WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAUSX / Institutional WGUSX

Wasatch U.S. Select Fund

JUNE 30, 2023

We Expect to Hold Growth Companies That Are AI Beneficiaries, Not AI Developers

OVERVIEW

During the second quarter of 2023, the benchmark Russell 3000® Growth Index was up 12.47%. The Wasatch U.S. Select Fund—Investor Class posted a solid return but underperformed the benchmark, ending the period up 7.64%. The last few trading days of the quarter were particularly strong, with investors continuing to be optimistic about the power of artificial intelligence (AI), the prospect for the Federal Reserve (Fed) to stop hiking interest rates and the possibility of an economic "soft landing."

Among sectors, our holdings in the information-technology and financials sectors detracted most from Fund performance relative to the benchmark during the second quarter. Conversely, the Fund's stock selection in health care and its lack of exposure to the consumer-staples sector were additive to relative performance.

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.

FUND MANAGERS

Mike Valentine
Portfolio Manager
1 YEAR ON FUND / 6 YEARS AT WASATCH

Paul Lambert
Portfolio Manager
1 YEAR ON FUND / 23 YEARS AT WASATCH

Austin Bone
Portfolio Manager
1 YEAR ON FUND / 7 YEARS AT WASATCH

Mick Rasmussen
Portfolio Manager
1 YEAR ON FUND / 9 YEARS AT WASATCH

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 11.81%, Net 1.01% / Institutional Class—Gross 10.54%, Net 0.86%. The Advisor has contractually agreed to limit certain expenses to 1.00% for the Investor Class and 0.85% for the Institutional Class through at least 1/31/2024.***

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

DETAILS OF THE QUARTER

Trex Co., Inc. (TREX) was the top contributor to Fund performance in the second quarter. The company manufactures high-performance composite (non-wood) decking and accessories. The company's reported earnings beat expectations. Signs that the U.S. homebuilding market is finally rebounding were also a source of strength for the stock. While Trex would indeed benefit from an increase in homebuilding activity, we believe there are other demand drivers for its products. In short, we believe the company will continue to take market share in composite decking and from traditional suppliers of wood products, which have shorter lifespans and require extra upkeep compared to composites.

A few health-care stocks were among the top contributors. Among them was Inspire Medical Systems, Inc. (INSP), a long-term Wasatch holding. 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. In addition, Inspire received approval from the Food and Drug Administration for an expanded indication that significantly increases the company's addressable market.

Medpace Holdings, Inc. (MEDP) was another significant contributor from the health-care sector. The stock gained largely based on a relief rally in the biotechnology industry. Medpace is a contract research organization (CRO) supplying clinical development services to small biotech businesses. During the first quarter, the stock was down partially due to concerns that Silicon Valley Bank's collapse could make it harder for many of Medpace's customers to fund their research programs. At the time, we believed that short-term risks had increased but that the company's underlying fundamentals supported attractive long-term growth. Additionally, since Medpace generates large amounts of cash, we thought the company could enhance shareholder value by repurchasing stock. Our optimism and patience were rewarded during the second quarter as the company's operating performance exceeded expectations. Looking ahead, we expect revenue to grow by more than 20% in 2023 while Medpace maintains healthy margins.

MarketAxess Holdings, Inc. (MKTX) was the largest detractor from Fund performance for the quarter. Specializing in global fixed-income securities, the company 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.

Another detractor was Guidewire Software, Inc. (GWRE). The stock of the U.S. insurance-industry software provider was down after the company issued fiscal year 2023 revenue guidance that was below expectations. Despite the lighter guidance, we believe Guidewire remains a clear leader in replacing legacy technology solutions for property and casualty insurers. This is a large industry to serve, and the company's acquisitions only enhance Guidewire's offerings to the market.

Fox Factory Holding Corp. (FOXF) also detracted. The company produces high-performance shock absorbers and suspension components for mountain bikes, offroad vehicles and trucks. Amid the Covid-19 pandemic, the company performed exceptionally well as people bought bikes for enjoyment during their "staycations." As bike production eventually exceeded demand, however, inventories grew too large. Going forward, with dealers offering discounted prices and gradually paring inventories, we think Fox Factory's sales of bike shocks could decline by about -30%. The stock got hammered as some investors worried the decline could be as large as -40% or -50%. Fears of a recession also weighed on the stock. While we acknowledge these challenges, we think the market has already accounted for them. And we note that Fox Factory is still regarded as the leading maker of high-performance bike shocks, which puts it in a strong competitive position for the long term. Moreover, Fox Factory has maintained healthy dealer relationships, and its products for trucks and other powered vehicles aren't facing the same inventory challenges as the bike products. (*Current and future holdings are subject to risk and change.)*

OUTLOOK

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 from home and from the office. As might be expected, technology companies are more skewed toward work-from-home than industrial and consumer-discretionary companies. 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.

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 more 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, markets would become perfectly efficient and there would be no advantage in following conventional wisdom anyway.

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 their 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, the companies we own have growth rates in the mid-teens—which are still very attractive even if the rates have come down from 20% or more.

In terms of our investment style, we're especially comfortable with a growth orientation for several reasons. 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 think our conservative approach with respect to AI will prevent the Fund from being whipsawed in the short term as we assess the technology's effects over the longer term.

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 around one 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,

Mike Valentine, Paul Lambert, Austin Bone and Mick Rasmussen

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
U.S. Select Fund—Investor	7.64%	25.42%	N/A	N/A	25.47%
U.S. Select Fund —Institutional	7.63%	25.52%	N/A	N/A	25.56%
Russell 3000® Growth Index†	12.47%	26.60%	N/A	N/A	28.39%
Russell Midcap® Growth Index††	6.23%	23.13%	N/A	N/A	24.54%

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

***The Wasatch U.S. Select Fund's inception date was June 13, 2022.*

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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 1.00% for the Investor Class and 0.85% 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.

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. 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. 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 U.S. Select Fund's investment objective is long-term growth of capital.

†The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe. It includes Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

††The Russell Midcap Growth Index measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

Indexes are unmanaged. Investors cannot invest directly in an index.

The Wasatch U.S. Select Fund has been developed solely by Wasatch Global Investors. The Wasatch U.S. Select 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 U.S. Select Fund or the suitability of these indexes for the purpose to which they are being put by Wasatch Global Investors.

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

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

U.S. SELECT FUND— TOP 10 HOLDINGS

AS OF MARCH 31, 2023

Security Name	Percent of Net Assets
AMETEK, Inc.	4.5%
Amphenol Corp. Class A	4.3%
Roper Technologies, Inc.	4.3%
Ensign Group, Inc.	4.1%
HEICO Corp. Class A	4.1%
Copart, Inc.	4.1%
Balchem Corp.	3.7%
HealthEquity, Inc.	3.6%
ANSYS, Inc.	3.6%
Valvoline, Inc.	3.3%
Total	39.5%

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.