



Investor / Institutional  
WMCVX / WICVX

# Wasatch Small Cap Value Fund

JUNE 30, 2020

## Optimism Fueled a Rebound In Small Cap Value Stocks

### OVERVIEW

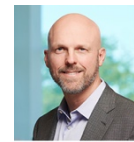
After a challenging first quarter that saw U.S. equities post sizable losses, the market roared back to life over the past three months. Investors grew more optimistic about the economic outlook as a gradual reopening began and the U.S. Federal Reserve provided robust support for the markets. Small cap value stocks performed well in the ensuing rally, with the Russell 2000 Value Index rising 18.91%.

The Wasatch Small Cap Value Fund—Investor Class gained 31.43%, significantly exceeding the Index's return for the quarter and recovering much of the first quarter's loss. Although performance was still in negative territory year-to-date through June 30, we were down less than the Index. The Fund also finished ahead of the Russell 2000 Value benchmark for the one-, three-, five- and 10-year periods ended June 30, 2020.

### IMPROVED VISIBILITY FUELED A COMEBACK IN UNDERVALUED COMPANIES

The selloff of the first quarter was unique in the sense that the Covid-19 pandemic temporarily erased visibility regarding the outlook for economic growth and corporate earnings. Investors, lacking the ability to assess value through traditional measures, responded with indiscriminate selling. Our response to these circumstances was to adopt the

### FUND MANAGERS



**Jim Larkins**  
Lead Portfolio Manager

21 / 24  
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](http://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.***



philosophy of “Do no harm.” We didn’t want to give up on what we saw as good companies just because their stock prices were down significantly, so we carefully evaluated every position—trying to ensure we didn’t harm the Fund by selling undervalued stocks into weakness.

This patient, long-term approach paid off, as many of the Fund’s holdings—particularly in the consumer-discretionary sector—staged significant rallies and made sizable contributions to our second-quarter performance. In many cases, stocks that had sold off on the initial fears about the coronavirus recovered as companies started to report earnings and open up their communications with investors. In addition, a number of the Fund’s holdings delivered better-than-expected results thanks to consumers’ altered spending patterns. For instance, shares of **Camping World Holdings, Inc. (CWH)**, a retailer of recreational vehicles (RVs), sold off early in the pandemic on concerns that big-ticket consumer durables would be difficult to sell due to the uncertain employment picture. Those worries quickly faded as RVs became a go-to option for many families looking for safe recreation options, leading to record demand. Some companies, such as **Lovesac Co. (LOVE)**, were able to leverage their ability to sell directly to consumers, thereby reducing their dependence on mall-based revenues. **Valvoline, Inc. (VVV)** is another example of a company that we believe was well-positioned to address social-distancing guidelines. The company’s unique service-delivery system allows customers to stay in their cars, leading to an impressive recovery in demand.

In most cases, these companies featured similar attributes based on our metrics: strong competitive positioning, sound balance sheets that provided the capacity to outlast the short-term hit to income and management teams capable of adapting their businesses to changing circumstances.

The Fund also benefited from the continued outperformance of stocks we added in the midst of the first-quarter selloff. For example, shares of **Trex Co., Inc. (TREX)**—a maker of composite deck materials—surged as it became evident that consumers were redirecting their spending toward home improvements. **Construction Partners, Inc. (ROAD)**, a paving company based in the South that focuses on smaller government projects, also continued to rally as investors began to look past short-term headwinds to focus on the company’s favorable longer-term demand profile.

Our positioning in the financials sector was an additional positive. The benchmark has a heavy concentration in banks that are largely dependent on the spread between the rates at which they borrow and lend, but we tend to have a lower weighting in banks. We also have what we consider a high-quality tilt to our holdings in the financials sector, which translated into outperformance during a time in which the banking industry faced several challenges. With that said, we further reduced our position in banks and adjusted weightings to reduce exposure to those facing potential risks. For instance, we sold **South State Corp. (SSB)** and rotated into **Bank OZK (OZK)**, an Arkansas-based bank that we believe is better positioned for growth due to its strong presence in the commercial real-estate business. We continue to monitor the financials sector for opportunities, since valuations look attractive to us and we think financials stand to benefit once the value style comes back into favor.

Naturally, we had a handful of detractors in the period, including South State mentioned above. Stock selection in the real-estate sector weighed on performance, due largely to a position in **Xenia Hotels & Resorts, Inc. (XHR)**, which we sold during the quarter. We expect hotels to struggle until business and leisure travelers can move freely again. We also lost some ground through a position



in **National CineMedia, Inc. (NCMI)**, a theater advertiser that continued to struggle with the shutdowns stemming from Covid-19. We maintained the position, as we believe the company's balance sheet is strong enough to withstand the short-term hit to earnings. A position in **Cantel Medical Corp. (CMD)**, a producer of infection-prevention products for medical procedures, was an additional detractor of note. We chose to sell the position and rotate the proceeds into companies we believe offer better opportunities.

### **A BALANCED APPROACH TO CHALLENGING CONDITIONS**

The first half of the year was an unusually volatile time for the market, with a sharp selloff and an equally dramatic rally. On many days, the market experienced large swings based on only a single comment or headline. This level of volatility is likely to remain a feature of the market for some time to come, as the pandemic will continue to impact the economy, daily life and politics. We welcome this environment, as it provides us with continued opportunities to add to companies that we deem high quality at value prices.

The past quarter was indeed a fairly active time in terms of portfolio activity, as we sought to capitalize on the unusual market action. **YETI Holdings, Inc. (YETI)**, a maker of coolers and drinkware for outdoor use, was among several notable additions. We believe the company has a high-quality, durable business, as well as the ability to capitalize on consumers' search for outdoor activities where social distancing can be practiced effectively. YETI had been on our watch list for

some time, and we traveled to Texas to meet with its management team in October 2019. As a result, we were ready to take advantage of the opportunity created when YETI's stock dropped over 50% in the first quarter. *(Current and future holdings are subject to risk.)*

As always, we are striving to maintain balance in the Fund through an approach we believe is designed to capture opportunities and help manage downside risk. On one hand, the uncertain path of the pandemic remains a meaningful impediment to growth. On the other, the combination of large monetary and fiscal stimulus—together with America's history of resilience in the face of challenges—provides a firm foundation for the stock market in our view. We believe our longstanding approach of investing in Fallen Angels (high-quality stocks that have stumbled temporarily), Undiscovered Gems and more traditional Quality Value stocks positions the Fund to hold up well through a wide range of circumstances. Further, the Fund is supported by excellent risk-management tools, factor analysis and "multiple eyes" from experienced analysts on the Wasatch research team. We think our strategy has the potential to translate into market-beating results even if investment conditions remain uncertain in the months ahead.

Thank you for the opportunity to manage your assets.

Sincerely,

Jim Larkins and Austin Bone



## AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED JUNE 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	31.43%	-12.72%	1.65%	3.88%	10.56%
Small Cap Value Fund—Institutional	31.38%	-12.51%	1.84%	4.03%	10.69%
Russell 2000® Value Index**	18.91%	-17.48%	-4.35%	1.26%	7.82%
Russell 2000® Index†	25.42%	-6.63%	2.01%	4.29%	10.50%

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

\*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 1/31/2021.** 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](http://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.*

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

## SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF MARCH 31, 2020

Security Name	Percent of Net Assets
Kadant, Inc.	4.5%
Fabrinet	4.4%
Hamilton Lane, Inc., Class A	3.2%
Ensign Group, Inc. (The)	3.1%
Euronet Worldwide, Inc.	3.1%
National Storage Affiliates Trust	3.0%
Valvoline, Inc.	2.9%
Monro, Inc.	2.9%
ICON plc (Ireland)	2.6%
Innospec, Inc.	2.5%
Total	32.0%

*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.*