WASATCH GLOBAL INVESTORS

Quarterly Commentary

Investor WGROX / Institutional WIGRX

Wasatch Core Growth Fund

JUNE 30, 2021

Many of the Stocks That Hurt Relative Performance During The First Quarter Helped Performance During the Second Quarter

FUND MANAGERS

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OVERVIEW

The second quarter of 2021 was another strong period for U.S. small caps overall. The benchmark Russell 2000® Index increased 4.29% while the Russell 2000 Growth Index rose 3.92%. Outperforming its benchmark, the Wasatch Core Growth Fund—Investor Class gained 8.60%.

Broadly speaking, many of the stocks that hurt the Fund's performance relative to its benchmark during the first quarter helped performance during the second quarter. Similarly, stocks that helped during the first quarter largely hurt during the second. We believe the reason for this pattern was our bottom up, fundamental approach that results in a balanced portfolio—meaning the Fund was well diversified across different types of companies in various sectors and industries. One of the advantages of balance is a generally smoother performance profile because a greater variety of factors tend to drive the stocks in the portfolio.

Data show past performance and 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, leading to higher total shareholder returns. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes. ***Total Expense Ratio: Investor Class 1.19% / Institutional Class—Gross: 1.08%, 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 1/31/2022.***

Beyond maintaining good portfolio balance, we seek two main conditions across almost all of our companies: high quality and strong growth. High-quality characteristics include significant returns on capital, relatively low debt, great management teams, expanding markets, and innovative products, services and business models. Strong growth is defined as the potential to roughly double sales and earnings within the next five years or so. We're reluctant to compromise on quality and growth because we believe these conditions give us the confidence to stick with our holdings during all market environments—regardless of short-term trends.

Some of the big challenges being talked about in the news today are hiring difficulties, supply-chain problems and inflationary pressures. As discussed below, high-quality growth companies are particularly well-positioned to deal with these and other challenges that periodically arise. If we own such companies and if we continually monitor their stock prices for reasonableness, we're relatively unconcerned with cycles in inflation, interest rates and investing styles. Moreover, when we buy a bank stock, for example, we do so because we like the bank based on fundamental factors—not because we just want to gain exposure to the "value trade" or the interest-rate cycle.

From a sector perspective, the Fund's second-quarter outperformance was driven primarily by favorable stock selection in financials, information technology, consumer discretionary and industrials. Conversely, having very little exposure to communication services and none to energy was a minor drag on relative performance.

DETAILS OF THE QUARTER

The top contributor to Fund performance for the second quarter was **Pool Corp. (POOL)**, a wholesale distributor of swimming pools and related supplies. The company's customers include more than 120,000 contractors and retailers. Pool offers approximately 200,000 national-brand and private-label products from more than 2,000 suppliers. We think the company has done an impressive job of positioning itself as a centralized, one-stop resource for pool-related needs ranging from initial construction through maintenance and refurbishment. The prevalence of stay-at-home orders during the pandemic led many consumers to seek alternative outdoor activities, and Pool enjoyed a record year in 2020. While some investors had been concerned growth would slow in 2021, that hasn't been the case. In fact, growth has accelerated. And the stock price now reflects the improved fundamentals. On the technology front, Pool has introduced a mobile app that allows customers to order supplies for expedited pickup and delivery.

Proofpoint, Inc. (PFPT) was also a large contributor. A cybersecurity firm, Proofpoint offers cloud-based solutions for threat protection, compliance, secure communication and other applications. The company's stock price rose sharply in April on news that Proofpoint had agreed to be acquired by a software-focused private-equity firm in an all-cash deal expected to close during the third quarter of 2021.

Another significant contributor was **Valvoline, Inc. (VVV)**, a company that manufactures lubricants and car parts and operates oil-change service centers. In addition to benefiting from the economic reopening, the company has discovered the advantages of making a mobile app available. Valvoline customers can use the app to find the closest service center and view live estimated wait times. Certainly, the adoption of technology to improve productivity and convenience isn't a new theme. But we see mobile digitalization as a highly disruptive innovation that creates additional relationships among companies, distributors and customers. As a result, mobile digitalization is a

competitive consideration in more and more of the companies that we evaluate for investment. In the first quarter, Valvoline's stock declined partially because investors worried about the increasing popularity of electric vehicles (EVs)—which are much less dependent on petroleum products. But the stock rebounded in the second quarter, we think partly based on the realization that EVs still represent a tiny percentage of new cars sold and an even smaller percentage of cars in service. Moreover, Valvoline reported strong earnings and raised projections for the future.

The greatest detractor from Fund performance for the second quarter was **Allegiant Travel Co. (ALGT)**, which offers airline flights, hotel bookings, car rentals, travel management and other related services. When the stock price declined in 2020, we performed more research on the company. Although other travel-related competitors were facing dire circumstances, Allegiant wasn't forced to raise dilutive equity or take government money. Since then, Allegiant has strengthened its relationships with pilots and crews and has positioned itself to benefit from leisure travel—which should accelerate sooner than business travel. Although we didn't purchase the company as a way to take advantage of the economic reopening, the stock did get a boost from economy-related optimism in the first quarter. During the second quarter, the stock simply gave back some of its gains but we still like the company's fundamentals from a risk/reward perspective.

Ensign Group, Inc. (ENSG) also detracted from performance. The company operates facilities offering assisted living, nursing services, rehabilitative care, and physical, occupational and speech therapies. In our view, the company handled the Covid-19 crisis extremely well. Throughout most of the crisis, occupancy levels weren't down as much as might have been expected. But patients did postpone many treatments. More recently, occupancy levels and treatments have experienced a resurgence. Going forward, we expect impressive comparisons to prior-period financial results and especially strong operating margins that may surprise other investors. Having said that, the stock pulled back in the second quarter after very strong performance in the first quarter.

Another significant detractor was **Grand Canyon Education, Inc. (LOPE)**. The company offers graduate and undergraduate degree programs and certifications in fields related to teaching, business and health care. Grand Canyon offers instruction via online classes, and it operates a full-service campus in Arizona complete with dormitories and Division 1 sports. While the use of online education was especially strong during the height of the pandemic, recent on-campus enrollments have been somewhat weaker as admissions counselors were unable to visit many high schools due to the pandemic. As a result, Grand Canyon's stock was down during the quarter, but we believe the issue is transitory and its growth trajectory will resume in 2022. *(Current and future holdings are subject to risk.)*

PORTFOLIO TRANSACTIONS

We're excited about several new portfolio holdings in the Fund. For example, during the second quarter, we purchased **Focus Financial Partners, Inc. (FOCS)** and **ZipRecruiter, Inc. (ZIP)**.

Focus Financial provides holistic wealth-management services. The company offers financial planning, asset allocation, asset management and tax preparation. What we like most about Focus Financial is that the company is taking ownership stakes in independent, ultra-high-net-worth investment advisory firms around the world. This is attractive for the advisory firms because they: (1) get to continue operating with significant independence; (2) gain access to an expanded menu of top-notch products and services for clients; (3) get to maintain their legacy as a high-quality firm; and (4) receive immediate cash in

exchange for giving up some ownership. Focus Financial has seen extremely strong revenues and earnings because it has the infrastructure to rapidly grow the investment advisory firms that were started by talented entrepreneurs. Of all businesses, advisory firms achieve some of the best economies of scale due to the fact that fixed costs pale in comparison to asset-based revenues.

We believe ZipRecruiter is an extremely well-managed company that provides a full range of employment services—most of which are enabled by technology. The company offers recruiting, hiring, job boards, posting, web application, candidate screening, applicant tracking and job alerts. The process of employing workers historically has been very time-consuming, inefficient and fraught with mistakes. Therefore, tech-enabled employment services are clearly going to be in high demand going forward. But traditional employment methods still dominate the process of attracting workers and finding jobs. That will change. So there's enormous headroom for growth. In the employment space, we think ZipRecruiter is one of the two best-positioned U.S. companies. And beyond domestic borders, the international potential is even larger.

Our purchases during the quarter were balanced with a similar number of sales, including **HubSpot, Inc. (HUBS)**. The company provides a cloud-based, integrated marketing and sales platform that helps in lead generation and maintaining a presence on social media. Although we're still extremely impressed with HubSpot, we sold the stock because its market cap, over $25 billion, became rather large for the Fund. Within other Wasatch funds with a larger-cap focus, we still enthusiastically own the company.

OUTLOOK AND POSITIONING

As described above, the conditions that served us well during the first and second quarters of 2021—not to mention the past several years—were maintaining good portfolio balance and holding companies exhibiting high quality and strong growth. This doesn't mean that balance, quality and growth will generate a benchmark-beating return every quarter or every year, but we believe these have been some of the keys to our success over the long term. Therefore, our investment approach remains unchanged.

Now let's return to some of today's business challenges: hiring difficulties, supply-chain problems and inflationary pressures. What type of company is best-positioned to deal with these challenges? It's certainly possible that a "value company" such as an undifferentiated energy business could periodically benefit from tight supplies and inflating prices. But we don't invest based on such conditions because they have nothing to do with great management teams, large headroom for growth, and innovative products and services.

For our part, we prefer to rely on high quality and long-term growth as defenses against hiring difficulties, supply-chain problems and inflationary pressures. After all, workers will probably be most attracted to dynamic companies that are gaining market share. And amid difficulties in sourcing supplies, experienced managers backed by industry-leading businesses should have more power than weaker rivals. Finally, if inflation heats up, customers will likely be more willing to pay higher prices for differentiated products and services that are mission-critical or that improve efficiency.

In fact, we think that pricing power is one of the best inflation hedges in the world of investing because it helps companies maintain strong free cash flows. Another inflation hedge is owning companies that aren't overly capital-intensive because rising inflation will generally have less of an impact on businesses with low fixed costs.

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We'd also like to reiterate that when there appears to be a broad theme in our investments, it's not because we identified the theme first and then went looking for companies to match. Instead, we study fundamentals from the bottom up to determine whether or not a company is a good investment. That's why we recently bought some financial companies that historically hadn't been of much interest to us—and also why we sold some of our favorite information-technology companies that had gotten too expensive.

Thank you for the opportunity to manage your assets.

Sincerely,

JB Taylor, Paul Lambert and Mike Valentine

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AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2021

	Quarter*	1 Year	3 Years	5 Years	10 Years
Core Growth Fund—Investor	8.60%	54.64%	21.91%	22.85%	16.23%
Core Growth Fund—Institutional	8.63%	54.83%	22.07%	23.01%	16.35%
Russell 2000® Index**	4.29%	62.03%	13.52%	16.47%	12.34%
Russell 2000® Growth Index†	3.92%	51.36%	15.94%	18.76%	13.52%

A fund's performance for very short time periods may not be indicative of future performance.

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

Data show past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit wasatchglobal.com. The Advisor may absorb certain Fund expenses, without which total return would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total Expense Ratio: Investor Class—1.19% / Institutional Class—Gross: 1.08%, Net: 1.05%**

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 1/31/2022.** 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 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.

Performance for the Institutional Class prior to 1/31/2012 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 1/31/2012 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.

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***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.*

†The Russell 2000 Growth Index measures the performance of Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

You cannot invest directly in these or any indexes.

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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.

Diversification does not eliminate the risk of experiencing investment losses.

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.

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

CORE GROWTH FUND — TOP 10 HOLDINGS

AS OF MARCH 31, 2021

Security Name	Percent of Net Assets
Bank OZK	3.1%
Medpace Holdings, Inc.	3.0%
Ensign Group, Inc. (The)	2.9%
Hamilton Lane, Inc., Class A	2.9%
ICON plc (Ireland)	2.9%
Trex Co., Inc.	2.7%
Morningstar, Inc.	2.7%
Kadant, Inc.	2.5%
Pool Corp.	2.5%
Altra Industrial Motion Corp.	2.5%
Total	27.5%

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.