Quarterly Commentary

Investor WALSX / Institutional WGLSX

Wasatch Long/Short Alpha Fund

JUNE 30, 2023

Over the Past Several Months, The Market Has Performed More Normally and Has Appropriately Rewarded Strong Operating Results

FUND MANAGER

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Lead Portfolio Manager

1 YEARS ON FUND / 9 YEARS AT WASATCH

OVERVIEW OF THE SECOND QUARTER AND THE 2023 YEAR-TO-DATE PERIOD

During the second quarter of 2023, the Wasatch Long/Short Alpha Fund—Investor Class gained 3.17% but underperformed the benchmark Russell 2500™ Index, which rose 5.22%. The Fund's long positions as a group outpaced the benchmark. Conversely, as would generally be expected in a positive market environment, short positions were significant drags on the Fund's return.

The last few trading days of June were particularly strong, with investors continuing to be optimistic about the power of artificial intelligence (AI), the reasonable prices of U.S. small- and mid-cap growth stocks after last year's market rout, the prospect for the Federal Reserve (Fed) to stop hiking interest rates and the possibility of an economic "soft landing."

Data show past performance, which 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 do not reflect this redemption fee or taxes. ***Total Expense Ratio: Investor Class—Gross 3.14%, Net 2.41% / Institutional Class—Gross 3.10%, Net 2.20%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.50% for the Institutional Class through at least 1/31/2024.***

Because the second quarter was characterized by a fair amount of speculation in the market, we felt compelled to cover some of our short positions on disadvantageous terms. But given that speculative environments don't usually work to our advantage, we were pleased that the Fund performed slightly above our expectations.

On the long side, the Fund's second-quarter return was helped by holdings in several industry groups, including consumer services, health care equipment & services, software & services, capital goods and technology hardware & equipment. At the other end of the spectrum, the Fund was hurt by holdings in financial services and consumer durables & apparel.

Among shorts, the Fund was aided by positions in automobiles & components. Conversely, the Fund was stung by positions in technology hardware & equipment and transportation.

For the 2023 year-to-date period, it's been encouraging to see that our bottom-up, fundamental approach to selecting long positions has generated most of the Fund's alpha. This contrasts with the poor market environment in 2022 when short positions generated the majority of the alpha. As a reminder, *alpha* is a measure of risk-adjusted (volatility-adjusted) outperformance versus the benchmark.

Another encouraging sign has been that the Fund's *beta*, a measure of market sensitivity, has come down. Relative to the benchmark, the beta was 0.68 in 2022 and has declined to 0.58 in 2023. Meanwhile, the Fund has attained over 85% of the benchmark's return in 2023.

IRRATIONAL BEHAVIOR AND THE RISE OF ARTIFICIAL INTELLIGENCE

During 2022, stocks were plagued by concerns over supply-chain bottlenecks, unexpectedly high inflation, rising interest rates and the priciness of growth stocks as elevated rates made the future income streams of growth-oriented businesses less attractive in the present. However, during the first half of 2023, these concerns subsided even as three U.S. banks failed and the Swiss government brokered the sale of teetering Credit Suisse Group AG.

Taking the place of what was perhaps *irrational fear* in 2022 has been a level of *irrational enthusiasm* in 2023. Considering the reasons for optimism mentioned above, we think AI has been the dominant source of investor enthusiasm. As a matter of fact, AI has been a theme in almost every major communication from corporate management teams—even to the point where potentially more immediate and more important considerations have been receiving less attention. That's why we say 2023's AI enthusiasm may turn out to be at least somewhat *irrational*.

We don't mean to imply that AI is unimportant. Indeed, it's certainly possible that AI will eventually become as revolutionary as the internet itself. But for every investment home run attributable to AI, many companies could go the way of Pets.com—the failed business that epitomized the dot-com bubble. Our job as analysts and portfolio managers is to distinguish between AI reality and hype.

In the short run, we don't expect to invest in many AI developers because the most reliable innovations currently reside at just several mega-cap tech companies. Instead, we expect to hold small- and mid-cap growth companies that aren't AI developers but may be AI beneficiaries. These could include software-as-a-service (SaaS) companies that use AI to help write and debug code.

Beyond AI beneficiaries, we want to own companies whose businesses won't become more generic with the proliferation of AI. For example, a high-value-added industrial company might not be able to use AI extensively for

design and manufacturing—but it's also unlikely that AI will reduce or eliminate the need for the company's products.

POSITIONING IN BIOTECHNOLOGY AND RELATED INDUSTRY GROUPS

After a dismal showing in 2022 and early 2023, biotechnology stocks rebounded during the second quarter as investors upped their risk appetite by moving into biotech names trading at depressed valuations. In fact, some companies were priced at a level below the amount of cash on their balance sheet.

We think the positive trend for biotechs may continue because valuations are still low, the scientific potential is impressive and the funding environment has improved. Our view of the scientific potential is based on research by the Wasatch biotech analysts. The funding environment is shaped by what we think are favorable dynamics in venture capital, private equity, banking and the public market.

Unlike in many areas where we often have very high conviction regarding a single company, we take more of a basket approach in biotechnology. This means we hold several companies at small weights because biotech investing can be a risky, all-or-nothing endeavor. But we believe our few winners will far outweigh a potentially greater number of losers.

At the end of the second quarter, the Fund had long positions comprising a weight of about 8% in the industry group called pharmaceuticals biotechnology & life sciences. In a related industry group, health care equipment & services, the Fund had a weight of approximately 21%. On the short side, the Fund had very small hedges of about -1% in pharmaceuticals biotechnology & life sciences and approximately -4% in health care equipment & services.

We shorted medical-device company Nevro Corp., which is discussed below, because the company has what we think are similar risks (e.g., the ongoing need for capital raises) without the scientific merit and business-model strength that we find in our biotech and equipment names. But we're extremely careful with our shorts in this area because surprisingly good news can send stocks sharply higher, causing big losses for the Fund.

A *DIRECTIONAL* APPROACH TO LONG/SHORT INVESTING

We want to remind shareholders that the Wasatch Long/Short Alpha Fund takes a *directional* approach, meaning we're always biased toward greater long exposure than short exposure. As of June 30, the Fund's long exposure was about 128%, and its short exposure was approximately -42%. We primarily hold small- and mid-cap companies, with our longs typically being somewhat bigger in market capitalization than our shorts.

Our long positions consist of companies we've selected based on bottom-up, fundamental research. We pick companies with high-quality characteristics—including significant returns on capital, relatively low debt, great management teams that can navigate inevitable challenges, expanding market dynamics, and innovative products, services and business models.

Our short positions are arrived at through a multifactor quantitative model that includes momentum and valuation signals to determine which companies are conducive for short selling. Once short candidates are systematically identified, we leverage our qualitative expertise to further narrow down companies we believe can best complement our long positions.

In other words, we seek to put together the best combination of longs and shorts to effectively reduce risk and keep the Fund's volatility much lower than that of the benchmark under most market conditions. In terms of the Fund's beta, our target is approximately 0.5. Over time, we'd consider our approach successful if we can keep the Fund's beta close to 0.5 and achieve more than 80% of the benchmark's full-cycle return.

We launched the Long/Short Alpha Fund on October 1, 2021. In the 21 months since then, the Fund's average annual total return through June 30, 2023 was 5.99%, which compared very favorably to the benchmark Russell 2500's loss of -4.54%. Moreover, the Fund achieved its return with a beta of 0.64, which indicates that the Fund's market sensitivity was only a bit higher than we'd like to see over time.

LONG POSITIONS DURING THE SECOND QUARTER

Among longs, the second quarter's top contributor to Fund performance was a big position in NeoGames SA (NGMS). The company is a technology and service provider to state lotteries and other lottery operators. NeoGames offers a full-service solution that includes all the elements required to conduct lottery games via instant tickets, personal computers, smartphones and other devices. The management team has continually impressed us as it has effectively capitalized on the trend of more and more states starting to offer lotteries. The stock was up substantially during the quarter because NeoGames tentatively agreed to an acquisition offer by Aristocrat Leisure Ltd. We sold some of our shares on the news. But we still hold a position in NeoGames because the company may receive an even better offer.

Inspire Medical Systems, Inc. (INSP), a long-term Wasatch holding, was also a strong contributor. The company develops minimally invasive solutions for patients with obstructive sleep apnea. Inspire has experienced strong demand for its products, which serve patients who don't receive adequate relief from traditional CPAP devices. As a result, the company has few competitors, and its gross margins are around 80%. Revenue in Inspire's most recent quarter surged 84% year-over-year, beating expectations. Citing increased utilization at existing sites and the addition of 68 new implanting centers, management upped its full-year revenue forecast. Moreover, Inspire received approval from the Food and Drug Administration for an expanded indication that significantly increases the company's addressable market.

A large detractor from Fund performance on the long side was MarketAxess Holdings, Inc. (MKTX). The company specializes in global fixed-income securities and operates an electronic trading platform for institutional investors and broker-dealers. Extreme volatility in the bond market drove higher trading volumes on the platform during 2022. With volatility down thus far in 2023, reduced trading activity has hurt the company's stock price. Though fluctuations in trading have recently been wider than usual, we see them as inherent in the business model of MarketAxess. We remain patient and believe the pluses far outweigh the minuses. As long-term investors in the company, our approach has been to trim our position on strength and add to our position on weakness.

Silk Road Medical, Inc. (SILK) was also a detractor on the long side. The company provides implantable devices to treat blockages in the carotid artery that could cause stroke. Surgical procedures using Silk Road's Transcarotid Artery Revascularization (TCAR) protocol jumped 45% in the company's most recently reported quarter. However, a smaller portion of these were at hospitals performing TCAR for the first time. As a result, revenue grew only 43% because of inventory drawdowns at the hospital level. Silk Road, in turn, lowered its full-year guidance, disappointing investors. A short-seller report questioning the size of Silk Road's addressable market also weighed on the stock during the second quarter. After carefully reviewing the report and consulting with Silk Road's

management team, we remain optimistic about the company's path to profitability and long-term growth prospects.

Our major sales of long positions included Five Below, Inc. (FIVE). The company is a discount merchandiser that's set itself apart with a unique approach of, as its name suggests, pricing most items at five dollars or less—thus offering shoppers the thrill of browsing through stores in search of great deals. Although we still think Five Below's stock has considerable upside potential, we own other profitable, growing retailers whose stocks are trading at what we believe are more attractive valuations.

Our noteworthy buys of long positions included Apogee Enterprises, Inc. (APOG). The company designs and manufactures glass and aluminum windows, storefront and curtainwall systems, and glass for framed art and pictures. We bought Apogee as a "quality value" name, which is our term for a company that we think has an inexpensive stock price even though the business is performing reasonably well. Compared to high-growth companies, we're more likely to sell quality value names if they reach our price target quickly. That happened in the case of Apogee, which we already sold on a short-term bounce just after quarter-end.

SHORT POSITIONS DURING THE SECOND QUARTER

Turning to short positions, contributors were those stocks that declined in price. We added the most value by shorting Nevro Corp. (NVRO), which makes medical devices for patients suffering from chronic pain. The stock was down due to disappointing quarterly revenues. With weak revenues and poor gross margins, we continue to think Nevro is far from profitability. Moreover, higher interest rates have recently worked against the company. We consider our short position in Nevro to be part of a basket that helps hedge our long exposure to a group called pharmaceuticals biotechnology & life sciences and another group called health care equipment & services.

Among shorts, detractors were those stocks that rose in price. Two shorts that hurt us the most were Joby Aviation, Inc. (JOBY) and SmartRent, Inc. (SMRT). Joby develops all-electric vertical take-off and landing aircraft intended to be used for air-taxi service. SmartRent offers home-automation devices, software and services for property managers and renters. While we still think both companies are expensive and will continue to rely on external capital, they've seen some fundamental improvements in operating performance that make them less attractive as short positions.

Regarding transactions, we initiated a new short in Elme Communities (ELME), a real estate investment trust (REIT) that acquires, develops and redevelops apartment communities and residential buildings in Georgia, Virginia, Maryland and the District of Columbia. While some of our most successful short positions in 2022 were overpriced, unprofitable technology businesses and former special-purpose acquisition companies (SPACs), our risk models now indicate that speculative real-estate names may be better short candidates. We think Elme is especially vulnerable to unfavorable real-estate trends due to its high valuation, poor market action and the likelihood that interest rates will stay elevated.

We closed a short position in Luminar Technologies, Inc. (LAZR). The company develops vision-based lidar and machine perception technologies, primarily for self-driving cars. While the position had been very successful for us, it became riskier as short interest grew, borrowing costs increased and the stock became especially vulnerable to a "short squeeze." As a result, we took our profits and moved on to other names. (*Current and future holdings are subject to risk and change.)*

ON-SITE, IN-PERSON MEETINGS ARE BACK ON TRACK

Investment-related travel is keeping the Wasatch research team as busy as ever. Recent site visits have included technology companies in California and North Carolina and industrial and consumer-discretionary companies in Georgia and Texas. We think our willingness to conduct in-person meetings gives us a competitive advantage among investors. Put bluntly, financial statements, research reports and conference calls don't usually give us enough information to make excellent investment decisions.

An interesting observation from our visits is that many companies still allow employees to have a hybrid work schedule between home and the office. As might be expected, technology companies are more skewed toward work-from-home than industrial and consumer-discretionary businesses. Although we haven't had many experiences of managers being unwilling to come into the office for us, we're alert to potential changes (positive and negative) in corporate culture and productivity as the rank and file have fewer in-person interactions with one another.

OUTLOOK

After a decade of underperformance relative to large-caps, we think small- and mid-caps are now positioned for long-term market leadership. Beyond the priciness of large-caps, we've noticed that large-cap revenue and earnings growth rates have become comparatively less inspiring. For example, many large-caps have seen their growth rates decline from around 10% to just 1% or 2%. On the other hand, we own reasonably priced small- and mid-caps with growth rates in the mid-teens—which are still very attractive even if the rates have come down from 20% or more.

We believe these factors have resulted in the favorable situation mentioned in the Overview—where our bottom-up, fundamental approach to selecting long positions has generated most of the Fund's alpha in 2023. This situation has coincided with the market performing more normally and appropriately rewarding strong operating results over the past several months. In 2022, by contrast, high-quality growth stocks were generally punished even though the companies themselves often met or exceeded expectations and raised guidance for future revenues and earnings.

Generally speaking, we need less long exposure *and* less short exposure when the market performs erratically. And we're comfortable with greater exposure on both sides when the market performs more normally. The reason is that erratic, volatile movements increase the Fund's sensitivity to the market even without adding exposure. The opposite is true under more normal conditions like we're seeing now.

Regarding macroeconomic conditions, we believe it's important to stay aware of the broad environment in which our companies operate even though we don't consider ourselves macro-driven investors. For what it's worth, we still think it's likely that at least a mild recession will begin this year or early next year. And we take the Fed at its word that it will raise interest rates two additional times in 2023. This means that many businesses will probably struggle with weaker demand and a higher cost of capital.

In isolation, these conditions might not seem favorable for small- and mid-cap growth investing. After all, "conventional wisdom" says to hold large-caps going into a recession and small-caps coming out. Conventional wisdom also advises against owning growth companies amid rising interest rates. The fact is, however, conventional wisdom isn't always so wise. If it were, the market would become perfectly efficient and there would be no advantage in following conventional wisdom anyway.

HOW WE'RE MANAGING LONG AND SHORT POSITIONS FOR A MORE NORMAL ENVIRONMENT

Several reasons support our view that we'll stay in a more normal environment and that our growth investing style on the long side will continue to be favored. First, higher interest rates are already factored into the stock prices of many growth companies. Second, after 10 straight interest-rate increases and two more on the way, the Fed is probably near the end of its rate-hiking cycle. Third, our companies tend to have low debt levels and strong balance sheets—so their cash flows are relatively unaffected by interest payments. Fourth, we generally invest in companies prioritizing profitability rather than those trying to grow at all costs. Fortunately, market participants overall have also become less tolerant of the latter group. Fifth, we think our conservative approach with respect to AI will prevent the Long/Short Alpha Fund from being whipsawed in the short term as we assess the technology's effects over the longer term.

As for companies we want to avoid, they include certain economically sensitive names in industry groups like energy, transportation, real estate management & development, REITs, insurance, automobiles & components, telecommunication services, utilities and banks. We have a few reasons for our general avoidance of these industry groups. First, we think the economy may enter a recession soon. Second, interest rates at their current levels create a headwind. Third, many of the stocks in these groups have already rallied and are no longer inexpensive.

Does this mean economically sensitive names make good short candidates? Yes, but only to a limited extent. We don't want to make major macro "bets" with our short positions. Our shorts are primarily intended to offset some of the risks in our longs. So we don't want to have too many economically sensitive shorts if economically sensitive companies are largely absent on the long side.

There are a few other important guidelines that we're following with respect to short positions. First, we're leaning toward more positions and smaller weights in individual names. This lessens the risk of a company-specific event going against us and creating a "short squeeze." Second, we prefer not to have an open short position in a company that's close to announcing a news event. For example, we certainly wouldn't want to be short a biotech company that's about to report the results of a clinical trial. Third, since investor sentiment tends to move in cycles, we're quick to close positions when sentiment starts to improve—and we feel most comfortable with positions when sentiment has *already* turned negative.

We want to make a final point about the folly of trying to follow "conventional wisdom" amid a potential recession. Because modern recessions typically last only about six to 18 months and because market participants try to anticipate better times ahead even before a recession ends, buying and selling stocks around a recession would require having a time horizon of less than a year. As far as we're concerned, that's trading—not investing. And at Wasatch, above all else, we consider ourselves to be long-term investors.

Thank you for the opportunity to manage your assets.

Sincerely,

Mick Rasmussen

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Long/Short Alpha Fund—Investor	3.17%	21.52%	N/A	N/A	5.99%
Long/Short Alpha Fund—Institutional	3.26%	21.69%	N/A	N/A	6.21%
Russell 2500™ Index†	5.22%	13.58%	N/A	N/A	-4.54%
FTSE 3-Month U.S. Treasury Bill Index††	1.25%	3.75%	N/A	N/A	2.24%

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

***The Wasatch Long/Short Alpha Fund's inception date was October 1, 2021.*

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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 1.75% for the Investor Class and 1.50% 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. Performance data do 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.

Equity investing involves risks, including potential loss of the principal amount invested. Short selling incurs significant unique risks, including potentially unlimited downside risk, high short-sale related expenses, and unavailability of securities to sell short, among others, all of which could negatively impact the performance of the Fund. Additionally, the Fund may not be able to borrow the securities it intends to sell short.

The Fund's investments in long and short equity positions expose it to changes in the value of securities, which exceed the value of the Fund's assets. Investment in the Fund will involve market risks associated with different types of investment decisions than those made for a typical "long only" fund. The Fund relies on quantitative models which entail unique risks, including the risk that a model may be limited or incorrect. These risks are described in more detail in the prospectus.

Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline. An investor should consider investment objectives, risks, charges and expenses carefully before investing.

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 Wasatch Long/Short Alpha Fund's investment objective is long-term growth of capital.

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†The Russell 2500 Index is a market-cap weighted index that includes the smallest 2,500 small- and mid-cap stocks covered in the broad-based Russell 3000 of U.S.-based listed equities. ††The FTSE 3-Month U.S. Treasury Bill Index is intended to track the daily performance of 3-month U.S. Treasury bills. Indexes are unmanaged. Investors cannot invest in these or any indexes.

The Wasatch Long/Short Alpha Fund has been developed solely by Wasatch Global Investors. The Wasatch Long/Short Alpha 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.

All rights in the Russell 2500 Index and the FTSE 3-Month U.S. Treasury Bill Index vest in the relevant LSE Group company, which owns these indexes. Russell ® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license.

These indexes are 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 these indexes or (b) investment in or operation of the Wasatch Long/Short Alpha Fund or the suitability of these indexes for the purpose to which they are being put by Wasatch Global Investors.

Alpha is a risk-adjusted measure of the so-called "excess return" on an investment. It is a common measure of assessing an active manager's performance as it is the return in excess of a benchmark index or "risk-free" investment. The difference between the fair and actually expected rates of return on a stock is called the stock's alpha.

Beta is a quantitative measure of the volatility of a given stock relative to the overall market. A beta above one is more volatile than the overall market, while a beta below one is less volatile.

Return on capital is a measure of how effectively a company uses the money, owned or borrowed, it has invested in its operations.

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

As of 6/30/2023, the Fund did not own shares of Aristocrat Leisure Ltd.

LONG/SHORT ALPHA FUND — TOP 10 LONG EQUITY HOLDINGS

AS OF MARCH 31, 2023

Security Name	Percent of Net Assets
Roper Technologies, Inc.	4.2%
HealthEquity, Inc.	4.0%
Hamilton Lane, Inc. Class A	3.5%
Ensign Group, Inc.	3.4%
MarketAxess Holdings, Inc.	3.4%
ICF International, Inc.	3.3%
Pool Corp.	3.3%
Globant SA	3.2%
RBC Bearings, Inc.	3.1%
Paylocity Holding Corp.	2.9%
Total	34.2%

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.