Wasatch Global Investors

Quarterly Commentary

Investor WALSX / Institutional WGLSX

Wasatch Long/Short Alpha Fund

SEPTEMBER 30, 2023

As the Market Declined in the Third Quarter, the Fund Delivered Positive Performance By Focusing on High-Quality Companies and Opportunistic Short Sales

FUND MANAGER

Mick Rasmussen, CFA
Lead Portfolio Manager

2 YEARS ON FUND / 9 YEARS AT WASATCH

OVERVIEW OF THE THIRD QUARTER

During the third quarter of 2023, the Wasatch Long/Short Alpha Fund—Investor Class gained 3.98%, handily outperforming the benchmark Russell 2500™ Index, which fell -4.78%. The Fund's short positions drove the positive return, as would be expected in a down market. Conversely, the Fund's long positions declined along with the Index, detracting from performance—but overall they held up better than the benchmark by about two percentage points.

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

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services, pharmaceuticals biotechnology & life sciences, semiconductors & semiconductor equipment, and consumer discretionary distribution & retail.

Among shorts, the Fund was aided by positions in health care equipment & services, capital goods, media & entertainment, and transportation. Conversely, the Fund was hurt by positions in financial services and banks.

While the third quarter was positive and relatively smooth for the Fund, it was a volatile period for the market. Generally speaking, the Fund seeks less long exposure *and* less short exposure when the market is especially erratic. This is because erratic movements tend to increase the Fund's risk sensitivities. Mostly in response to volatility during the quarter, we reduced the Fund's long exposure from about 127% to 112% and its short exposure from approximately -42% to -33%.

Beneath headline volatility and the market decline was a favorable development that benefited the Fund: the outperformance of higher-quality companies. For example, the stocks of companies with higher returns on equity (ROEs) tended to decline less than those with lower ROEs. Investing in higher-quality companies is a cornerstone of the Fund's strategy, so we're pleased to see the market validating quality more this year than in 2022.

We're also pleased to report that the Fund's *beta*, a measure of market sensitivity, has come down. Relative to the benchmark, the beta has declined to 0.59 this year from 0.68 in 2022. Meanwhile, the Fund has more than tripled the benchmark's 2023 year-to-date return, 11.98% versus 3.59%.

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 mentioned above, the Fund's long exposure was about 112% and its short exposure was approximately -32% on September 30. 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 expectation is approximately 0.5. Over time, we'd consider our approach to be 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 24 months since then, the Fund's average annual total return through September 30, 2023 was 7.29%, which compared very favorably to the benchmark Russell 2500's loss of -6.31%. 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 THIRD QUARTER

Among longs, one of the third quarter's top contributors 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 strong 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.

On the long side, the third quarter's greatest detractor from Fund performance was Inspire Medical Systems, Inc. (INSP). The company develops minimally invasive solutions for patients with obstructive sleep apnea. Inspire and other medical-technology firms saw their stock prices decline on concerns that the growing use of GLP-1 weight-loss drugs would reduce the need for treatments of obesity-related illnesses such as diabetes and sleep apnea. However, Inspire's nerve-stimulating device can't be prescribed to people with high body mass. Falling rates of moderate to severe obesity may even expand the company's addressable market among patients who currently are too heavy to benefit from Inspire's treatment solution. Additionally, we believe simplifications in both the airway exam and the surgical procedure used with Inspire's device will increase patient throughput, decrease backlogs and potentially accelerate revenue growth in 2024.

Silk Road Medical, Inc. (SILK) was also a large detractor. The company provides medical devices used in its minimally invasive procedure (called Transcarotid Artery Revascularization, or TCAR) to treat blockages in the carotid artery. Silk Road's stock price fell sharply after the Centers for Medicare & Medicaid Services (CMS) issued a proposed coverage decision placing traditional carotid stenting at the same reimbursement level as TCAR, a move some investors feared could hurt Silk Road's revenues. Although CMS has leveled the playing field on reimbursements, we think that over time the competitive landscape may be shaped more by outcomes than by reimbursements. 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.

Our major sales of long positions included Cohen & Steers, Inc. (CNS). The company manages portfolios focused on real assets including real estate, infrastructure and commodities—along with preferred and other income-oriented securities. Cohen & Steers serves individuals and institutions around the world through a broad range of investment vehicles. While we still think the company can deliver positive returns, we see more attractive opportunities elsewhere in the current environment.

Our noteworthy buys of long positions included Concentrix Corporation (CNXC). The company provides customer experience (CX) technologies including CX process optimization, front- and back-office automation, analytics and digital transformation services. We bought Concentrix 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.

SHORT POSITIONS DURING THE THIRD QUARTER

Turning to short positions, contributors were those stocks that declined in price. We added the most value by shorting Spirit AeroSystems Holdings, Inc. (SPR). The company designs, manufactures and distributes aerospace equipment including fuselages, wings, under-wing components, composites, spares and propulsion systems for commercial and military aircraft. Spirit is a supplier to Boeing and has multiple production- and quality-control challenges that we believe may continue to weigh on the stock price.

Among shorts, detractors were those stocks that rose in price. The short that hurt us the most was CVB Financial Corp. (CVBF)—which operates as a bank holding company for Citizens Business Bank, a state-chartered bank that provides services to small and mid-sized businesses and individuals. The stock price declined significantly earlier this year as fears spread about the health of the regional banking system. But the price recovered somewhat in the third quarter as those fears abated.

Regarding transactions, we initiated a new short in Sight Sciences, Inc. (SGHT). This ophthalmic medical-device company develops and commercializes surgical and non-surgical technologies for the treatment of eye diseases. The company has a high cash-burn rate and announced disappointing revenue guidance for the third quarter and the full year. This unfortunate combination puts the company in a difficult position with a highly uncertain future.

We closed a short position in Celsius Holdings, Inc. (CELH). The company develops thermogenic calorie-burning beverages sold in gyms and grocery, convenience, drug and nutrition stores. Celsius has shown some fundamental improvements and has delivered accelerating revenue growth this year. So we exited our position to concentrate on other, more promising short opportunities. (*Current and future holdings are subject to risk and change.)*

OUTLOOK AND POSITIONING

For much of the past year, investors focused on the interest-rate outlook and how it might affect different industry groups. Now that the Federal Reserve appears to be nearing the end of its hiking cycle, we've noticed a shift in market dynamics. Investors have become more discerning regarding how individual companies might weather a higher-for-longer rate environment. As fundamental stock pickers, we view this as a positive development for the Wasatch Long/Short Alpha Fund.

If interest rates do in fact stay elevated, we believe quality companies with robust business models, strong cash flows and healthy balance sheets will be rewarded. Such companies are owned on the long side of the Fund's portfolio. They should experience a tailwind, as low leverage and self-financed growth are especially important amid higher interest rates. We're also encouraged by the fact that valuations are much more reasonable than they were before last year's market correction.

Of course, the current environment isn't without risks. While most investors seem to agree that interest-rate hikes are nearly complete, there's a good deal of uncertainty about whether the economy will tip into a recession. For our part, we think this economic scenario is plausible and maybe even likely. In preparation for continued uncertainty, the Fund is structured for a variety of environments.

We believe our bias toward high-quality companies on the long side may work reasonably well in an up market and could cushion some losses in a down market as we experienced during the third quarter. Additionally, our systematic approach of using both quantitative and qualitative methods to identify short opportunities may pay off again if the economy and market hit another rough patch.

Thank you for the opportunity to manage your assets.

Sincerely,

Mick Rasmussen

TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2023

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Long/Short Alpha Fund—Investor	3.98%	27.76%	N/A	N/A	7.29%
Long/Short Alpha Fund—Institutional	4.05%	28.03%	N/A	N/A	7.52%
Russell 2500™ Index†	-4.78%	11.28%	N/A	N/A	-6.31%
FTSE 3-Month U.S. Treasury Bill Index††	1.38%	4.71%	N/A	N/A	2.65%

**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. 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.

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.

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

†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.

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.

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 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.

LONG/SHORT ALPHA FUND — TOP 10 LONG EQUITY HOLDINGS

AS OF JUNE 30, 2023

Security Name		Percent of Net Assets
Roper Technologies, Inc.		4.9%
HealthEquity, Inc.		3.9%
Kadant, Inc.		3.6%
ICF International, Inc.		3.6%
Inspire Medical Systems, Inc.		3.6%
Hamilton Lane, Inc. Class A		3.5%
Ensign Group, Inc.		3.5%
Pool Corp.		3.4%
Globant SA		3.3%
Workday, Inc. Class A		3.2%
	Total	36.5%

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.