WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WAMCX / Institutional WGMCX

Wasatch Ultra Growth Fund

JUNE 30, 2023

In Analyzing the Effects of Artificial Intelligence, We'll Continue to Focus on Company Fundamentals

FUND MANAGER

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Lead Portfolio Manager

11 YEARS ON FUND / 25 YEARS AT WASATCH

OVERVIEW

Small-cap U.S. growth stocks finished with healthy gains in what was an up-and-down second quarter of the year. The benchmark Russell 2000® Growth Index rose 7.05% for the quarter. Lagging its benchmark, the Wasatch Ultra Growth Fund—Investor Class posted a 5.55% total return.

The Federal Reserve (Fed) kept its policy interest rate on hold at its June meeting, pausing its series of 10 straight increases designed to rein in rising costs throughout the economy. Growth stocks outperformed as the pause in rate hikes gave investors hope that the Fed is getting closer to the end of its tightening cycle. One of the biggest beneficiaries was the biotechnology group, which includes many developmental-stage companies still years away from profitability. Driven by outsized gains in biotech, health care was the highest-returning sector of the Index during the quarter.

Biotechnology stocks also benefited from an upturn in risk sentiment among investors. However, the Fund's biotech holdings didn't participate in the rally. Although our stocks outgained Index positions in the health-

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—1.18% / 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 1/31/2024.***

care equipment and pharmaceuticals industries, the health care sector was the Fund's primary source of underperformance relative to the benchmark in the quarter. This was especially disappointing for us because health care has been an area where our stock selections have typically added value.

Outside of biotechnology, our companies performed well overall. Led by our software holdings, information technology (IT) was the Fund's main area of strength against the benchmark. IT stocks did well in general as artificial intelligence (AI) captured investors' imaginations. Many pundits touted the vast upside potential of AI, while others warned of its dangers and called for a halt to the development of advanced AI systems.

We believe we're at the very start of what will be a transformative period driven by AI. At this point, we can already see many immediate-use cases for AI, including optimized data analysis and streamlined code development. But at the same time, it's too early to fully understand the first-derivative effects of AI, let alone second- and third-derivative impacts.

The current uncertainty fits our investment style well because we focus on owning companies that are disrupting the marketplace and that we believe are more resilient to macro effects. The rise of AI has us focusing more on the latter. During the second quarter, we added companies to the Fund that sell real products of the same types used by millions of people every day. While we do expect the revolution in AI to be profound and far-reaching, we think it's unlikely that AI will disrupt the business models of these firms significantly.

DETAILS OF THE QUARTER

The top contributor to Fund performance for the quarter was **Inspire Medical Systems, Inc. (INSP)**. The company develops minimally invasive solutions for patients with obstructive sleep apnea. Inspire has experienced strong demand for its products, which are far better options than CPAP devices for patients with chronic sleep apnea. Revenue in the company'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 includes patients with more severe symptoms.

Exact Sciences Corp. (EXAS) also contributed to Fund performance. The company makes Cologuard®, a stool-based test for colorectal cancer. Shares of Exact Sciences rose sharply in May after the company reported a 24% rise in quarterly revenue versus the year-ago period. Investors also cheered as management raised its full-year revenue guidance and said it expects the company to generate positive free cash flow in 2023, a year sooner than previously projected. Positive top-line results from a study for next-generation Cologuard 2.0 position Exact Sciences to remain at the forefront of non-invasive cancer detection.

Another strong stock in the Fund was **JFrog Ltd. (FROG)**. The company provides programming tools and repositories for developing and updating computer software. Earnings in JFrog's most recent quarter topped estimates as revenue grew 25% compared to the same quarter last year. Management cited greater demand for the company's cloud services and noted that most customers renewed their contracts at higher rates. Because AI is expected to make software development more efficient, JFrog stands to benefit from increased volume of programming code through the company's repositories.

The greatest detractor from Fund performance for the quarter was **Castle Biosciences, Inc. (CSTL)**. A commercial-stage diagnostics company, Castle offers tests for dermatological cancers. The company's stock price declined in June after Medicare administrative contractor Novitas Solutions rescinded coverage for Castle's tests for squamous cell carcinoma and melanoma. Although this was a definite setback for Castle, the company has several avenues to seek a reversal of the decision. Despite the uncertainty, recent trading in the stock suggests additional bad news has already been priced in. Moreover, we believe Castle's depressed valuation doesn't adequately reflect the company's long-term potential for revenue growth and margin expansion.

MarketAxess Holdings, Inc. (MKTX) was also a significant detractor. 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 weak stock in the Fund was Silk Road Medical, Inc. (SILK). 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 positive about the company's path to profitability and long-term growth prospects. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

With inflation still running above the Fed's 2% target, more monetary tightening appears to be on the horizon. In addition, the full effect of the Fed's previous interest-rate increases is yet to be felt. As earlier rate hikes begin to work their way through various sectors during the second half of the year, we expect to get a clearer assessment of the economy's underlying strength. In the meantime, heightened uncertainty and fears of a recession are likely to persist.

We can't predict recessions and have no view as to when the next one will occur. So, we'll take macroeconomic developments as they come and stick to what we think we do best: finding high-quality companies with durable growth profiles. Toward that end, we look for disruptive companies taking market share from competitors. We also want to own companies that can hold market share because their businesses are less likely to be disrupted. These firms typically have strong business models, differentiated products, talented management teams and enduring advantages over competitors.

In many respects, the characteristics that enable a company to grow consistently over time are the same ones that also tend to serve a business well during recessions. For that reason, the question of whether the U.S. can avoid a recessionary outcome isn't critical to our investment approach. At Wasatch, we build our portfolios from the bottom up, one stock at a time. While we strive to remain aware of macro risks and incorporate them into our investment strategies, we're content to leave the forecasts and predictions to others.

As far as AI is concerned, the most obvious beneficiaries are mega-cap companies with the extensive resources needed to develop advanced applications. But we think there will be plenty of winners among smaller firms too. Because the large-language models that form the backbone of generative AI require massive amounts of data from which to learn, companies that either own the data—or own the "pipes" through which the data flow—stand to benefit as well. We believe our research-oriented investment approach and fundamental focus on individual companies provide a valuable framework for navigating this important and exciting new area of the market.

Thank you for the opportunity to manage your assets.

Sincerely,

John Malooly

AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Ultra Growth Fund—Investor	5.55%	9.72%	-0.59%	8.97%	12.92%
Ultra Growth Fund—Institutional	5.61%	9.88%	-0.45%	9.06%	12.97%
Russell 2000® Growth Index**	7.05%	18.53%	6.10%	4.22%	8.83%

**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. 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.

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 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.

***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.

The Wasatch Ultra Growth Fund has been developed solely by Wasatch Global Investors. The Wasatch Ultra Growth 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.

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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.

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

ULTRA GROWTH FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2023

Security Name	Percent of Net Assets
Freshpet, Inc.	3.7%
Intra-Cellular Therapies, Inc.	3.7%
Floor & Decor Holdings, Inc. Class A	3.6%
Inspire Medical Systems, Inc.	3.5%
Five Below, Inc.	3.1%
Five9, Inc.	2.9%
Paylocity Holding Corp.	2.9%
Monolithic Power Systems, Inc.	2.8%
Balchem Corp.	2.8%
Nova Ltd.	2.7%
Total	31.5%

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.