WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WGROX / Institutional WIGRX

Wasatch Core Growth Fund

DECEMBER 31, 2022

Amid Ongoing Macro Headwinds, We Believe the Upcoming Economic Environment Will Be One in Which Our Companies Earn Their Stripes

FUND MANAGERS

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Lead Portfolio Manager

22 YEARS ON FUND / 26 YEARS AT WASATCH

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Portfolio Manager

17 YEARS ON FUND / 22 YEARS AT WASATCH

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5 YEARS ON FUND / 6 YEARS AT WASATCH

OVERVIEW

The stocks of U.S. small-cap growth companies moved higher during the fourth quarter of 2022 on the back of optimism about the future paths of inflation and interest rates. The benchmark Russell 2000® Index rose 6.23% for the quarter. Outperforming its benchmark, the Wasatch Core Growth Fund—Investor Class increased 6.68%. The more aggressive Russell 2000 Growth Index gained a lesser 4.13%.

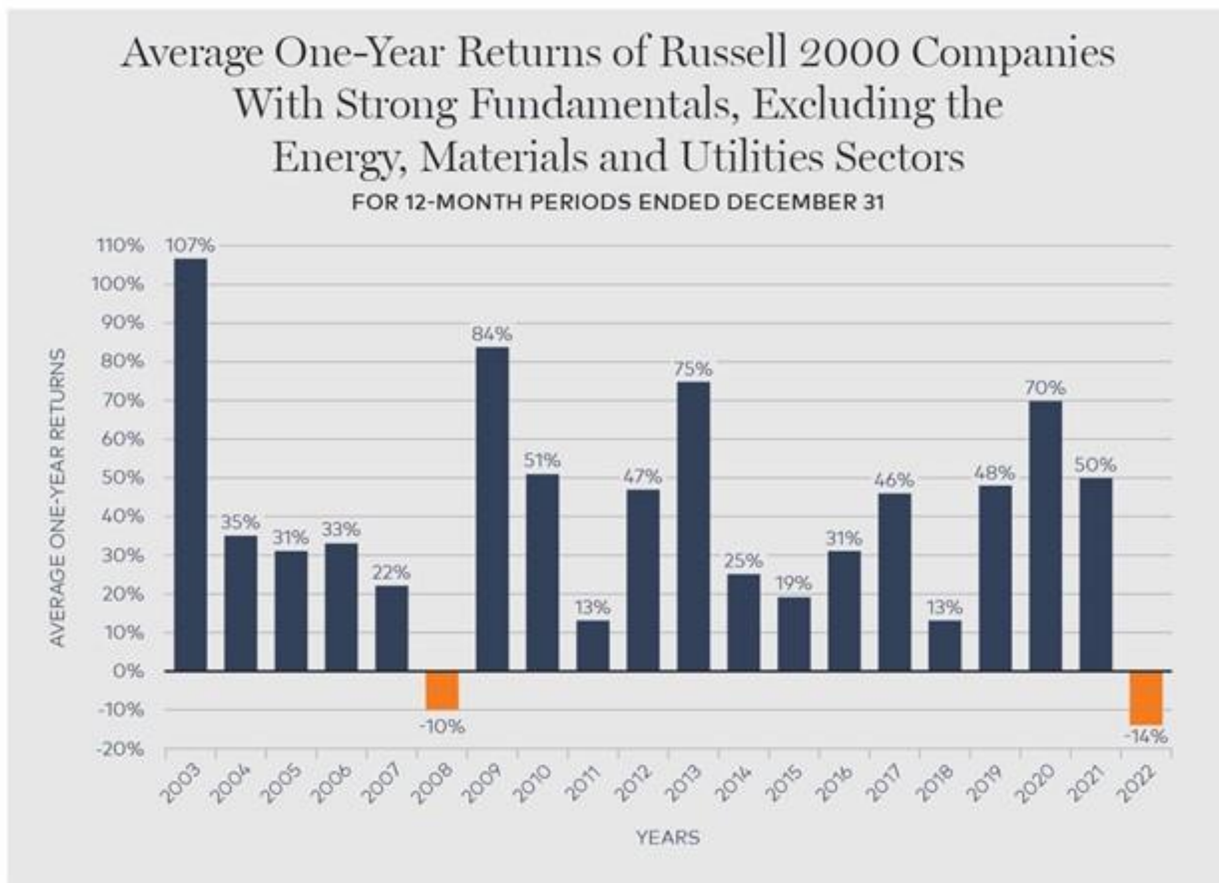
From a sector perspective, the Fund's outperformance relative to the Russell 2000 Index was primarily due to the stock-price strength of our holdings in health care. Conversely, our stocks in information technology (IT) and our lack of exposure to high-returning energy names detracted from relative performance.

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, without which total returns would have been lower. 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—1.17% / Institutional Class—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 1/31/2023.***

During 2022 as a whole, the macro environment presented the most hostile set of conditions for our investment approach in over 20 years. Under more normal circumstances, companies that delivered strong sales growth and surpassed earnings estimates were typically rewarded with higher prices for their stocks. These are the types of companies Wasatch seeks to own. Historically, in both up and down market environments, such strong fundamentals tended to generate positive annual returns that reflected the future earnings power of the underlying businesses. Year in and year out, the Wasatch thesis that earnings drive stock prices generally held true.

However, this wasn't the case in 2022 when an inflationary environment and cyclical commodities favored certain sectors that largely produced the best returns in the market.

The following bar chart shows historical average one-year aggregate stock returns of the Russell 2000 companies that met our criteria for having strong fundamentals. But the chart *excludes* companies in energy, materials and



Source: FactSet. Wasatch defines companies with strong fundamentals as those that had sales growth above 15% for the trailing 12-month period and beat their quarterly Wall Street analysts' earnings estimates from the previous year.

utilities because the Fund is normally underinvested in these sectors. We believe these sectors are mostly comprised of capital-intensive and undifferentiated businesses that typically don't fit well with our preference for dynamic, high-quality companies. Also, energy and materials firms tend to carry significant debt and are often highly cyclical—with success generally linked to a single commodity that's beyond the control of management.

In 2022, strong fundamentals in energy, materials and utilities generated an aggregate return of about +55%. As the chart shows, the comparable return in other sectors—those typically favored by Wasatch—was approximately -14%. The stark contrast in performance between our underweighted and overweighted sectors was a substantial headwind for the Fund throughout the year.

What distinguished 2022 from the previous 19 years—excepting 2008—was the combination of inflation and sharply higher interest rates. Rising rates usually have an outsized impact on the stock prices of growth companies because their cash flows are typically weighted further into the future. For energy and materials companies, the negative effects of higher rates were offset as inflation boosted the market prices of their products. Utilities also held up well because they're essentially monopolies whose profitability is largely controlled by regulators. In other areas of the market, even strong, growing businesses saw their valuations suffer during 2022 as the Federal Reserve (Fed) hiked interest rates to combat inflation.

As described in the Outlook and Positioning section below, we don't think conditions that characterized 2022 will continue during 2023 and beyond. In short, we believe the benefits of high-quality growth companies will reassert themselves—especially if the economy slows. Some of the most important elements of quality are reasonable debt levels, strong cash flows and management teams that can navigate inevitable challenges.

DETAILS OF THE QUARTER

We made relatively minor portfolio transactions during the fourth quarter. For example, we sold Altra Industrial Motion Corp. (AIMC)—which is described below. We also sold our small position in Topgolf Callaway Brands Corp. (MODG)—which offers golf equipment, balls, gear and apparel.

The strongest contributor to Fund performance during the quarter was the aforementioned Altra Industrial Motion Corp. The company manufactures motion-control and power-transmission products for industrial applications. Altra's share price rocketed higher in October after the company agreed to be acquired by a larger competitor at a substantial premium to the then-current stock price.

As mentioned above, health care was the Fund's primary source of strength against the benchmark during the quarter. Because it's an area that's both defensive and growing, we think health care has the potential to do well even as the Fed's interest-rate increases achieve their desired effect of slowing the growth of the broader economy. Top contributors to Fund performance included Medpace Holdings, Inc. (MEDP).

Medpace is a contract-research organization that supplies clinical-development services to health-care firms. Shares of Medpace had languished for most of 2022 amid worries that a generally poor funding environment for the company's customers would impact operations. Medpace earns the majority of its revenues from small firms that find it more cost-effective and efficient to outsource the management of clinical

trials necessary to bring products to market. Concerns eased in October when quarterly revenues and earnings at Medpace came in ahead of expectations. In addition, the company upped its full-year guidance for 2022 and issued a positive outlook for 2023.

Another strong stock in the Fund was Five Below, Inc. (FIVE). A specialty value retailer, the company offers a variety of merchandise at discounted prices. Five Below's stock price rose sharply in early December after the company reported better-than-expected financial results and guided higher on revenues and earnings. The upbeat news cheered investors who had been concerned about Five Below's ability to attract shoppers during the upcoming inflation-marred holiday season. We think the company's debt-free balance sheet, substantial free cash flows, expanding store count and new Five Beyond format—in which prices can go as high as $25 in a designated section of the store—leave Five Below well-positioned for growth even in a potentially difficult retail environment.

IT accounted for several of the greatest detractors from Fund performance during the fourth quarter. Among these were Paylocity Holding Corp. (PCTY), CyberArk Software Ltd. (CYBR) and Q2 Holdings, Inc. (QTWO).

Paylocity is a good example of a company that's seen its stock price come under pressure in spite of strong fundamentals in the underlying business. Paylocity provides cloud-based payroll and human-resources software targeted at smaller firms. Although Paylocity's most recent earnings release contained an abundance of positive takeaways, the Fed's focus on the red-hot U.S. labor market as a source of inflationary pressures may have spooked some investors. Because a portion of Paylocity's pricing structure is tied to employee headcounts at customer firms, revenues are vulnerable to potential upticks in layoffs and attrition. Another factor may have been the interest Paylocity earns on the cash it holds for customers—which stands to diminish if the Fed cuts interest rates in response to a slowing economy in 2023 as some investors expect.

A cybersecurity company that operates globally, CyberArk specializes in products and services to protect and safeguard customers' IT networks and devices. A recent flurry of buyouts by private-equity firms has fostered an active rumor mill that's at times produced rapid gyrations in the prices of cybersecurity stocks. We suspect CyberArk may have been the target of some of this speculation during the third quarter. Moreover, the growing slate of security products offered by cloud-computing giants Microsoft, Amazon Web Services and Google may have bruised investor sentiment toward the group.

Q2 Holdings provides cloud-based digital-banking solutions to regional and community financial institutions. The company reported mixed results in its most recent quarter, with revenues missing expectations. Management cited macroeconomic headwinds, which have impacted transaction-based services and caused larger customers to defer some discretionary projects. On the plus side, Q2's success landing new contracts highlighted underlying strength in the demand environment and bodes well for future growth. Having recently visited the company, we're maintaining our positive long-term outlook and we've modestly increased the Fund's position in the stock. *(Current and future holdings are subject to risk.)*

OUTLOOK AND POSITIONING

Data released during the final weeks of the fourth quarter suggested the U.S. economy was beginning to slow. Hurt by a drop-off in new orders, a widely followed gauge of U.S. factory activity declined in December at its sharpest pace

since May 2020. The downbeat reading followed figures for November showing an unexpected fall in industrial production and a larger-than-expected decline in retail sales. With housing starts and other data points also falling short of forecasts, evidence suggested consumers and businesses were beginning to feel the strains of inflation and higher borrowing costs.

For businesses with debt tied to interest rates, the increased cost of servicing variable-rate debt is claiming a greater share of cash flows and eating into bottom lines. The squeeze of higher borrowing costs on profitability comes on top of higher expenses for labor, materials, logistics and most everything else. A potentially deeper retrenchment by consumers in 2023 now threatens top lines as well—a development that would leave leveraged companies with even less cash to service their debt and invest for the future. We expect these pressures to send some heavily indebted companies into defensive mode, forcing layoffs and other cost-cutting measures that may ultimately slow their growth trajectories.

Equity prices in the year ahead may begin to reflect the dynamics of debt and cash flows to a much greater extent than they recently have. During 2022, the selling of growth stocks was largely indiscriminate. There was little reason for investors to differentiate between higher-quality and lower-quality companies because business conditions were still mostly favorable. Instead, the stocks of growth companies declined across the board as higher interest rates made discounted future cash flows less valuable in the present.

We think some of this is likely to change in 2023. High-quality companies have strong businesses that produce substantial cash flows. Because they also often carry below-average levels of debt compared to their peers, more of the cash they generate can typically be used for other purposes. High-quality companies, for example, are positioned to take advantage of falling equity prices—by buying back their own stock and making acquisitions at attractive valuations. Their cash flows can also be used to pay dividends and fund capital-spending initiatives designed to support and enhance the long-term growth of their businesses.

It's often said that when the going gets tough, the tough get going. As the economic situation gets tougher and earnings come under increased pressure, high-quality companies of the type we favor in the Fund have the flexibility to be aggressive and opportunistic—while lower-quality competitors are becoming more defensive. In other words, we believe the upcoming environment will be one in which our companies really earn their stripes.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Paul Lambert and Mike Valentine

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Core Growth Fund—Investor	6.68%	-30.84%	4.56%	7.99%	11.22%
Core Growth Fund—Institutional	6.71%	-30.74%	4.70%	8.13%	11.35%
Russell 2000® Index**	6.23%	-20.44%	3.10%	4.13%	9.01%
Russell 2000® Growth Index†	4.13%	-26.36%	0.65%	3.51%	9.20%

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

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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 1/31/2023.** 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 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.*

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

Indexes are unmanaged. Investors cannot invest directly in these or any indexes.

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The Wasatch Core 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.

Earnings per share or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.

Sales growth is the increase in sales over a specified period of time, not necessarily one year.

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

CORE GROWTH FUND — TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name		Percent of Net Assets
Bank OZK		3.5%
Ensign Group, Inc.		3.4%
Five Below, Inc.		3.4%
RBC Bearings, Inc.		3.2%
HealthEquity, Inc.		3.2%
Kadant, Inc.		3.2%
Morningstar, Inc.		3.0%
ICON PLC		2.8%
Paylocity Holding Corp.		2.7%
Trex Co., Inc.		2.7%
	Total	31.1%

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.