Quarterly Commentary

Investor WAMCX / Institutional WGMCX

Wasatch Ultra Growth Fund

JUNE 30, 2020

While the World Has Changed And Will Continue to Change, Our Approach to Investing Has Not

FUND MANAGER

John Malooly, CFA
Lead Portfolio Manager

8 YEARS ON FUND / 22 YEARS AT WASATCH

OVERVIEW

Stocks of small growth companies posted especially strong gains during the second quarter as businesses began to reopen and hopes increased that a vaccine would be developed for Covid-19. The Wasatch Ultra Growth Fund—Investor Class leapt 51.34% for the quarter and outperformed its benchmark, the Russell 2000 Growth Index, which rose 30.58%.

Aggressive stimulus from the U.S. government and the Federal Reserve helped fuel a powerful rally in equities. The abrupt improvement in investors' risk appetite compared to the previous quarter suited the Fund's small-cap growth investment style, as growth outgained value and small-company stocks outpaced large-cap issues. Given that the Fund had declined less than the Index during the first quarter's steep fall, we were especially pleased to see continued outperformance on the way back up.

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.***

In a move that was fortuitous, we had positioned the Fund somewhat more defensively prior to the coronavirus pandemic. With the economic expansion that began in 2009 getting long in the tooth by historical standards, we sought to tilt the portfolio away from businesses tied to the economic cycle. We didn't anticipate that a global health crisis would upend daily life and wreak havoc on the U.S. economy. However, the steps we took to limit the Fund's economic sensitivity worked to our advantage during the first quarter. To paraphrase the late Baseball Hall of Famer Lefty Gomez, sometimes it's better to be lucky than good.

We believe the solid fundamentals of our portfolio companies continued to benefit the Fund during the second quarter. Both in absolute terms and relative to the benchmark, Fund performance was driven by health care and information technology (IT), followed by consumer discretionary. While store reopenings and optimism for a rapid end to the pandemic boosted consumer-discretionary stocks, a number of the Fund's health-care and IT holdings continued to register gains even as cases of Covid-19 began climbing again in parts of the U.S. that perhaps had resumed some elements of normal life too early.

A QUICK WORD ON VALUATION: EARNING IT FORWARD

We could not have predicted that small-cap stocks would have such a dramatic rally over the past 15-plus weeks, nor do we have a crystal ball into what may happen next in the market. We do know that the rally has raised stock prices and that investors' expectations are higher across the board. In the past, sometimes our stocks have been rewarded for what they did in the previous year, and sometimes for what they do today. In the second quarter, we seem to have been rewarded for what they are expected to do over the next 12 months. No matter what stock prices do in the months ahead, we are pleased with the fundamentals of the companies we hold in the Fund, but believe we earned some forward returns in these last three months that may not be repeated going forward.

We have no unique insight into whether the resurgence of Covid-19 observed in June represents a temporary flare-up or the beginning of something worse. Because that's something we cannot predict and cannot control, we couldn't act on it with any degree of certainty. Instead, we continued to apply our disciplined investment approach, seeking well-situated small companies with the potential to innovate and continue growing during challenging environments.

DETAILS OF THE QUARTER

The strongest contributor to Fund performance for the quarter was **Wayfair, Inc. (W)**. An e-commerce company, Wayfair has become a major player in online sales of furniture and home furnishings. Net revenue in the company's most-recent quarter grew 19.1% in the U.S. and 23.7% internationally as shoppers sheltering in place flocked to the internet and spent more money on their homes. With the company raising capital and strengthening its balance sheet, and with management's guidance toward profitability lifting the stock price, we chose to trim the Fund's position in Wayfair to reflect what we see as its lower return profile going forward.

Ollie's Bargain Outlet Holdings, Inc. (OLLI) was also a large contributor. The company's retail stores offer a continually changing selection of close-out items and brand-name merchandise at deeply discounted prices. Shares of Ollie's marched steadily higher during the second quarter as stay-at-home orders were lifted and stimulus checks reached consumers. Management said the change in comparable-store sales had turned positive during the most-recent reporting period, driven in part by higher sales of consumer staples. Although we reduced the weight of Ollie's in the Fund, we think the company's off-price business model stands to do well as cost-conscious consumers seek bargains, and distressed inventory from other retailers remains abundant.

Another strong stock in the Fund was **MacroGenics, Inc. (MGNX)**. A biopharmaceutical company, MacroGenics develops antibody-based therapeutics for the treatment of cancer. The company's stock price soared in May after management said it remains on track to report final overall-survival data for its breast-cancer drug candidate margetuximab in a head-to-head Phase 3 clinical trial with trastuzumab (brand name Herceptin), a top-selling competitor. Last year, MacroGenics presented preliminary data indicating margetuximab was outperforming trastuzumab in the study. Growing optimism about a possible partnership agreement with another drug company also appeared to lift the stock.

The largest detractor from Fund performance for the quarter was **Exagen, Inc. (XGN)**. The company develops tests for people with autoimmune rheumatic diseases, such as lupus and rheumatoid arthritis, as well as other disorders that include fibromyalgia. Exagen's shares languished during the second quarter as a disagreement surfaced with Johnson & Johnson (J&J) regarding the terms of Exagen's copromotion agreement for the immunosuppressive drug SIMPONI,® putting the relationship in flux. Shutdowns of health-care providers' offices also hurt testing volumes in March and April, and while the relationship with J&J subsequently has been smoothed out and extended, the stock has yet to recover.

Barnes Group, Inc. (B) was another detractor in the Fund. Through its industrial and aerospace business segments, Barnes provides a range of engineered products, industrial technologies and innovative solutions in the U.S. and internationally. Softness in end markets has been crimping demand for the company's products and services. Management noted virus-related pressure in the automotive, tool-and-die and packaging end markets, as well as challenges due to lower aircraft production and utilization. To allow for a faster-than-expected end to the pandemic's negative effect on air travel and the global economy, we're comfortable holding Barnes at a reduced weight in the Fund.

Balchem Corp. (BCPC) also declined during the quarter. The company supplies specialty ingredients to the food, animal-feed and medical-sterilization industries. Pointing to Covid-19's significant disruption of economic activity across the globe, management forecast lower overall revenues for the duration of the pandemic. End markets in which sales were projected to be affected the most included food services, meat production and dairy. Additionally, a drop in elective procedures was expected to impact Balchem's sales of ethylene oxide for the sterilization of medical devices. The company also anticipated the slowdown in oil production to result in weaker demand for its industrial products used in fracking. *(Current and future holdings are subject to risk.)*

OUTLOOK

Although the short-term course of the coronavirus pandemic—including possible development of a vaccine—is difficult to predict, some of the longer-term implications are already becoming clear. Stay-at-home orders and social distancing, for example, have accelerated the adoption of e-commerce, social media and other technologies that replace person-to-person contact with digital content. Once adopted, such changes typically persist until they're replaced with newer and even better ways of doing things.

For a company such as Wayfair, which sells furniture over the internet, initial adoption is typically the most difficult aspect of the business model. While most people might be a little reluctant to buy a sofa without being able to see it and try it out, that step becomes much easier following a positive experience with the online purchase of a chair or recliner. For many, Covid-19 provided the impetus necessary to take the plunge into online shopping for major household items, as store closings and lockdowns left them with little choice. Avoiding the commissioned salespeople down at the local furniture showroom was just an added bonus.

In seeking to navigate the current investment landscape, it's these long-term, secular trends that really get our attention. Life has changed, especially for the workplace. Although people eventually will go back to working in offices, telecommuting will persist at higher levels than before. Collaboration tools aren't going away. Videoconferencing wouldn't go away even if an effective vaccine were available tomorrow.

The upshot is that while the world has changed and will continue to change, our approach to investing has not. We're long-term, bottom-up investors focused on what we believe are high-quality companies with the potential to disrupt their industries and generate attractive rates of growth over time.

Thank you for the opportunity to manage your assets.

Sincerely,

John Malooly

WASATCH GLOBAL INVESTORS

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Ultra Growth Fund—Investor	51.34%	38.36%	28.93%	20.75%	18.86%
Ultra Growth Fund—Institutional	51.34%	38.36%	28.93%	20.75%	18.86%
Russell 2000® Growth Index**	30.58%	3.48%	7.86%	6.86%	12.92%

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.

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

ULTRA GROWTH FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2020

Security Name		Percent of Net Assets
Freshpet, Inc.		3.3%
Five9, Inc.		2.6%
Paylocity Holding Corp.		2.4%
Tandem Diabetes Care, Inc.		2.4%
Ollie's Bargain Outlet Holdings, Inc.		2.3%
Monolithic Power Systems, Inc.		2.3%
HubSpot, Inc.		2.2%
Proofpoint, Inc.		2.2%
Exact Sciences Corp.		2.2%
Grocery Outlet Holding Corp.		2.1%
	Total	24.0%

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.