

Wasatch Small Cap Value Fund

SEPTEMBER 30, 2020

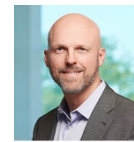
Balancing Opportunity And Risk

OVERVIEW

U.S. equities gained ground in the third quarter, but—as has been the case throughout 2020—the rally was largely driven by larger companies and growth stocks. The small-cap value category, while rising 2.56% based on the Russell 2000® Value Index, continued to lag the broader market. At a time of uncertainty surrounding the spread of Covid-19 and its resulting impact on the economy, investors displayed a clear preference for faster-growing companies.

This environment worked to the Wasatch Small Cap Value Fund's advantage, even with the relative weakness in the small-cap value space. Our portfolio tends to be tilted toward the "growthier" side of the category thanks to a unique approach that seeks Fallen Angels (defined by Wasatch as high-quality growth companies that have stumbled temporarily), Undiscovered Gems (our term for inexpensive growth companies that are flying below Wall Street's radar), and the more traditional value stocks, which we call "Quality Value." The "growthier" aspect of our process helped the Wasatch Small Cap Value Fund—Investor Class gain 4.48% and outperform its benchmark, the Russell 2000 Value Index, in the third quarter. While the Fund remained down -13.38% in 2020, it had nonetheless outpaced the -21.54% year-to-date

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. 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.***



decline of the Russell 2000 Value Index as of September 30, 2020. It is also ahead of the benchmark in the one-, three-, five- and 10-year periods that ended on the same date.

THE FUND BUILT ON ITS FIRST-HALF OUTPERFORMANCE

The majority of the Fund's third-quarter out-performance relative to its benchmark stemmed from our positioning in financials. We maintained a cautious approach to this sector, since many small-cap banks are faced with the ongoing headwinds of slow economic growth and rising credit concerns regarding loan payments that have been deferred due to the pandemic. For the Fund this meant we were underweighted in financials, which was a positive for relative performance due to the sector's continued underperformance of the benchmark's overall return. Additionally, the Fund's financial stocks outpaced the broader sector thanks to the strong stock-price returns of several holdings outside of the banking industry, including **Open Lending Corp. (LPRO)**, **Arbor Realty Trust, Inc. (ABR)** and **Artisan Partners Asset Management, Inc. (APAM)**. Given the underperformance of financials in 2020, we remain on the lookout for opportunities to make gradual additions to the Fund on a stock-by-stock basis. During the most recent quarter, for example, we added a position in **Eagle Bancorp, Inc. (EGBN)**, a bank with a strong presence in the Washington D.C. beltway. Eagle has a history of navigating difficult credit environments—most notably the financial crisis of 2008 to 2009. We therefore believe the stock represented an attractive value at a price that was well off of its pre-Covid levels.

A number of our top contributors in the third quarter were stocks that continued to recover from the first quarter selloff as better visibility returned to the market. One of the Fund's leading contributors was **Ensign Group, Inc. (ENSG)**, an operator of skilled-nursing facilities, is a prime example. We held on to the position through the

downturn on the belief that Ensign is a well-managed company in a business that continues to benefit from the aging population in the United States. This patience paid off in the most recent quarter, as the stock surged on news that it was turning away government assistance and managing challenges related to Covid-19 much better than other skilled-nursing operators.

Consumer discretionary was the only sector in which the Fund experienced significant underperformance relative to the benchmark. The shortfall was primarily the result of an investment in auto-services company **Monro, Inc. (MNRO)**, which remained under pressure from the effects of Covid-19. We maintained the position, as we believe the pandemic has prompted the company to accelerate making necessary changes to its business, such as closing unprofitable stores and implementing labor-saving software. The weakness in Monro was counterbalanced to some extent by the stronger showing of homebuilder **LGI Homes, Inc. (LGIH)**.

Outside of consumer discretionary, **Innospec, Inc. (IOSP)** was a notable detractor. A provider of specialty chemicals, Innospec was hurt by the effects of slower growth on the transportation and energy industries, two of its key markets. We maintained the position, as we believe the company's robust balance sheet and judicious use of capital should allow it to withstand a period of weaker economic conditions.

SEEKING OPPORTUNITY IN VALUE'S UNDERPERFORMANCE

The substantial outperformance of growth stocks has worked to the Fund's advantage due to the nature of our investment approach, but we have begun to see a rising number of opportunities on the more value-oriented side of the small-cap space. Following the long run of underperformance for the value style, the relative valuations of many stocks in the category have moved to compelling



levels. Our response has been to gradually increase the Fund's weighting in the Quality Value segment, while modestly reducing its allocations to Fallen Angels and Undiscovered Gems. In addition to Eagle Bancorp, other new holdings in the Quality Value area included **Sensient Technologies Corp. (SXT)**, a producer of flavors and fragrances, and **Flowserve Corp. (FLS)**, a manufacturer of pumps and management systems for oil, gas, water and chemical applications. *(Current and future holdings are subject to risk.)*

Although traditional value stocks have become more attractive to us, it's also important to note that many companies in the value category are inexpensive for a reason: namely, their higher vulnerability to the effects of Covid-19. We view the underperformance of such companies as a potentially compelling longer-term opportunity given that the virus will eventually pass. Still, we are moving in this direction gradually since the coronavirus is also likely to remain an issue for many months to come.

MANAGING WITH A CONTINUED EYE TOWARD RISK

We don't typically offer a detailed outlook, since we're bottom-up investors with a focus on individual company analysis, but we think it's important to express our belief that the United States is still a great, dynamic country despite the persistently negative headlines of 2020. Small-business formation remains strong, indicating that the entrepreneurial spirit is alive and that the U.S. economy remains resilient. Accordingly, governments, businesses and families are

demonstrating the flexibility to adapt to the changing environment. In our view, these factors continue to provide a firm long-term foundation for the small-cap space.

At the same time, we view risk management as essential in light of the high potential for near-term headwinds. We began taking steps to improve the overall quality of the portfolio in late 2019, and we have continued this process throughout 2020. We remain intensely focused on mitigating downside risk through an ongoing emphasis on well-managed companies with low debt. Moreover, we are striving to ensure that the portfolio has balanced exposure to the vulnerability of a resurgence of Covid-19, against its ability to participate in the upside should Covid-19 subside and the economy move toward fully reopening. We are also tracking the volatility characteristics of each individual stock in the portfolio, since unusual price action can be a sign of rising risk. It's important to note, however, that we don't plan to reduce risk much further since we want to maintain the latitude to participate in potential market upside in the year ahead. We think our balanced, risk-conscious approach remains the best course given the wide range of factors that could affect the investment landscape in the coming months.

Thank you for the opportunity to manage your assets.

Sincerely,

Jim Larkins and Austin Bone



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED SEPTEMBER 30, 2020

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	4.48%	-7.13%	1.16%	7.12%	10.38%
Small Cap Value Fund—Institutional	4.60%	-6.94%	1.35%	7.29%	10.52%
Russell 2000® Value Index**	2.56%	-14.88%	-5.13%	4.11%	7.09%
Russell 2000® Index†	4.93%	0.39%	1.77%	8.00%	9.85%

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.

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

SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF JUNE 30, 2020

Security Name	Percent of Net Assets
Kadant, Inc.	4.3%
Fabrinet	3.6%
Valvoline, Inc.	3.4%
Ensign Group, Inc. (The)	2.7%
Monro, Inc.	2.6%
Euronet Worldwide, Inc.	2.6%
Artisan Partners Asset Management, Inc., Class A	2.4%
Nova Measuring Instruments Ltd. (Israel)	2.3%
Altra Industrial Motion Corp.	2.2%
Monmouth Real Estate Investment Corp.	2.2%
Total	28.3%

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.