WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WGROX / Institutional WIGRX

Wasatch Core Growth Fund

SEPTEMBER 30, 2023

In an Uncertain Economic Environment, Stocks Were Down During the Quarter Despite Company Reports of Strong Revenues and Earnings

FUND MANAGERS

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Lead Portfolio Manager

22 YEARS ON FUND / 27 YEARS AT WASATCH

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18 YEARS ON FUND / 23 YEARS AT WASATCH

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6 YEARS ON FUND / 7 YEARS AT WASATCH

OVERVIEW

During the third quarter of 2023, the economy stayed strong and the unemployment rate remained low. Additionally, wages, energy prices and overall inflation continued to be elevated. In response, the Federal Reserve (Fed) announced that although it didn't hike interest rates in September, it would keep rates higher for longer going forward. Stocks broadly declined on concerns over the effects of higher interest rates and a potential recession. The Wasatch Core Growth Fund—Investor Class slipped -1.76% during the quarter but outperformed the benchmark Russell 2000® Growth Index, which fell -7.32%. The broader Russell 2000 Index lost -5.13%.

From a quality perspective, we noticed that the stocks of higher-ROE (return on equity) companies generally performed better than those of lower-ROE companies. For example, each of the top three ROE deciles in the Russell 2000 Growth Index outperformed the benchmark's overall

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return. And each of the bottom three ROE deciles underperformed the benchmark's overall return. At Wasatch, we tend to invest in higher-quality names during all market environments.

Among sectors, our stock selections in health care, information technology (IT) and industrials—and our overweight in financials—contributed to Fund performance relative to the benchmark during the third quarter. Conversely, our selections in communication services—and our zero weight in the strong-performing energy sector—were disadvantageous.

In 2022, stocks were down mostly based on dramatically rising inflation and interest rates. The stocks of growth-oriented and small-cap companies were hit especially hard. These companies tend to have their cash flows more heavily weighted further into the future. Higher interest rates have greater negative impacts on the present values of these cash flows. Therefore, the Fund's approach to growth investing wasn't in favor for most of the year.

In the first half of 2023, investors were expecting a recession. When that didn't occur and consumer spending was surprisingly strong, some of the worst-performing stocks of 2022 rebounded the most during Q1 and Q2—and our approach produced very attractive results. What was especially gratifying was that when the environment turned negative again in Q3, our approach also delivered outperformance.

Currently, we think most of our growth-oriented companies and their stocks have already adjusted to an environment of higher-for-longer interest rates. So we're optimistic that, going forward, the Fund has the potential to hold up well in down markets—which is a characteristic we often view as even more important than outperforming in up markets. And whether the economy goes into a recession or experiences a "soft landing," we believe the Fund is well-positioned for either scenario.

DETAILS OF THE QUARTER

The third quarter's top contributor to Fund performance was HealthEquity, Inc. (HQY). The company is the largest U.S. non-bank custodian for health savings accounts (HSAs). HealthEquity also facilitates employer-sponsored lifestyle and commuter benefits, which include fitness classes, nutrition counseling, parking programs and transit passes. As of July 31, 2023, the company's total HSA assets were up 13% from a year ago to $23.2 billion—$14.0 billion of which was held in cash with a duration of approximately three to four years. Reinvesting those funds at higher interest rates as they mature should accelerate HealthEquity's top- and bottom-line growth over the next few years. The company's commuter-benefit programs are also positioned to grow as at-home workers return to offices.

Guidewire Software, Inc. (GWRE) was also a significant contributor. The company provides enterprise software for the property and casualty insurance industry. The software supports collaborative workflow, cooperation with external partners and rule-based decision making—all of which characterize modern underwriting and claims operations. Guidewire benefits as insurance companies increasingly replace their core (usually on-premises) legacy software with centralized, cloud-based offerings. Strong fundamentals have been driving the stock price higher. The transition to software as a service (SaaS) has occurred faster than expected. In the past year, Guidewire closed 37 cloud deals, including 17 in the most recent quarter. Of those 17 deals, 11 were for tier-one insurance providers. Margins have been increasing. And cash flows have been growing. Moreover, with Guidewire moving data from legacy systems to the cloud, the company should be especially well-positioned to use artificial intelligence (AI) applications.

Another strong position in the Fund was Ollie's Bargain Outlet Holdings, Inc. (OLLI). The company's stores offer a constantly changing selection of close-out items and other brand-name merchandise at deeply discounted prices.

A steady flow of inventory acquired from distressed retailers has attracted customers to Ollie's and boosted sales. In the company's most recent quarter, net sales rose a better-than-expected 13.7% year over year, driven by an increase of 7.9% in comparable-store sales and the addition of six new locations. With margins and earnings also exceeding estimates, management upped its guidance for fiscal year 2023. Because the discounts at Ollie's help consumers stretch their dollars, we think the company is better situated than most other retailers in the current inflationary environment.

The third quarter's greatest detractor from Fund performance was Novanta, Inc. (NOVT). The company designs, develops, manufactures, and sells precision photonics and motion-control components and subsystems. Novanta offers its products to original equipment manufacturers in the markets for medical equipment and advanced industrial technologies. We think the stock was down because Novanta's growth rate slowed somewhat, calling into question the company's higher valuation. But we believe the growth rate will eventually tick back up, and gross margins continue to expand.

Silk Road Medical, Inc. (SILK) was also a major detractor. The company provides medical devices used in its minimally invasive procedure (called Transcarotid Artery Revascularization, or TCAR) for the treatment of blockages in the carotid artery. Silk Road's stock price fell sharply in July after the Centers for Medicare & Medicaid Services (CMS) issued a proposed coverage decision placing traditional carotid stenting at the same reimbursement level as TCAR. The concern is that CMS support for the competitive method could hurt Silk Road's revenues.

We think investors have overreacted. Although CMS has leveled the playing field on reimbursement, we believe outcomes—not reimbursements—will be a more important competitive factor. Silk Road's innovative system to reverse blood flow during TCAR directs any stroke-causing material away from the brain and into a filter, resulting in better outcomes than traditional stenting. Over time, we expect TCAR to continue to take market share and become the new standard of care for treating carotid artery disease.

Another weak position in the Fund was Five Below, Inc. (FIVE). This discount retailer has set itself apart with its branding and unique approach of, as its name suggests, pricing most items at five dollars or less. Second-quarter revenues and earnings met expectations, and management projected that third- and fourth-quarter revenues would be in line with forecasts and better than industry peer comparisons. But the stock was down because upcoming quarterly margins and earnings are projected to decline due to theft and expenses associated with theft prevention. While this news was disappointing, we think management has responded appropriately. We still expect the company's new-store growth rate to accelerate from the low teens to the high teens over the next 12 months. Five Below plans to add approximately 250 new locations, which we think will position the company to take advantage of both the 2023 and 2024 holiday shopping seasons. On stock-price weakness during the third quarter, we added to our position. (*Current and future holdings are subject to risk and change.)*

BUYS AND SELLS

Among our buys during the third quarter, we added PowerSchool Holdings, Inc. (PWSC). The company is the leading provider of cloud-based software for K-12 education. The software integrates information pertaining to students, parents, teachers, classrooms and administration. Although the market for this type of software is mature, we like that PowerSchool has the dominant share and that competitors have failed to establish a meaningful foothold. Revenues have been growing by about 10% annually, which is on the low end of what we normally like to see. Going forward, we expect annual revenue growth to be in the low double-digits with very attractive EBITDA (earnings before interest, taxes, depreciation and amortization) margins in the 20% to 25%

range. Moreover, PowerSchool has been cross-selling learning-management and other educational modules—which we think provide additional opportunities for significant long-term growth.

Among our sells, we exited **Euronet Worldwide, Inc. (EEFT)**—which was a poor performer during the third quarter. The company provides cash-dispensing automated-teller machines (ATMs), point-of-sale transaction processing and related financial services. Euronet has historically benefited from the need for physical cash when Westerners travel abroad—as its ATM network in vacation hotspots has long been an outsized contributor to the company's earnings. However, we recently noticed that while travel had returned to pre-pandemic levels, Euronet's ATM traffic hadn't. During the pandemic, travelers and retailers increasingly moved toward electronic payments as a way to avoid handling physical cash. We had forecasted for some time electronic payments would grow in popularity, but the speed at which that occurred was unexpected. Although we believe Euronet will have a profitable business of dispensing physical cash for years to come, the company will need to make significant capital expenditures in the more competitive business of electronic payments.

OUTLOOK AND POSITIONING

We think one of the main focal points of investors during the past two years has been *fear*. In 2022, the fear was over inflation and interest rates. When those conditions turned out to be worse than feared, stocks sold off. In the first half of 2023, the fear was over a potential recession. Because that didn't happen, stocks—particularly growth-oriented small-caps—held up relatively well.

In Q3, the fear of inflation and interest rates returned—and recession worries lingered. With the Fed announcing higher-for-longer rates, stocks sold off again even though GDP growth ticked up and consumer spending remained robust. In other words, what was good for the economy was bad for stocks due to interest-rate concerns. And the stocks of unprofitable companies were hit particularly hard.

As mentioned above, we think most of our growth companies and their stocks have already adjusted to an environment of higher-for-longer interest rates. So what's the next fear? We believe a recession is still the main issue but more specific concerns have grown regarding government infighting, global tensions and consumers' well-being. A potential warning sign has been the increasing rate of theft at warehouses and retailers.

The managers at most of the consumer-centric companies we own have told us that underlying business conditions have been reasonably strong. But the managers have also said that they have some concerns about what lies ahead.

For our part, we don't invest based on fears or predictions surrounding those fears. We buy high-quality companies with headroom for growth, significant returns on capital, healthy cash flows and low debt levels. We think these companies can weather a variety of economic scenarios. Moreover, we stay diversified with respect to sectors and factors like economic cyclicality and interest-rate sensitivity.

Although many investors are concerned that a deep recession is on the horizon, we think they should also be psychologically prepared for a different outcome: It's possible that previous interest-rate hikes have yet to be felt throughout the economy. As a result, the Fed could respond to slower economic growth and act counter to its previous rhetoric by skipping further rate hikes, and perhaps by cutting rates in the not-too-distant future. If this is the outcome, we could see a resilient stock market based on steady consumer demand and reasonable valuations among small-caps—especially relative to large-caps.

In conclusion, we'd like to say that our travel schedule for visiting companies has continued to ramp up. Our most recent trips included visits to eight companies in Texas, New York, New Jersey and Pennsylvania. Overall, the tone of our meetings was cautiously optimistic. And it was nice to see that increasing numbers of employees were back in the office, hard at work.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Paul Lambert and Mike Valentine

TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Core Growth Fund—Investor	-1.76%	21.51%	6.44%	7.13%	10.48%
Core Growth Fund—Institutional	-1.74%	21.64%	6.57%	7.27%	10.61%
Russell 2000® Growth Index**	-7.32%	9.59%	1.09%	1.55%	6.72%
Russell 2000® Index†	-5.13%	8.93%	7.16%	2.40%	6.65%

**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 1/31/2024.** 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. The 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.

Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose.

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 Russell 2000 Growth Index measures the performance of 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 "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.

Diversification is a strategy that mixes a variety of investments within a portfolio in an attempt to reduce risk. Diversification does not eliminate the risk of experiencing investment losses.

Earnings growth is a measure of growth in a company's net income over a specific period, often one year.

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.

Return on equity (ROE) measures a company's efficiency in generating profits from shareholders' equity.

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

CORE GROWTH FUND — TOP 10 HOLDINGS

AS OF JUNE 30, 2023

Security Name	Percent of Net Assets
HealthEquity, Inc.	3.3%
Trex Co., Inc.	3.3%
Kadant, Inc.	3.2%
Balchem Corp.	3.0%
ICON PLC	3.0%
Hamilton Lane, Inc. Class A	2.9%
Ensign Group, Inc.	2.9%
Novanta, Inc.	2.8%
Pool Corp.	2.7%
RBC Bearings, Inc.	2.7%
Total	29.8%

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.