

Wasatch Small Cap Growth Strategy

JUNE 30, 2025

OVERVIEW

U.S. small cap stocks ended the quarter with sizable gains, but the march forward was volatile. Initially, stocks turned lower after President Trump unveiled tariff rates for countries that were much higher than investors had anticipated. However, equities then rebounded sharply as the President's economic team appeared to be softening its stance on tariffs. For the quarter, the Wasatch Small Cap Growth strategy performed in line with the Russell 2000® Growth Index, which was up 11.97%.

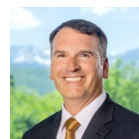
As investor views on tariffs shifted, a "risk-on" environment followed for much of the quarter. Against this backdrop, the stocks of lower-quality companies generally outperformed those of higher-quality businesses. This was a headwind for our investment style, which focuses on high-quality companies. And that headwind was severe. By some metrics this was one of the strongest environments favoring low-quality stocks that we've experienced.

For perspective, one way we gauge whether high-quality or low-quality stocks are in favor is through a proprietary process, in which we screen and rank the small cap universe by several aggregate factors, including financial metrics such as return on assets and operating profit margins, among other items. We then compare how companies in the top quintile of this aggregate score (high-quality businesses) perform against the bottom quintile (low-quality businesses). Based on that metric, this was the third-strongest 10-week period of outperformance by low-quality stocks of the last decade, and the strongest since early 2021. Given those headwinds, we were pleased to finish in line with the benchmark.

DETAILS OF THE QUARTER

The largest detractor from the strategy's performance for the quarter was **BellRing Brands, Inc. (BRBR)**. The company provides various nutritional products and is best known for its Premier Protein and Dymatize brands.

PORTFOLIO MANAGERS



Ryan Snow
Lead Portfolio Manager

7 / 25
YEARS ON STRATEGY / YEARS AT WASATCH



Ken Korngiebel, CFA
Lead Portfolio Manager

7 / 9
YEARS ON STRATEGY / YEARS AT WASATCH



Natalie Pesqué, CFA
Portfolio Manager

<1 / 10
YEAR ON STRATEGY / YEARS AT WASATCH



BellRing's fundamentals are strong, but there is a one-off channel inventory dynamic affecting guidance for the third quarter, which caused the stock to sell off. We visited the company recently, and believe our secular thesis is on track given strong consumption metrics and a continued runway to increase distribution and penetrate new households.

Clearwater Analytics Holdings, Inc. (CWAN) was another detractor. Clearwater Analytics offers a software platform for investment accounting, compliance, risk management and reporting that gives asset managers and insurers daily insights into portfolio holdings. During the quarter, the stock reacted negatively as the company completed its acquisition of a software provider for the investment management and hedge fund industry. We continue to like Clearwater but lowered the stock's weight in the strategy as we assess what the acquisition might mean for Clearwater's business.

Goosehead Insurance, Inc. (GSHD) also detracted. Through its network of franchisees and corporate agents, Goosehead brokers insurance products from a wide range of carriers. Fundamentals for the business remain robust, but after a strong run by the stock over the past year, it gave back some ground this quarter. Looking ahead, we continue to like Goosehead for its innovative business model, which leverages technology to manage a variety of customer-service and back-office functions, allowing its brokers to focus primarily on sales.

Two of the strategy's top contributors to performance were technology companies, **Fabrinet (FN)** and **Nova Ltd. (NVMI)**. Fabrinet makes optical components that are used in data centers. Nova sells metrology and process control systems used in semiconductor manufacturing. Both businesses have benefited from the increasing use of artificial intelligence (AI). While fundamentals for the two companies remain strong, AI has been a popular investment theme and that likely played a larger role in fueling the stocks' rise.

Another top contributor for the strategy was **Agilysys, Inc. (AGYS)**, another technology company. The stock of the hospitality-software company was up sharply after the firm released its latest quarterly operating results. Fundamentals for the business remain encouraging, with Agilysys reporting record quarterly revenue growth of \$74.3 million, up 19.4% from the same period last year. Going forward, we continue to like Agilysys' growth potential as its niche software takes market share across the hospitality industry.

OUTLOOK AND POSITIONING

As we look toward the back half of the year, we wouldn't be surprised to see markets stay volatile. As we wrote this commentary at the end of June, there was still a great deal of uncertainty about tariffs and trade policy, a war in Europe and tensions in the Middle East. Throw in the uncertainty about interest rate policy and there are plenty of factors that could shake the equity markets.

What those issues don't shake is our confidence in our investment philosophy, process and positioning. We remain focused on high-quality companies that have a proven track record of earnings growth, a history of strong free cash-flow generation, and that are led by management teams we know and trust.

That high-quality focus was admittedly a headwind to the strategy's performance relative to its benchmark this quarter. But in times of macroeconomic and geopolitical uncertainty, these are precisely the types of businesses we want to own.

Thank you for the opportunity to manage your assets.

Sincerely,

Ryan Snow, Ken Korngiebel and Natalie Pesqué



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