WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor
WAMCX

Wasatch Ultra Growth Fund

DECEMBER 31, 2019

Stocks Moved Higher With Economic Growth, Strong Employment and Good News On Trade

FUND MANAGER

John Malooly, CFA
Lead Portfolio Manager

7 YEARS ON FUND / 21 YEARS AT WASATCH

OVERVIEW

Ending 2019 on a strong note, the Wasatch Ultra Growth Fund gained 14.65% for the fourth quarter. The Fund outperformed the benchmark Russell 2000® Growth Index, which rose 11.39%. For the 12 months ended December 31, 2019, the Fund gained 38.06% compared to the Index's return of 28.48%. In the fourth quarter and for the year, stock picking in the health-care and information-technology (IT) sectors drove the Fund's performance. We're also pleased to report the Fund has beaten the Index over the last three, five and 10 years. We believe these long-term results are driven by our bottom-up investment process, which seeks to identify small companies that can grow faster than the typical Index company over time.

U.S. equities moved higher during the final three months of 2019 on the back of steady economic growth, strong employment gains and an apparent truce in the trade conflict with China. In a report released during November, the Commerce Department revised its official figure for third-quarter gross domestic product (GDP) growth to 2.1%—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: 1.25%. The Advisor has contractually agreed to limit certain expenses to 1.50% through at least 1/31/2020.***

from 1.9% as reported in October. The steady pace of the current economic expansion, which began in 2009 and is the longest on record, has continued to favor the Fund's growth-oriented investment style.

Outsized gains in biotechnology and pharmaceutical stocks helped make health care the top-performing sector of the Index during the fourth quarter. With the Fund's biotech and pharma holdings posting even higher returns, health care was the largest source of outperformance relative to the benchmark. When evaluating clinical-stage health-care companies, we look for those developing therapies with the potential to produce disease-modifying outcomes—such as long-term remission or cure—rather than limited or short-term relief from symptoms. Because these treatments can generate significant cost savings for the health-care system, we believe they're more likely to gain acceptance from insurers and other third-party payers.

Another significant source of outperformance for the Fund was information technology. Returns were strong across the IT sector—software, semiconductors, services and equipment. As in health care, the IT space is rich in companies using technological innovation to help their customers do things better, faster and cheaper. Our focus is on companies that can disrupt their industries, take market share and expand their businesses even in a macro environment of modest economic growth.

Consumer discretionary was the primary source of weakness against the benchmark. Declines in a handful of our positions dragged down performance in the sector, which fell short of the positive return generated by the consumer-discretionary stocks in the Index.

DETAILS OF THE QUARTER

The two top contributors in the quarter—**ChemoCentryx, Inc. (CCXI)** and **Intra-Cellular Therapies, Inc. (ITCI)**—were health-care stocks. ChemoCentryx develops orally administered therapeutics for autoimmune diseases, inflammatory disorders and cancer. The company's stock price rose sharply in November after ChemoCentryx announced positive top-line results from the Phase 3 clinical trial of its lead drug candidate, Avacopan, for the treatment of ANCA vasculitis. ANCA vasculitis is a systemic disease leading to the inflammation and destruction of small blood vessels. This can result in damage to organs, especially the kidney, and is fatal if not treated. The trial demonstrated Avacopan's disease-modifying efficacy and superiority over the current standard of care.

Intra-Cellular develops therapeutics for disorders of the central nervous system. Shares of the company soared in December on news that its first product, CAPLYTA® (lumateperone), had received approval from the Food and Drug Administration (FDA) for the treatment of schizophrenia in adults. The drug is currently in development for the treatment of bipolar depression, Alzheimer's disease and other neurological conditions. With readouts from these trials expected to begin soon, we think the additional upside potential for CAPLYTA remains considerable.

Paylocity Holding Corp. (PCTY) was also a significant contributor. The company provides software for payroll and human-capital management (HCM) using the Software-as-a-Service business model. Paylocity's stock price rose during November after quarterly earnings and revenues exceeded Wall Street forecasts and management raised its full-year guidance. Paylocity has been experiencing strong demand for its products from customers with less than 50 employees. With about 20,000 current clients and a potential market of around 600,000 businesses, the company still has significant headroom for growth in our view.

The greatest detractor from Fund performance for the quarter was **NV5 Global, Inc. (NVEE)**. The company provides professional and technical engineering and consulting services to public and private-sector clients in the infrastructure, energy, construction, real-estate and environmental markets. The share price of NV5 declined sharply in November after earnings and revenues in the company's most-recent quarter fell short of expectations. Investors also may have reacted negatively to management's restatement of its forward guidance to correct errors related to a recent acquisition. Despite headwinds stemming from project delays and other near-term factors, we like NV5's longer-term prospects. We expect robust global demand for infrastructure to sustain the company's growth.

Cocrystal Pharma, Inc. (COCP) was the second-largest detractor. A clinical-stage biotechnology company, Cocrystal develops antiviral treatments for diseases such as influenza and hepatitis C. Having completed a secondary public offering of stock in November, the company now faces the prospect of having to raise additional capital in the next year under conditions likely to dilute the ownership stakes of existing shareholders. While we do see a potential path forward for Cocrystal, the Fund's position in the stock is currently under evaluation.

Wayfair, Inc. (W) was the third-largest detractor from performance. A rapidly growing e-commerce company, Wayfair has become a major player in online sales of furniture and home furnishings. Wayfair's stock price fell sharply in late October after the company reported slowing revenue growth and a wider-than-expected quarterly loss. Management cited the impact of tariffs, which disrupted the company's pricing algorithms and caused some customers to delay their purchases. The prospect of a pickup in marketing spend also may have unnerved some investors. However, higher spending to fuel faster growth at Wayfair is justified in our view as long as management continues to execute. *(Current and future holdings are subject to risk.)*

OUTLOOK

Although the current economic expansion, which began in 2009, is the longest on record going back to 1854, it has also been the slowest of the post-war era in terms of cumulative growth in GDP and employment. Previous post-war booms tended to be driven by broad demographic themes—such as returning soldiers starting families, and women and Baby Boomers joining the labor force—or waves of technological innovation that enabled workers to produce more per hour.

Looking forward, consensus economic forecasts predict continued economic growth at or below levels seen in the last few years. This growth pales in comparison to the strong gains posted by equities in 2019, which means investors may have already paid ahead for future growth. This line of thinking would indicate investors should expect lower returns going forward.

We believe current indications of subdued structural economic growth in the U.S. bode well for the Fund's growth-oriented investment style. We see identifying companies that have the potential to benefit from the green shoots of growth in a slow-growth economy as one of our strengths. For example, one consequence of the aging U.S. population is the need for new, cost-effective treatments and cures in the health-care arena. By seeking to understand the underlying science as well as the market potential for these therapies, we believe we have the expertise to navigate this important but challenging area of the market.

Even so, it must be remembered that growth-stock investing carries risks, and higher valuations reduce the margin of error when those risks are underestimated. We've said this before, but we think it bears repeating: An appropriate risk profile and reasonable expectations are indispensable elements of long-term investing.

Thank you for the opportunity to manage your assets.

Sincerely,

John Malooly

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	10 Years
Ultra Growth Fund	14.65%	38.06%	26.16%	17.41%	16.30%
Russell 2000® Growth Index**	11.39%	28.48%	12.49%	9.34%	13.01%

**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: 1.25%**

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% through at least 1/31/2020.** 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.

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.

Gross domestic product (GDP) is a basic measure of a country's economic performance and is the market value of all final goods and services made within the borders of a country in a year.

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

ULTRA GROWTH FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2019

Security Name		Percent of Net Assets
Trex Co., Inc.		3.1%
Kornit Digital Ltd. (Israel)		2.9%
Freshpet, Inc.		2.8%
Paylocity Holding Corp.		2.4%
Five Below, Inc.		2.2%
InterXion Holding N.V. (Netherlands)		2.2%
Balchem Corp.		2.0%
Insulet Corp.		2.0%
Floor & Decor Holdings, Inc., Class A		2.0%
Knight-Swift Transportation Holdings, Inc.		2.0%
	Total	23.7%

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.