarter. The leading sectors in this Index were energy, consumer discretionary, materials and financials. Value stocks in general and these sectors in particular are often viewed as being more economically sensitive, or "cyclical."

Data show past performance and is not indicative of future performance. 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, leading to higher total shareholder returns. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes. ***Total Expense Ratio: Investor Class 1.16% / Institutional Class—Gross: 1.08%, 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 1/31/2022.***

ECONOMIC REOPENING AND VALUE STOCKS

As investors became more optimistic about an expanded economic reopening, value stocks were bid up disproportionately. Along with optimism regarding the economy, long-term interest rates rose based on the likely trend for greater loan demand from businesses and individuals. Similarly, inflation started to move higher with the expanding needs for goods and services.

The horizon isn't completely bright, however. This is because the economy is far from being in a self-sustaining cycle of activity. Despite seeing long-term interest rates on the rise, the Federal Reserve (Fed) is still forcing short-term interest rates close to zero and is still buying massive amounts of Treasury and mortgage bonds each month. Beyond these monetary policies, the federal government continues to authorize more spending and shows no signs of fiscal restraint.

The reason bank stocks and other financials performed so well during the quarter is that short-term interest rates are being kept artificially low and long-term rates are rising. Such a situation benefits banks, for example, because they "borrow short and lend long." In other words, banks pay little to nothing on their short-term deposits (which are borrowed from customers) and banks receive increasing profits on their longer-term lending. For our part, when we invest in financials, we focus on companies that we believe have advantages over their competitors and are not purely dependent on short versus long interest-rate spreads.

In terms of inflation, it tends to benefit energy and materials stocks because these companies own real assets that are rising in price. As a result, energy and materials companies are generally able to increase profits by charging customers more during inflationary periods. Having said that, we don't typically own many companies in these sectors because they usually fail to meet our criteria as high-quality businesses with unique competitive advantages. Instead, we own companies in the industrials sector because these companies can be economically sensitive and still offer the quality we seek.

We also own consumer-discretionary companies, which can be economically sensitive because people are more likely to purchase discretionary items when there's additional cash on hand. And while our consumer-discretionary stocks performed well during the first quarter, they lagged the benchmark positions. This may have been due to our names being somewhat less cyclical during the downturn and therefore less prone to a strong cyclical rebound during the first quarter.

RISKS ON THE HORIZON

As noted above, the horizon isn't completely bright. The economy is still dependent on stimulative monetary programs and massive fiscal support. These initiatives have created an enormous amount of debt, which could become especially difficult to manage amid rising long-term interest rates.

Our point here isn't necessarily to condemn the Fed and government interventions as unnecessary. Reasonable observers can disagree over the correct levels of monetary and fiscal support measures. Rather, our point is we should consider the sustainability risk that exists.

Another risk we see is the elevated level of speculation in the market. This has given rise to the so-called "meme stocks," which are the targets of retail investors who band together on social-media sites and brokerage platforms to bid up prices temporarily. While some of the underlying companies are viable businesses, the stock prices are moving based on momentum from outside forces. At Wasatch, we target companies we believe have strong fundamentals and the potential to grow over the long term.

WASATCH GLOBAL INVESTORS

THE WASATCH APPROACH: QUALITY AND GROWTH

Given the rotation into value stocks during the first quarter, we're sometimes asked if we're changing our investment approach to react to the rotation. The short answer is no. The main reason is that our approach has always included a process of reevaluating and stress-testing our companies over time. This process means that we continually look at a company's fundamentals and long-term growth prospects in relation to its stock price. And whenever we sell a company, we want to replace it with another company in which we're more excited about the risk-reward tradeoff.

To illustrate how we're managing the Wasatch Small Cap Growth Fund, let's consider three types of companies. The first type is comprised of companies in which the stock price jumped last year because the pandemic boosted sales and earnings to an extent that might not be sustainable. The second type is comprised of companies in which the pandemic may have accelerated sales and earnings in a way that should be sustainable because there's a new business paradigm. The third type is comprised of companies that saw the pandemic delay their sales and earnings, which are now likely to accelerate because an end to the pandemic is more clearly in sight.

Many of the stocks we've trimmed over the past several months have been for companies of the first type. We're more comfortable with companies of the second type as long as the stock price hasn't gotten too far ahead of fundamentals. As for companies of the third type, we're cautious because these can be lower-quality value names that are overly sensitive to economic cycles.

But as we've described, we do own a fair share of companies that have moderate sensitivity to economic cycles. These companies are typically in the consumer-discretionary, industrials and financials sectors. We consider our companies having moderate economic sensitivity as complements to our faster-growth companies generally in the information-technology and health-care sectors. These faster-growth companies have historically performed well during periods of recession.

At all times, a theme across our companies is high quality. In fact, we consider ourselves to be quality-oriented investors first and growth investors second. Especially during market downturns following periods of particularly high stock prices, we think a quality-oriented approach serves us well.

DETAILS OF THE QUARTER

LGI Homes, Inc. (LGIH) was the top contributor to Fund performance for the first quarter. The company designs and builds homes in about 20 states. LGI has experienced impressive and consistent yearly growth since its 2013 initial public offering and now holds approximately 44,000 lots. LGI had a strong balance sheet going into the pandemic, which we believe will allow the company to continue to take advantage of the opportunities presented by still relatively low mortgage interest rates and the surge in housing demand. While the supply of building materials is tight and costs are rising, LGI has been able to pass these costs on to customers without hurting profits. Moreover, we think the credit standards for mortgage underwriting have been appropriate over the past several years.

Another strong contributor was **Ensign Group, Inc. (ENSG)**, which operates facilities offering assisted living, nursing services, rehabilitative care, and physical, occupational and speech therapies. In our view, the company handled the Covid-19 crisis extremely well. Throughout most of the crisis, occupancy levels weren't down as much as might have been expected. But patients did postpone many treatments. More recently, occupancy levels and treatments have experienced a resurgence. Going forward, we expect impressive comparisons to prior-period financial results and especially

strong operating margins that may surprise other investors.

GenMark Diagnostics, Inc. (GNMK) also contributed to Fund performance. The company offers a broad range of molecular diagnostic tests based on its proprietary biomarker-detection technology. GenMark's stock price soared after the company agreed to be acquired by a larger competitor at a significant premium to its then-current valuation. Strong demand for GenMark's test for Covid-19 had produced a several-fold increase in the stock over the previous year.

Boot Barn Holdings, Inc. (BOOT) was a significant contributor too. The company operates as a specialty retailer offering Western and work-related apparel, footwear and accessories. Boot Barn has benefited from its economies of scale and multi-channel business model, which kept revenues flowing during virus-related shutdowns. Stimulus payments by the federal government to consumers appear to have helped as well. The company's private-label brands, built around well-known personalities in the music business, have enabled Boot Barn to convert a higher portion of its sales revenues into bottom-line profit.

The largest detractor from Fund performance for the first quarter was **CyberArk Software Ltd. (CYBR)**, a provider of security solutions that protect privileged accounts from cyber attacks. The stock-price decline seemed to be part of a broad correction among fast-growing technology names and wasn't due to any fundamental issues at CyberArk. The company is in the process of transitioning the majority of its business from on-premises installation to software-as-a-service in which customers pay by subscription for the protection they need. We think the transition will be completed successfully and will likely result in a higher price for the stock because revenues and earnings will be more predictable under a subscription-based business model.

Frequency Therapeutics, Inc. (FREQ), a clinical-stage biotechnology company, was another large detractor. Investors reacted harshly to disappointing interim data from a Phase 2a study evaluating the company's lead product candidate in treating sensorineural hearing loss. We attribute the failure to flaws in the study's design, rather than to the drug itself. Among other things, we think the study's repeated weekly injections into the inner ears of participants may have lessened the hearing benefit observed in other, single-injection studies.

Five9, Inc. (FIVN) was also a detractor. Five9 provides contact-center software that's managed and hosted from the cloud. The company offers real-time and historical reporting, quality monitoring, and workforce and customer-relationship-management integrations. Five9 has benefited as it has helped to facilitate the industry's transition toward cloud-based solutions. *(Current and future holdings are subject to risk.)*

OUTLOOK

Clearly, the first quarter wasn't a good period for the stocks of our information-technology companies. But the companies themselves generally have been continuing to do quite well from an operational standpoint. Most of them are still gaining market share and maintaining pricing power. At their current valuations and with their rapid growth rates, we like our information-technology names both for their own merit and for their balance versus our more economically sensitive companies.

Other important points to keep in mind going forward have to do with value versus growth cycles and comparing the performance of a fund to the performance of an index.

Regarding value versus growth cycles, a study of such cycles isn't part of our investment approach. The reason is that investing based on macro cycles runs counter to our bottom-up

process of researching company fundamentals. Moreover, we don't see evidence that switching between styles is likely to be successful. In fact, calls by some market pundits to rotate into deep value stocks have been wrong for years on end. If we need to increase our allocation to more economically sensitive companies, for example, that need should be apparent in our bottom-up investment research.

When it comes to comparing the performance of a fund to the performance of an index, we think that's obviously necessary over the long term. But we generally avoid paying too much attention to an index in the short term because we think doing so would result in bad investment decisions. Today, we're paying even less attention to index performance—especially in the small- and micro-cap universes, which are more sensitive to increased cash flows. In addition, indexes have recently been driven to a greater extent by speculation in areas like meme stocks, green-energy names and "plays" on the economic reopening.

Historically, our experience was that fund performance relative to an index was mostly driven by what was owned by the fund. During the first quarter, however, fund performance relative to an index was driven to a greater extent by what was *not* owned by the fund and what *was* included in the index. If we were to concentrate on this situation, it would be a distraction from our focus on high-quality companies with great management teams, significant competitive advantages, long-duration growth prospects, high returns on capital and healthy balance sheets.

As 2021 progresses, we expect some of our portfolio transactions will be done for reasons similar to those described below.

We recently purchased additional shares of **Allegiant Travel Co. (ALGT)** not because it's a play on the economic reopening but because we like the company's fundamentals and stock price from a risk/reward perspective. Allegiant offers airline flights, hotel bookings, car rentals, travel management and other related services. When the stock price declined in 2020, we performed more research on the company. Although other travel-related companies were facing dire circumstances, Allegiant wasn't forced to raise dilutive equity or take government money. Since then, Allegiant has strengthened its relationships with pilots and crews and has positioned itself to benefit from leisure travel—which should accelerate sooner than business travel.

At the other end of the spectrum, we completely sold our position in **Planet Fitness, Inc. (PLNT)** even though some speculators would consider the stock to be a reopening play. The company owns and operates a chain of fitness clubs. The stock spiked on optimism that people will return to pre-pandemic levels of exercise at group facilities. But recent earnings for Planet Fitness didn't impress us, and we decided the stock was too expensive based on our projection for the company's growth rate.

To summarize, we like the portfolio balance created by the combination of our higher-growth companies, which have historically done well during recessions, and our somewhat more economically sensitive names. We continue to evaluate which companies have the potential to build on their post-rebound valuations and which companies will fail to meet the expectations priced into their stocks. What has us particularly excited is we think many of our companies will deliver upside surprises in financial results compared to results in prior periods.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Ken Korngiebel and Ryan Snow

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2021

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Growth Fund—Investor	4.08%	110.31%	29.31%	25.48%	15.89%
Small Cap Growth Fund—Institutional	4.10%	110.46%	29.44%	25.68%	15.98%
Russell 2000® Growth Index**	4.88%	90.20%	17.16%	18.61%	13.02%
Russell 2000® Index†	12.70%	94.85%	14.76%	16.35%	11.68%

A fund's performance for very short time periods may not be indicative of future performance.

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

Data show past performance, which is not indicative of future performance. 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 return 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—1.16% / Institutional Class—Gross: 1.08%, Net: 1.05%**

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 1/31/2022.** 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 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.

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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.

You cannot invest directly in these indexes.

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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 "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.

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

Return on capital is a measure of how effectively a company uses the money, owned or borrowed, that has been invested in its operations.

The Russell 2000 Value Index measures the performance of Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

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

SMALL CAP GROWTH FUND — TOP 10 HOLDINGS

AS OF DECEMBER 31, 2020

Security Name	Percent of Net Assets
Kornit Digital Ltd. (Israel)	3.6%
Five9, Inc.	3.5%
CyberArk Software Ltd. (Israel)	3.4%
Medpace Holdings, Inc.	3.2%
HubSpot, Inc.	3.0%
Freshpet, Inc.	3.0%
Monolithic Power Systems, Inc.	2.9%
Ensign Group, Inc. (The)	2.9%
Rapid7, Inc.	2.8%
Floor & Decor Holdings, Inc., Class A	2.7%
Total	30.8%

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.