

Wasatch Small Cap Value Fund

DECEMBER 31, 2022

Small Cap Value Stocks Posted Gains in the Fourth Quarter

OVERVIEW

Shifting interest-rate expectations fueled high volatility for U.S. equities in the fourth quarter, continuing a trend that has been in place for over a year. Stocks initially rallied in October and November on hopes that inflation had topped out and the U.S. Federal Reserve (Fed) was about to pivot to a more accommodative stance. However, the market weakened in December as optimism on rates waned and investors began to anticipate an economic slowdown in 2023. Small-cap value stocks performed reasonably well in this shifting environment, gaining 8.42% as measured by the Russell 2000 Value® Index. Still, the benchmark finished the year with a return of -14.48%.

The Wasatch Small Cap Value Fund—Investor Class had a strong quarter and comfortably outpaced the benchmark, rising 10.28%. Broadly speaking, we benefited from a recovery in our investments in Fallen Angels—our term for growth companies that have hit a bump in the road and dropped into value territory. Many of our holdings in this area were hurt by the protracted, largely indiscriminate downturn in growth stocks over the first nine months of the year. More recently, growth stocks—and many of the Fund's Fallen Angels—have recovered as investors have grown more confident that the Fed is nearing the end

FUND MANAGERS



Jim Larkins
Lead Portfolio Manager

24 / 27
YEARS ON FUND / YEARS AT WASATCH



Austin Bone
Portfolio Manager

2 / 6
YEARS 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, without which total returns would have been lower. 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—1.16% / Institutional Class—Gross: 1.06%, 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 1/31/2023.***

of its tightening cycle. We believe this illustrates the merits of a patient approach with respect to fundamentally sound, undervalued companies that are facing pressure from short-term trends.

DETAILS OF THE QUARTER

A number of specific factors underpinned the Fund's outperformance in the quarter. Most notably, **Altra Industrial Motion Corp. (AIMC)**, a portfolio holding since 2017, jumped in price after a competitor bid for it at a 54% premium. We always viewed Altra as being too inexpensive for a growing, high-quality company, and the takeover validated this view. Seeing little further upside potential, we sold the stock and redeployed the proceeds into other ideas.

The health-care sector was another area of strength for the Fund. **Medpace Holdings, Inc. (MEDP)**, a contract research organization for biotechnology companies, was a key contributor. The stock declined earlier in 2022 on concerns about its top-line growth and weakness in the broader biotech sector, depressing its valuation and creating what we saw as a Fallen Angel opportunity. Medpace subsequently reported better-than-expected earnings and positive forward guidance, boosting its shares. **Ensign Group, Inc. (ENSG)**, an operator of skilled nursing facilities, also helped our results in health care thanks to strong earnings and favorable guidance. Ensign reported the seventh straight quarter of occupancy growth, and the company has stayed on the offensive by acquiring and improving underperforming properties from other operators.

Elsewhere in the portfolio, the electronic manufacturing services stock **Fabrinet (FN)** gained ground on the strength of rising market share, solid execution and its ongoing expansion. Holdings in a number of our non-bank financial stocks also rallied in tandem with the gains for the broader equity market.

On the negative side, **ServisFirst Bancshares, Inc. (SFBS)**, whose shares declined sharply in October after it missed earnings expectations, was the largest detractor. The earnings miss was driven by a short-term imbalance where rising deposit costs outpaced loan revenue, but we remain confident investors in the stock. **Thryv Holdings, Inc. (THRY)**, a provider of customer-service software for small businesses, also lost ground on concerns that its high leverage may become an issue if its growth begins to slow. However, the company has been paying down debt, and we believe its cash flows are strong enough for it to continue doing so. **National Storage Affiliates Trust (NSA)** was another laggard of note amid weakness in stocks with ties to the housing sector. We think these fears are exaggerated, and we believe the company's fundamentals remain robust. *(Current and future holdings are subject to risk and change.)*

OUTLOOK

The latter half of 2022 was characterized by mounting concerns about a potential recession in 2023, which created a great deal of uncertainty about corporations' ability to sustain their earnings growth. However, our analysis of our portfolio companies, together with our discussions with their management teams, indicates that fundamentals are quite solid. Even in areas with higher economic sensitivity, such as industrials, orders have remained steady. Along this same line, our banks are reporting good credit conditions and continued demand for loans. We see these developments as an indication that the economy continues to chug along for now.

With this said, we don't try to make "bets" on the direction of economic growth. Instead, we want to own good companies that can maintain pricing power and protect their margins whether the economy experiences a soft landing or does indeed slide into a recession. We have analyzed the portfolio on a company-by-company basis to stress



test for a wide range of outcomes. This process has led us to sell positions in stocks that may be vulnerable or that have heightened exposure to unknown risks. On the other hand, we have been adding to Undiscovered Gems (our term for inexpensive growth companies flying below Wall Street's radar.) These tend to be higher-quality companies and therefore those likely to be in the best position to weather disruptions. We also continue to find a wide range of opportunities in

our Quality Value category as part of our larger effort to continue upgrading the overall quality of the portfolio. We believe this patient, balanced approach has the potential to add meaningful value at a time of persistent investor uncertainty.

Thank you for the opportunity to manage your assets.

Sincerely,

Jim Larkins and Austin Bone



AVERAGE ANNUAL TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2022

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	10.28%	-21.56%	3.43%	4.38%	10.14%
Small Cap Value Fund—Institutional	10.32%	-21.47%	3.57%	4.50%	10.27%
Russell 2000® Value Index**	8.42%	-14.48%	4.70%	4.13%	8.48%
Russell 2000® Index†	6.23%	-20.44%	3.10%	4.13%	9.01%

*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 1/31/2023.** 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.

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.*

Indexes are unmanaged. Investors 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 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.

SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2022

Security Name	Percent of Net Assets
Kadant, Inc.	4.0%
Ensign Group, Inc.	3.6%
Bank OZK	3.3%
Altra Industrial Motion Corp.	2.8%
Medpace Holdings, Inc.	2.7%
National Storage Affiliates Trust	2.6%
ServisFirst Bancshares, Inc.	2.6%
Innospec, Inc.	2.5%
Nova Ltd.	2.4%
Hamilton Lane, Inc. Class A	2.3%
Total	28.8%
<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>	