WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor / Institutional
WAMCX / WGMCX

Wasatch Ultra Growth Fund

SEPTEMBER 30, 2020

After Another Strong Quarter, Our Optimism Is Tempered With a Dose of Reality

FUND MANAGER

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Lead Portfolio Manager

8 YEARS ON FUND / 22 YEARS AT WASATCH

OVERVIEW

Small-cap growth stocks moved higher during the third quarter, with the benchmark Russell 2000 Growth Index rising 7.16%. Surpassing its benchmark, the Wasatch Ultra Growth Fund—Investor Class generated a quarterly gain of 11.09%. U.S. equities benefited as Congress and the president pushed trillions of stimulus dollars into the economy, triggering a faster recovery from Covid-19 shutdowns than many investors had anticipated.

Information technology (IT) and health care were the largest sources of outperformance relative to the benchmark. In both of these areas, our stocks posted gains well ahead of the corresponding components of the Index. The coronavirus pandemic, unprecedented in recent memory, has spawned a litany of terms and constructs from investors seeking ways to understand and respond to the new environment. Chief among these are the concepts of "shutdown stocks" and "reopening stocks."

We've tried to avoid thinking about our investment universe in those terms for a couple of reasons. First, partitioning companies into bifurcated groups is a top-down process that then requires a forecast as

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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—1.25% / Institutional Class—Gross: 1.10%, Net: 1.06. 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 1/31/2021.***

to which of the two outcomes (shutdown versus reopening) is going to occur. In reality, we think the economy is likely to move forward in fits and starts, perhaps requiring longer to fully shake off the pandemic than many people currently expect. Second, because companies themselves often possess characteristics of both groups, trying to pigeonhole them into one category or the other can be difficult and counterproductive.

Instead, we continue to take a bottom-up view focused on company fundamentals. In particular, we seek to identify businesses that can survive additional economic weakness, emerge from it in a stronger competitive position and then benefit from an ensuing recovery. Health care, the Fund's most heavily weighted sector, has yielded more than its fair share of companies that we believe meet these criteria. Unlike travel plans, for example—which can be canceled—medical needs typically can only be postponed.

In short, our investment approach hasn't changed to any appreciable extent. We continue to scour our universe for growth companies that we consider to be high quality with talented management teams, solid business models and strong balance sheets. In particular, we look for innovative disruptors with the potential to take market share from competitors and grow—even during weak economic environments. By emphasizing the long-term prospects of individual companies, we reduce the need to predict the paths of the pandemic and the economy. We believe our fundamental, bottom-up approach has the potential to generate attractive returns over time.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was Silk Road Medical, Inc. (SILK). The company offers implantable devices for the treatment of carotid-artery disease. Investors reacted positively to increases in the number of surgeries using Silk Road's products—from approximately 385 in April to 685 in May and 900 in June. Known as transcarotid artery revascularization, Silk Road's innovative, minimally invasive procedure is likely, in our view, to continue gaining market share at the expense of open surgery and transfemoral stenting, and to eventually become the new standard of care.

Inspire Medical Systems, Inc. (INSP) was also a top contributor. A medical-technology company, Inspire develops minimally invasive solutions for patients with obstructive sleep apnea. Like Silk Road, Inspire experienced a drop-off in business during early phases of the pandemic as surgeries for sleep apnea and other elective procedures were postponed. However, the company's recent guidance appears to have reassured investors that the worst may be over. Inspire has significantly expanded reimbursement coverage from U.S. insurers over the past year, paving the way for potentially accelerated penetration of its sizable addressable market.

Another strong stock in the Fund was Open Lending Corp. (LPRO). The company provides loan analytics, risk-based pricing and automated-decision technology for automotive lenders. Although Open Lending is classified as a financial company, it incurs no credit risk. Instead, it offers a fee-based platform that enables lenders to assess the creditworthiness of car buyers more accurately. Open Lending's stock price rose steadily during the third quarter as the company continued to acquire new customers. Because adding customers is neither capital- nor labor-intensive, a high percentage of Open Lending's incremental revenue flows through to the bottom line.

The greatest detractor from Fund performance was Inovio Pharmaceuticals, Inc. (INO). A biotechnology company, Inovio is developing a Covid-19 vaccine candidate, INO-4800. Following an upswell of optimism from March through June, the company's stock price headed lower during the third quarter amid worries that Inovio may be falling behind its competitors in the race to develop a vaccine for the disease. Concerns grew in late September after the company disclosed in a press release that the U.S. Food and Drug Administration (FDA) had placed a partial hold on a combined Phase 2/3 clinical trial of INO-4800 that Inovio had planned to initiate by the end of the month. According to the company, the FDA had additional questions, including about the vaccine-delivery device to be used in the study.

On the positive side, Inovio stated that the FDA's partial hold didn't result from any adverse events in its ongoing Phase 1 trial. Nor does the hold affect the advancement of the company's other pipeline assets. Should INO-4800 eventually gain approval, we think its advantages—especially with respect to safety, storage and administration—would position it as a potentially valuable weapon in the vaccine arsenal that will be needed to quell the pandemic. Inovio's DNA medicines currently in development for various cancers and pre-cancers also offer meaningful upside potential in our analysis.

Esperion Therapeutics, Inc. (ESPR) was also a significant detractor. The company develops oral therapies for people with elevated low-density lipoprotein cholesterol (LDL-C, or "bad cholesterol"). Esperion's recently approved flagship medications, Nexletol® and Nexlizet,™ are intended to increase the effectiveness of statins and other cholesterol-lowering drugs in high-risk patients. While we're optimistic about the ultimate potential of these new products, their launches have proved challenging, as patients fearful of contracting Covid-19 postponed routine physicals and other non-urgent appointments during which the medications might have been prescribed. In addition, stay-at-home orders in effect earlier in the year shifted the deployment of the company's field sales team.

The resulting delay in revenues from Nexletol and Nexlizet have increased the possibility that Esperion may need to raise additional capital, thereby diluting the ownership stakes of existing shareholders. Fears of a secondary offering appeared to weigh on the company's stock price during the third quarter, as investors seeking greater clarity moved to the sidelines. We used weakness in the stock as an opportunity to purchase additional shares for the Fund, in the belief that a capital raise, though entirely possible, wasn't the most likely scenario.

Another weak stock in the Fund was **Tabula Rasa HealthCare, Inc. (TRHC)**. The company develops cloud-based software solutions that enable health-care organizations to optimize medication regimens, improve patient outcomes, reduce hospitalizations, lower costs and manage risk. Despite Tabula Rasa's innovative technology, its stock has languished for the past couple of years as investors became impatient with the company's transition from small-scale pilot programs to broader commercialization. We believe Tabula Rasa's long-term growth prospects remain favorable, and we continue to own the stock at a reduced weight in the Fund. *(Current and future holdings are subject to risk.)*

OUTLOOK

You must never confuse faith that you will prevail in the end—which you can never afford to lose—with the discipline to confront the most brutal facts of your current reality, whatever they might be. **— James Bond Stockdale**

A prisoner of war in Vietnam from 1965 to 1973, Admiral James Stockdale was one of the most decorated officers in the United States Navy. During his long captivity, Stockdale was able to survive where others perished by not allowing his optimism to prevent him from doing everything in his power to improve his situation. Termed the "Stockdale Paradox," the necessity of confronting the brutal facts—while never losing faith—has become a powerful concept in business and in life.

Investors attempting to navigate the Covid-19 pandemic would do well to heed the Stockdale Paradox. While we're optimistic that vaccines for the disease will be found, their development and distribution won't be easy. The harsh reality is that no vaccine against other forms of coronavirus has ever been approved for use in the U.S. Part of the reason is the virus infects the upper respiratory tract—an area that's difficult for our immune systems to protect.

Adding to the complexities inherent in vaccinating 331 million people is the need for at least two of the leading vaccine candidates to be kept frozen at temperatures near -112°F during transportation and storage. Moreover, it isn't clear what portion of the U.S. population would accept vaccination voluntarily, or to what extent mandatory vaccination would succeed. The possible need for booster shots—assuming these vaccines can be boosted at all—poses an additional set of challenges.

On the economic front, the full effects of the pandemic are yet to be felt. With financial stress continuing to build in areas such as commercial real estate, home mortgages and the restaurant industry, an impending wave of loan defaults threatens banks and other lenders. Moreover, while the Federal Reserve is in no imminent danger of running out of paper and green ink (and their digital counterparts), the implications of financing massive fiscal deficits with printed money are dubious at best—especially if this becomes the norm going forward.

In short, our optimism is tempered with a heavy dose of reality. Should the road ahead prove longer and more difficult than investors currently expect, companies positioned to endure a period of renewed challenges—and to emerge from them even stronger than before—appear especially attractive in our view.

Thank you for the opportunity to manage your assets.

Sincerely,

John Malooly

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Ultra Growth Fund—Investor	11.09%	59.54%	30.73%	26.79%	18.18%
Ultra Growth Fund—Institutional	11.15%	59.62%	30.76%	26.80%	18.19%
Russell 2000® Growth Index**	7.16%	15.71%	8.18%	11.42%	12.34%

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—1.25% / Institutional Class—Gross: 1.10%, Net: 1.06%**

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 1/31/2021.** 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 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 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.

**The Russell 2000 Growth Index measures the performance of those 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. The Russell 2000 is widely used in the industry to measure the performance of small company stocks.

You cannot invest directly in these or any indexes.

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

The Index is 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 the Index or (b) investment in or operation of the Wasatch Ultra Growth Fund or the suitability of the Index for the purpose to which it is being put by Wasatch Global Investors.

The Wasatch Ultra 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.

ULTRA GROWTH FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
Grocery Outlet Holding Corp.	2.8%
Silk Road Medical, Inc.	2.7%
Five Below, Inc.	2.4%
Kornit Digital Ltd. (Israel)	2.2%
Freshpet, Inc.	2.2%
Paylocity Holding Corp.	2.0%
Floor & Decor Holdings, Inc., Class A	2.0%
Inspire Medical Systems, Inc.	2.0%
Castle Biosciences, Inc.	2.0%
Five9, Inc.	2.0%
Total	22.2%

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.