WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor
WAMCX

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Wasatch Ultra Growth Fund

DECEMBER 31, 2022

Despite Heightened Uncertainty, We Think High-Quality Businesses That Generate Strong Cash Flows Will Enjoy Important Competitive Advantages

FUND MANAGER

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Lead Portfolio Manager

10 YEARS ON FUND / 25 YEARS AT WASATCH

OVERVIEW

The Wasatch Ultra Growth Fund—Investor Class rose 1.29% during the fourth quarter of what was an otherwise difficult year for U.S. growth stocks. The Fund trailed the benchmark Russell 2000® Growth Index, which rose 4.13% during the quarter.

Equities struggled in 2022 as the U.S. Federal Reserve (Fed) and other central banks around the world hiked interest rates in an effort to tamp down rising inflation. Chairman Jerome Powell recently highlighted wages and residential rent prices as two particularly troublesome areas for the Fed in its fight to bring soaring costs under control. A government moratorium on evictions during the worst part of the Covid-19 pandemic caused financial difficulties for many property owners, especially smaller operators and those with low-income tenants. Since

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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, 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—1.16% / Institutional Class—Gross: 1.06%, Net: 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.***

the moratorium expired in 2021, rents have been on the rise as the balance of supply and demand favors property owners.

Further complicating the Fed's task is the tendency of both wages and rents to be lagging indicators of economic activity. Residential leases typically don't change until they renew, and rents rarely drop. As a result, weakness in new lease rates represent a fraction of the overall market. Similarly, employers seeking to reduce labor costs typically choose to lay off workers rather than cut the wages of existing employees, and new hires coming in at lower rates take time to move the averages.

For this reason, economists view the unemployment rate as a key measure of "tightness" in the labor market—with rising unemployment signaling loosening conditions and easing upward pressure on wages. Having struggled to find workers since the onset of the pandemic, businesses have been reluctant to lay off employees. The result has been unusually low rates of unemployment and rising labor costs amid what Chairman Powell recently termed "a structural labor shortage" in the economy.

Stocks moved higher during October and November as a number of large corporations, anticipating a weaker economy in 2023 and reacting to inflation readings that were lower than expected, began trimming payrolls. Digesting this information, investors reckoned the Fed wouldn't have to push interest rates as high as previously thought. During December, however, equity markets gave back some gains after Chairman Powell indicated the central bank still had a long way to go in its quest to bring inflation down to its 2% target.

While we invest primarily based on company fundamentals, we thought it important to spend more time than usual discussing the macro environment since economic readings drove stock returns in 2022. As we enter 2023, it appears we are close to the end of the Fed's tightening phase, which should reduce macro pressures on the market and return investor focus to the strong fundamentals of the Fund's holdings.

DETAILS OF THE QUARTER

Health care was the Fund's primary source of strength against the benchmark during the fourth quarter, as a combination of hawkish Fed comments and soft economic data stoked fears of recession. Because health care is an area that's both defensive and growing, we think it has the potential to do well in a slowing economy. Top contributors to Fund performance included Inspire Medical Systems, Inc. (INSP) and Silk Road Medical, Inc. (SILK).

Inspire develops minimally invasive solutions for patients with obstructive sleep apnea. The company has experienced strong demand for its products, which serve a previously unmet medical need. Inspire's management team has executed well, growing revenues at a rapid clip since the company's initial public offering in 2018. Most recently, the company reported year-over-year quarterly revenue growth of 77%, surpassing Wall Street estimates. Citing increased utilization at existing sites and the addition of new implanting centers, management raised its full-year revenue forecast. We think this is just the start of a long runway of growth for Inspire.

Silk Road provides a novel stent delivery system to treat carotid-artery blockages that place patients at risk of a stroke. The company's share price jumped in November after quarterly revenues and earnings topped Wall Street estimates. Management cited increased adoption of Silk Road's Transcarotid Artery Revascularization (TCAR) procedure—a minimally invasive approach that received FDA label expansion in May, allowing the procedure for standard-risk patients in addition to the previously approved high-risk patients. The updated FDA indication levels the playing field for TCAR, eliminating the need for doctors to determine if a patient qualifies for TCAR in place of more invasive open carotid surgery. With TCAR now available to all patients, we think Silk Road is well on its way to establishing a new standard of care for carotid-artery disease.

Another strong stock in the Fund was Five Below, Inc. (FIVE). A specialty value retailer, the company offers a variety of merchandise typically priced below $5. Five Below's stock price rose sharply in early December after the company reported better-than-expected financial results and higher guidance on revenues and earnings. The upbeat news cheered investors who had been concerned about the company's ability to attract shoppers during the inflation-marred holiday season. We think its 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 the company well-positioned for growth even in a potentially difficult retail environment.

The greatest detractor from Fund performance during the fourth quarter was Sangamo Therapeutics, Inc. (SGMO). The company specializes in the treatment and cure of single-gene disorders. Shares of Sangamo have fallen out of favor with investors amid uncertainty about costs to finance the further development of its projects. We share those concerns but have confidence in the opportunities Sangamo is focused on for the future. The company's pipeline currently includes a wholly owned study for the treatment of Fabry's disease, a partnered Hemophilia-A trial in late stage, earlier studies in renal transplant rejection and sickle-cell disease, and several marquee partnerships. At its current stock price, Sangamo in our view offers an attractive valuation and favorable prospects for long-term growth.

Information technology (IT) was the Fund's primary source of underperformance relative to the benchmark. BigCommerce Holdings, Inc. (BIGC) and Paylocity Holding Corp. (PCTY) were among the detractors.

BigCommerce provides software that powers online stores. Shares of the company traded lower as it shifted its focus to large, enterprise accounts—which management believes offer the greatest opportunity for long-term, profitable growth. Although investor reaction thus far has been muted, we think the restructuring and associated workforce reductions will allow BigCommerce to achieve profitability more quickly. Additionally, we believe its best-of-breed solution for enterprise-scale e-commerce places the company in a strong competitive position, especially as online sellers expand to multiple storefronts and across borders.

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 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.

The Fund was overweight software and information-technology companies throughout 2022, and despite fundamentals largely holding up, our tech holdings significantly underperformed over the full year. We believe the market discriminated against growth and quality in 2022, which hurt our holdings like Paylocity. With valuations compressing so much in 2022, we like our positioning heading into 2023. *(Current and future holdings are subject to risk.)*

OUTLOOK AND POSITIONING

While we don't try to predict recessions, we do strive to be aware of risks relevant to the Fund. Economic indicators released during the fourth quarter point increasingly to the onset of recession in the U.S. sometime over the next 18 months. Even though recessions can be painful, they serve the vital purpose of clearing away speculative excesses and freeing up capital for more productive uses.

Rising interest rates and heightened uncertainty are making capital increasingly expensive and cash-generating businesses more significantly prized. Should these trends continue, we think high-quality companies that generate strong cash flows will enjoy important competitive advantages with respect to funding their own businesses, making strategic acquisitions and taking advantage of potentially distressed conditions among competitors. We expect many of the Fund's major investment themes to remain in place. These include digital transformation, cloud migration, advancement in semiconductor processes and medical treatments that provide better outcomes at lower costs to the health-care system.

Just as some trends appear set to continue, others have begun to reverse. Globalization, for example, had been one of the most enduring secular trends of the past 30 years. As higher-cost production in the U.S. and other developed countries was relocated to Asia and other regions where labor is cheaper, globalization provided a disinflationary tailwind to the U.S. economy and financial markets. Going forward, this disinflationary tailwind may shift to an inflationary headwind as Covid-19 and geopolitical issues in Russia, China and the Middle East expose supply-chain vulnerabilities that drive the reshoring of manufacturing to the U.S. and Europe.

At the company level, with sentiment so low we expect management teams to be conservative in their guidance as they seek to under-promise and over-deliver. We believe this is an appropriate approach to what's shaping up to be an unusually complex environment for business and investment. As regular readers of these commentaries know, while it hasn't yet shown up in returns, we've become a bit more conservative in our management of the Fund during recent years—especially in terms of the quality and cash-flow characteristics of the businesses we own. We think our focus on high-quality companies with strong business models and talented management teams will serve our investors well in the year ahead as equity returns better reflect company fundamentals.

Thank you for the opportunity to manage your assets.

Sincerely,

John Malooly

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Ultra Growth Fund—Investor	1.29%	-39.71%	2.94%	10.74%	13.07%
Ultra Growth Fund—Institutional	1.36%	-39.60%	3.06%	10.81%	13.11%
Russell 2000® Growth Index**	4.13%	-26.36%	0.65%	3.51%	9.20%

**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 returns 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—1.16% / Institutional Class—Gross: 1.06%, Net: 1.05%**

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.

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

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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 DECEMBER 31, 2022

Security Name		Percent of Net Assets
Intra-Cellular Therapies, Inc.		3.9%
Freshpet, Inc.		3.4%
Paylocity Holding Corp.		3.3%
Silk Road Medical, Inc.		3.2%
Five Below, Inc.		3.1%
Bank OZK		3.0%
Floor & Decor Holdings, Inc. Class A		2.9%
CyberArk Software Ltd.		2.7%
Inspire Medical Systems, Inc.		2.7%
Balchem Corp.		2.5%
	Total	30.9%

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.