

Investor / Institutional
WMCVX / WICVX

Wasatch Small Cap Value Fund

DECEMBER 31, 2019

Stock Selection Fueled a Strong Year for the Fund

FUND MANAGER



Jim Larkins
Lead Portfolio Manager

20 / 23
YEARS ON FUND / YEARS AT WASATCH

OVERVIEW

Small-cap value stocks moved steadily higher in the fourth quarter, closing out a positive year for both the category and the U.S. equity market as a whole. The combination of improving global growth, accommodative U.S. Federal Reserve policy, and signs of progress on the U.S.-China trade dispute helped equities build on their earlier gains. The Russell 2000® Value Index, the Fund's benchmark, rose 8.49% in the quarter and 22.39% for the full year.

The Wasatch Small Cap Value Fund—Investor Class gained 23.62% and outpaced the benchmark in 2019. We generated the best relative performance in the first half of the year thanks to our effective individual stock selection. Our results moderated in the third quarter, but the Fund nonetheless retained the majority of its earlier return advantage in a time of elevated market volatility. The fourth quarter proved to be somewhat more challenging, however, as the 7.22% gain of the Fund's Investor Class fell short of the benchmark's return amid strength in higher-risk stocks. Still, we are gratified that our stock-selection process enabled the Fund to outperform in a year that featured unusually high returns for the broader market and frequent rotations among sectors and investment styles. While our relative performance can shift from quarter to quarter, we think our focus on best-in-breed,

*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: 1.13%, Net: 1.06%. 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 1/31/2020.***

undervalued companies was a key factor not just in the Fund's outperformance in 2019, but also over the three-year, five-year and 10-year periods as shown in the table below. Since inception on December 17, 1997 through December 31, 2019, the Fund's Investor Class had an average annual gain of 11.87% compared to the benchmark's gain of 8.22% for the same period.

DETAILS OF THE QUARTER

The Fund's underperformance in the information-technology sector accounted for most of the fourth-quarter shortfall against the benchmark. Although the majority of the Fund's holdings in the sector registered a gain, they did not keep pace with the types of higher-risk stocks that drove the Index's recent returns. In addition, shares of **Ebix, Inc. (EBIX)** lagged by a wide margin due to investors' uncertainty regarding the company's plan to spin out its India operations in an initial public offering. While we are maintaining the investment on the belief that the stock continues to represent a long-run growth opportunity, we are doing so with a below-average position size to account for the potential risks. On the plus side, the tech sector was home to two of the Fund's most notable contributors. **Fabrinet (FN)**, a contract manufacturer of optical components that we have held since early 2011, delivered a sizable stock-price gain due to strength in its core business and emerging growth opportunities in the industrial space. **Tower Semiconductor, Ltd. (TSEM)** was another notable winner in technology. The stock performed poorly in 2018 as Tower management renegotiated contracts with some key customers, but our analysis showed that the business remained firmly on track. We therefore added to our position early in 2019, and the Fund benefited as the company's improving results began to feed through to its stock price over the course of the year.

Outside of Ebix, two other holdings stood out as detractors. Shares of the sectional furniture maker **Lovesac Co. (LOVE)** weakened due to the impact of higher tariffs and the adverse effect that its investments in future growth had on its 2019 profits. Believing both of these short-term issues have obscured the company's healthy brand and improving growth prospects, we chose to maintain the position. **LGI Homes, Inc. (LGIH)** also finished as a key detractor, as the stock pulled back after strong a strong move in the third quarter. We continue to like LGI's long-run fundamentals, and we maintained the position.

The industrials sector continued to be an important driver of positive performance in the final three months of the year. We continued to find the sector home to a number of attractive businesses that we believe are underappreciated by Wall Street. Industrials was our strongest-contributing sector relative to the benchmark for the three- and 12-month periods. **Kadant, Inc. (KAI)**, a supplier of equipment and components used in paper production, paper recycling and wood processing, was the top contributor for the quarter. The company generates a large percentage of its revenues from replacement parts and consumables, resulting in robust and stable cash flows. **Altra Industrial Motion Corp. (AIMC)** rebounded from weak third-quarter performance as accelerating economic growth appeared to make investors more comfortable with the company's recent acquisitions. While we like the business, we are not at a full weight due to the company's high debt levels. Regional airline **Allegiant Travel Co. (ALGT)** was another key contributor in industrials. The stock lagged in 2018 as the airline transitioned to a new fleet, but earnings rebounded in 2019 as this expenditure was completed. *(Current and future holdings are subject to risk.)*



OUTLOOK AND POSITIONING

Our approach focuses on stock selection and avoids making “calls” on the economy, specific sectors, or the market as a whole. We are therefore maintaining a steady methodology that emphasizes individual company research rather than attempting to make broad predictions about the year ahead. At the same time, we also recognize that the market could be vulnerable to adverse surprises after such a positive year—particularly as the November 2020 elections draw closer.

Accordingly, we are maintaining a tilt toward what we consider higher-quality, fundamentally sound, and financially healthy companies. While our focus on quality and value was somewhat of a headwind in the most recent quarter, we think it is appropriate for a time in which investors may not be able to count on a continued rally in the broader market to support returns. We are therefore striving to maintain a balanced, “all-season” portfolio that we believe can perform well across a wide range of scenarios.

We are also actively looking for fresh ideas among “Fallen Angels”—our term for growth companies whose stocks have hit what we believe is a short-term bump in the road. With value opportunities having grown increasingly scarce in the rising market, we think these types of companies—as distinct from more traditional value investments—could be an important source of return in 2020.

As always, our focus is on maintaining a deep understanding of the inner workings of the individual companies we hold in the portfolio. We believe this disciplined approach—highlighted by our focus on companies with solid balance sheets and/or durable business models—can help the Fund build on its outperformance of 2019.

Thank you for the opportunity to manage your assets.

Sincerely,
Jim Larkins



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	7.22%	23.62%	10.20%	9.91%	12.65%
Small Cap Value Fund—Institutional	7.19%	23.81%	10.35%	10.07%	12.77%
Russell 2000® Value Index**	8.49%	22.39%	4.77%	6.99%	10.56%
Russell 2000® Index†	9.94%	25.52%	8.59%	8.23%	11.83%

*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 1/31/2020.** 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.

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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.

An initial public offering (IPO) is a company's first sale of stock to the public.

SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2019

Security Name	Percent of Net Assets
Monro, Inc.	3.4%
Kadant, Inc.	3.4%
Innospec, Inc.	3.1%
Pinnacle Financial Partners, Inc.	3.0%
Euronet Worldwide, Inc.	2.9%
Fabrinet	2.8%
Dorman Products, Inc.	2.7%
Valvoline, Inc.	2.6%
Prosperity Bancshares, Inc.	2.6%
Ensign Group, Inc. (The)	2.5%
Total	29.0%
<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>	