

Wasatch Core Growth WGROX

Still a gem.

Morningstar's Take WGROX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Gold

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	○	Neutral

Role In Portfolio

Supporting

Fund Performance WGROX

Year	Total Return (%)	+/- Category
YTD	2.60	-0.06
2017	24.29	2.79
2016	10.54	-0.66
2015	3.92	6.33
2014	6.10	3.67

Data through 4-30-18

3-06-18 | by Katie Rushkewicz Reichart, CFA

Wasatch Core Growth remains a standout. A tight-knit team and consistent execution of a patient process support its Morningstar Analyst Rating of Gold.

The team is experienced and deep. Lead manager J.B. Taylor has run this fund for 17 years, with Paul Lambert and Michael Valentine joining as comanagers in 2005 and 2017, respectively. They are supported by a 12-person small-cap team, which lost a veteran manager to retirement in 2017 but has seen a boost in the past year as five junior analysts were promoted. The changes haven't altered the team dynamics, which embrace a collaborative culture that's especially beneficial for younger analysts: More than one analyst or manager looks at every investment idea. Plus, the firm's had success growing talent internally--including Taylor and Lambert, who started out as Wasatch analysts about two decades ago. The rest of the team, mostly

Wasatch analysts for at least a decade, are also steeped in the firm's style.

True to the firm's approach, Taylor and his team build compact portfolios of stocks with defensible economic advantages and consistent earnings growth across market cycles. Durable business models and capable management teams are important; every month, managers and analysts rank the management teams for all holdings and use it as an impetus to do more research. The fund owns Metro Bank MTRO, for example, because Taylor thinks the well-run small-cap bank will stick to its strategy and continue to gain market share. It's also a plus that the fund's turnover is consistently on the low side of the small-growth Morningstar Category.

The fund's quality bias gives it an attractive risk/return profile, typically losing less in down markets than the Russell 2000 Index, the Russell 2000 Growth Index, and the typical small-cap peer. Fees are average, but Taylor and company have been able to overcome that hurdle. Plus, Wasatch has a good record of closing funds before they grow too big, which bodes well for this fund's future.

Associate Analyst Shannon Yan contributed to this analysis.

Process Pillar + Positive | Katie Rushkewicz Reichart, CFA 03/06/2018

Lead manager J. B. Taylor and his team build a relatively compact portfolio of 40-60 stocks with strong management teams, defensible business models, and consistent earnings growth across economic cycles. They look for smaller companies growing by 15% to 20% per year and pay attention to the price they pay. They model earnings, cash flow, and balance sheets for the next five years, then apply a reasonable price/earnings ratio to the stocks and pick the ones with the greatest upside. "Reasonable" can vary depending on the industry, and the managers will pay a premium for quality stocks. But

the portfolio's average growth-adjusted valuation measures are generally lower than those of its Russell 2000 and Russell 2000 Growth benchmarks. More than one manager and analyst evaluates each idea before it can enter the portfolio. This collaborative approach, coupled with the managers' steadfastness and sound execution, earns the fund a Positive Process rating.

Because the managers let winners run and keep turnover at less than half the small-growth category median, the fund will hold some mid-cap names, which have averaged two fifths of assets over Taylor's tenure. The fund will hold less cash going forward (it had consumed up to 10% of assets in the past); Wasatch's back-testing showed that the managers' stock picks offered sufficient downside protection and that cash overly dragged on performance in some market environments.

This fund invests with conviction. Individual holdings can take up as much as 8% of assets, though in recent years 3% to 4% has been common. A third of the holdings were added in 2013 or before, and two names have been in the portfolio for about two decades.

The fund is benchmark-agnostic, but assets can cluster in certain sectors where lead manager J.B. Taylor finds opportunities. The fund has often had larger stakes of financials and industrials stocks relative to its small-growth peers. Taylor says small-cap banks became appealing in mid-2015 after a long recovery period. He also saw renewed economic growth in industrials and raised that sector's stake to 28% at year-end 2017 from the high-teens in the previous two years. The fund tends to be light in tech and healthcare.

The fund has an affinity for higher-quality stocks. Its average returns on assets, returns on equity, and returns on invested capital were well above the

category norm, and its average debt levels were lower, as of December 2017. But Taylor doesn't rely on traditional quality metrics alone. For example, the fund owns SiteOne Landscape Supply SITE, whose debt levels aren't low, and Metro Bank, whose returns on equity look poor. Taylor thinks the former's niche protects it from online competition and the latter's chairman has a knack for gathering deposits.

The fund owns a meaningful stake of non-U.S. firms, at times in the teens.

Performance Pillar + Positive | Katie

Rushkewicz Reichart, CFA 03/06/2018

A stellar long-term absolute and risk-resulted record earns the fund a Positive Performance rating. During lead manager J.B. Taylor's tenure, from year-end 2000 through February 2018, the fund gained an annualized 9.8%, well ahead of the small-growth category's 6.2%, the Russell 2000 Growth Index's 7.2%, and the Russell 2000 Index's 8.3%. During that span, this quality-oriented fund was also competitive against the S&P SmallCap 600 Growth Index's 9.9%, which won't admit a constituent unless it has been profitable for at least four consecutive quarters.

The fund's returns also look good on a risk-adjusted basis. It's been less volatile than its benchmarks, as measured by standard deviation, and has captured less downside during Taylor's tenure. The fund leans toward higher-quality names, so a subpar stretch of performance during the 2003-07 rallies wasn't surprising; nor was the latter part of 2016, when investors expected higher growth rates and favored companies with less-secure fundamentals than this fund prefers. But it has held up better than peers and benchmarks in down markets such as 2001, 2011, and 2015. Its 2008 underperformance was unusual, though, as certain holdings proved more economically sensitive than expected.

In 2017, the fund's 24% gain bested the Russell 2000 Growth Index by 2 percentage points, benefiting from picks such as Copart CPRT, which reported strong earnings.

People Pillar + Positive | Katie Rushkewicz Reichart, CFA 03/06/2018

A pair of seasoned skippers are joined by a new comanager and backed by a tight-knit team. The fund earns a Positive People rating.

Lead manager J. B. Taylor, who joined Wasatch as an analyst in 1996, took over in December 2000. Comanager Paul Lambert, an analyst at Wasatch since 2000, joined Taylor as comanager in 2005. Taylor has spent his whole career at Wasatch; Lambert worked at Fidelity Investments for a year before joining the firm. Michael Valentine joined Wasatch in 2016 and became a comanager here in August 2017. He had a decade of prior experience at a hedge fund and at Fidelity. Taylor and Lambert each invest more than \$1 million in the fund, and Valentine between \$100,000 and \$500,000.

The three have ample support from a total of 36 managers and analysts on the small-cap and international teams. Granted, there were some changes in 2016-17: a veteran manager retired, several junior analysts were promoted, and the expanding international team saw two departures. But many long-tenured managers, who have spent nearly their entire careers here, remain in place. They absorbed Wasatch's style from the firm's founding managers, and the team is collaborative.

Taylor also became the firm's CEO and lead manager of Wasatch Small Cap Growth WAAEX in early 2016. That isn't concerning from a workload standpoint, as the firm and that fund are run with a team approach.

Parent Pillar + Positive | Shannon Yan 03/06/2018

Wasatch Advisors is a collaborative, small-growth boutique with a shareholder-friendly culture. It earns a Positive Parent rating.

Although founder Sam Stewart remains a portfolio manager, he and another of Wasatch's first-generation investors, former CEO and portfolio manager Jeff Cardon, have stepped back from the day-to-day management of the firm. (Cardon retired in 2017.) With thoughtful succession planning, however, the firm remains in the hands of Wasatch veterans. Longtime portfolio manager J.B. Taylor took the reins as CEO in 2016. Eric Bergeson is president. Twenty-plus portfolio managers--many homegrown--averaged 13 years at Wasatch as of

2018 and collectively own about two thirds of the 100% employee-owned firm. The managers are compensated based on long-term fund performance relative to benchmarks, and manager ownership of fund shares is high in the senior ranks. The firm has shown a willingness to close strategies that reach capacity limits.

Closing funds means economies of scale and thus opportunities for falling expense ratios may be limited, but high fees across the board are a weak spot. Plus, the direction of the firm's growth bears watching. It has launched seven international small-cap funds and recently saw more turnover on the international team than the domestic squad. Other new offerings (mid-cap and subadvised long-short) failed. That said, the firm has never chased trends.

Price Pillar ● Neutral | Katie Rushkewicz Reichart, CFA 03/06/2018

Nearly three fourths of the fund's assets reside in the no-load shares, which are priced average. The institutional shares hold the rest and are priced above average. Overall, the fund receives a Neutral Price rating. It's also disappointing that fees have ticked up between 2015 and 2017.

The fund hasn't been very tax-efficient lately. It issued capital gains distributions in each of the past five years, a period during which total net flows were positive so the managers weren't forced to sell any holdings. Its 43% potential capital gains exposure as of early 2018 bears watching. But, overall, the fund's long-term tax-adjusted returns have been above average. Plus, low turnover helps keep a lid on trading cost. Its brokerage costs as a percentage of average net assets are a fraction of most peers'.

Wasatch Core Growth Fund (WGROX)

Average Annual Total Returns

For Periods Ended March 31, 2018

	Quarter*	1 Year	3 Years	5 Years	10 Years
Core Growth Fund—Investor	4.13%	24.19%	11.48%	13.80%	11.77%
Russell 2000® Index	-0.08%	11.79%	8.39%	11.47%	9.84%
Russell 2000® Growth Index	2.30%	18.63%	8.77%	12.90%	10.95%

*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 www.WasatchFunds.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—1.21%.**

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 through at least 1/31/2019. See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption proceeds 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.

RISKS:

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. The primary investment objective of the Core Growth Fund and Small Cap Growth Fund is long-term growth of capital.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus containing this and other information visit www.WasatchFunds.com or call 800.551.1700. Please read the prospectus carefully before investing.

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 indices. The S&P SmallCap 600 Growth Index contains growth stocks measured using three factors: sales growth, the ratio of earnings change to price, and momentum. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. Constituents are drawn from the S&P 600 Index, which roughly covers the small-cap range of US stocks.

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Core Growth Fund Top 10 Holdings as of March 31, 2018	
Security Name	Percent of Net Assets
Copart, Inc.	3.4%
ICON plc (Ireland)	3.1%
Cimpres N.V.	2.9%
Monro, Inc.	2.9%
Old Dominion Freight Line, Inc.	2.8%
Pool Corp.	2.7%
Cantel Medical Corp.	2.6%
Tyler Technologies, Inc.	2.6%
Eagle Bancorp, Inc.	2.6%
Trex Co., Inc.	2.5%
Total	28.0%

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.

The Core Growth Fund's 3, 5, and 10 year ratings are 4 stars out of 592 funds, 4 stars out of 531 funds, and 4 stars out of 402 Small Cap Growth funds, respectively as of 3/31/18. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of the funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year Morningstar Rating metrics

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the manager research analysts of Morningstar. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Analysts use this five pillar evaluation to determine how they believe funds are likely to perform over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating scale is Gold, Silver, Bronze, Neutral, or Negative. A Morningstar Analyst Rating of Gold, Silver, or Bronze reflects an Analyst's conviction in a fund's prospects for outperformance. Analyst Ratings are continuously monitored and reevaluated at least every 14 months.

For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>. **The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings involve unknown risks and uncertainties which may cause Morningstar's expectations not to occur or to differ significantly from what they expected.**

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