



Investor / Institutional
WMCVX / WICVX

Wasatch Small Cap Value Fund

DECEMBER 31, 2020

A Successful Approach for Navigating a Volatile Year

OVERVIEW

After underperforming in the first nine months of the year, small-cap value stocks staged an impressive recovery in the fourth quarter. The Russell 2000 Value Index—the Fund’s benchmark—returned 33.36% in the quarter, helping it finish 2020 in positive territory with a gain of 4.63%. Several developments during the quarter encouraged investors to embrace risk, including the resolution of the U.S. presidential election, continued accommodation by the U.S. Federal Reserve and hopes that vaccines for Covid-19 would lead to improving economic growth in 2021. These factors prompted investors to move away from the mega-cap technology stocks that had been viewed as “safe havens” and seek opportunities elsewhere in the market.

The Wasatch Small Cap Value Fund—Investor Class performed well in this environment with an increase of 29.90%. Most of the Fund’s holdings registered gains and the majority posted double-digit returns. A number of positions in the industrials sector, including **Altra Industrial Motion Corp. (AIMC)**, **Construction Partners, Inc. (ROAD)** and **Kadant, Inc. (KAI)**, were among the top contributors to performance. **Euronet Worldwide, Inc. (EFT)**, a credit-card service company with a large travel-related component to its business, also outperformed on hopes

FUND MANAGERS



Jim Larkins
Lead Portfolio Manager

22 / 25
YEARS ON FUND / YEARS AT WASATCH



Austin Bone
Associate Portfolio Manager

<1 / 4
YEAR ON FUND / YEARS AT WASATCH

*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 1.20% / Institutional Class—Gross: 1.09%, 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 1/31/2021.*



for a reopening of the world economy in the coming year. Nevertheless, the Fund underperformed the Index due in part to our continued focus on higher-quality companies—a category that lagged somewhat in the “risk-on” environment. In addition, a handful of our stocks in the consumer-discretionary sector—an area that had been a source of meaningful outperformance for the Fund through the first nine months of the year—failed to keep pace with the broader category. A position in **Esperion Therapeutics, Inc. (ESPR)**, which makes a treatment to lower bad cholesterol, was the largest detractor from Fund performance due to persistent business disruptions caused by the Covid-19 pandemic.

Still, we are pleased that the Fund posted a competitive return in the quarter and closed the full year with a gain of 12.52%, a result well in excess of the 4.63% return of its benchmark. The Fund also outpaced the benchmark in the three-, five- and 10-year periods ended on December 31, 2020.

OUR STEADY APPROACH PAID OFF IN 2020

We view the Fund’s outperformance of its benchmark in 2020 amid challenging macro conditions as a validation of our investment approach. Once the coronavirus became investors’ primary focus in the first quarter, the market experienced severe disruptions. Not only did stocks plunge, but typically defensive investments also sold off sharply due to the unique nature of the challenge. Our response was to reduce risk in the Fund by trimming or eliminating certain holdings in the financials sector that we felt had above-average exposure to credit risk, as well as positions we viewed as being more vulnerable to an economic downturn by virtue of their higher debt levels. At the same time, we took great care to avoid selling holdings that fell in sympathy with the broader market, but where we remained confident in the companies’ competitive positioning, balance sheets

and management teams. For instance, shares of longtime holding **HEICO Corp. (HEI)**, a provider of aircraft replacement parts, lost more than one-third of their value in a little over a month due to the broader concerns about the aviation industry. We recognized HEICO as a high-quality, well-managed business that we thought would be less affected by Covid-related developments due to its presence in the aerospace and defense industries. We held onto the position, allowing the Fund to benefit as the stock ultimately surpassed its pre-crisis highs in mid-November.

We also used the selloff to add positions in a number of “Fallen Angels” (our term for growth stocks that have slid into value territory for what we believe are largely short-term reasons). Among our most notable additions were **YETI Holdings, Inc. (YETI)**, **Ollie’s Bargain Outlet Holdings, Inc. (OLLI)** and composite deck materials producer **Trex Co., Inc. (TREX)**. All three stocks performed well after they were added to the Fund, and each was among the top contributors to performance in 2020.

While not all of our decisions paid off as well as these, of course, we believe the Fund’s sizable outperformance in 2020 helps illustrate the merits of our active, multi-faceted and risk-conscious approach.

MAINTAINING A BALANCED PORTFOLIO

After the historic fourth-quarter rally in the small-cap space, many investors may be wondering what’s next. While it’s reasonable to expect a breather at some point in early 2021, we would note that the small-cap value category has lagged the overall market for an extended period—meaning there is potential for it to continue playing catch-up in the years ahead. Moreover, the small-cap universe is an area that offers bottom-up investors like Wasatch an abundance of opportunities to invest in innovative and/or niche companies with latitude for outperformance through a



wide range of market conditions over a three- to five-year horizon.

While there remains an elevated amount of uncertainty regarding economic growth, the path of the pandemic and the outlook for credit in the near-term, we continue to take a balanced approach to our long-term view of investment opportunities. Given the near-term uncertainty, we are maintaining our emphasis on mitigating the downside with a particular focus on the debt characteristics of the Fund's holdings. One potential benefit of this approach is that it provides the flexibility to take on more risk as company-specific opportunities present themselves. At the same time, we continue to hold a number of companies that could experience earnings upside as the economy reopens in 2021. Among these are Euronet Worldwide and movie theater advertiser **National CineMedia, Inc. (NCMI)**.

We are also maintaining a tilt to the value side of our small-cap universe. Our emphasis on Fallen Angels and Undiscovered Gems (inexpensive

growth companies flying below Wall Street's radar) means that the Fund usually has "growthier" characteristics than the Index. While this is still the case, the substantial underperformance of the value style led to more opportunities in the value side of the small-cap category in 2020. We moved in this direction as the year progressed, and we remained positioned in this fashion heading into the New Year.

As always, we remain focused on balancing upside opportunities with the management of downside risk. We believe this disciplined approach—highlighted by our focus on companies with solid balance sheets and/or strong business models—can continue to translate into market-beating results through a wide range of market conditions.

Thank you for the opportunity to manage your assets.

Sincerely,

Jim Larkins and Austin Bone



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	29.90%	12.52%	7.99%	12.53%	11.42%
Small Cap Value Fund—Institutional	29.79%	12.68%	8.12%	12.68%	11.56%
Russell 2000® Value Index**	33.36%	4.63%	3.72%	9.65%	8.66%
Russell 2000® Index†	31.37%	19.96%	10.25%	13.26%	11.20%

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—1.20% / Institutional Class—Gross: 1.09%, 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 1/31/2021.** 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. Investments in value stocks can perform differently from the market as a whole and from other types of stocks and can continue to be undervalued by the market for long periods of time. 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 Russell 2000 Value Index measures the performance of Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

**The Russell 2000 Index is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index, as ranked by total market capitalization. The Russell 3000 Index is an unmanaged total return index of the largest 3,000 U.S. companies based on total market capitalization. The Russell 2000 Index is widely used in the industry to measure the performance of small company stocks.*

You cannot invest directly in these or any indexes.

The Wasatch Small Cap Value Fund has been developed solely by Wasatch Global Investors. The Wasatch Small Cap Value 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.

All rights in the Russell 2000 Value Index vest in the relevant LSE Group company, which owns the Index. Russell® is a trademark of the relevant LSE Group company and is used by any other LSE Group company under license.

The Index is 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 the Index or (b) investment in or operation of the Wasatch Small Cap Value Fund or the suitability of the Index for the purpose to which it is being put by Wasatch Global Investors.

The Wasatch Small Cap Value Fund's investment objective is long-term growth of capital. Income is a secondary objective, but only when consistent with long-term growth of capital.

"Risk-on" is when investors are seeking the potentially higher returns of riskier assets and put money back in the market willing to risk the money, thus risk on.

SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2020

Security Name	Percent of Net Assets
Kadant, Inc.	4.4%
Fabrinet	3.8%
Ensign Group, Inc. (The)	3.5%
Valvoline, Inc.	3.3%
Altra Industrial Motion Corp.	3.0%
Artisan Partners Asset Management, Inc., Class A	2.7%
Construction Partners, Inc., Class A	2.5%
Euronet Worldwide, Inc.	2.5%
Arbor Realty Trust, Inc.	2.3%
National Storage Affiliates Trust	2.3%
Total	30.2%
<p><i>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.</i></p>	