

Investor  
WMCVX / Institutional  
WICVX

# Wasatch Small Cap Value Fund

MARCH 31, 2023

## The Fund Performed Well Through a Significant Shift in The Market Environment

### OVERVIEW

The market environment shifted considerably during the first quarter, weighing on the returns of small-cap stocks. Equities performed well in the early part of the period on hopes that the U.S. Federal Reserve (Fed) was nearing the end of its long series of interest-rate hikes. Coming at a time in which growth remained positive, the Fed's apparent shift fostered optimism that the economy would experience a "soft landing." The outlook changed in March, however, when the failure of some important U.S. banks raised fears about the health of the broader regional-banking sector. Small-cap stocks, which are more sensitive to economic trends and more reliant on outside funding than larger companies, fell sharply on the news and finished the quarter behind their large-cap peers.

The Wasatch Small Cap Value Fund—Investor Class delivered a return of 5.58% and comfortably outpaced the -0.66% loss of its benchmark, the Russell 2000® Value Index. This is consistent with our results over time, which have been highlighted by a tendency to outperform in down markets. We believe our ongoing focus on higher-quality companies—

### FUND MANAGERS



**Jim Larkins**  
Lead Portfolio Manager

24 / 27  
YEARS ON FUND / YEARS AT WASATCH



**Austin Bone**  
Portfolio Manager

3 / 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](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, 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 1/31/2024.***



those with solid balance sheets, recurring revenues and healthy competitive positions—has been a key driver of the Fund's outperformance both in the first quarter and over the longer term, as well.

## DETAILS OF THE QUARTER

We steadily upgraded overall portfolio quality throughout 2022 in anticipation of a more challenging investment backdrop. This approach paid off over the past three months as volatile, uncertain market conditions prompted investors to rotate away from more speculative, momentum-driven stocks toward those with stronger fundamentals. Notably, our holdings outperformed the Index in the early part of the quarter, when investors were more optimistic, as well as in the latter half of the period, when mounting concerns about the economy led to weaker performance across the small-cap space.

In terms of individual positions, the diversified industrial company **Kadant, Inc. (KAI)** was a leading contributor for the quarter. We view the company as a high-quality operator with a strong balance sheet and the ability to outperform through a wide range of economic conditions. These traits held the stock in good stead and enabled it to finish among the many portfolio holdings that produced a double-digit gain. Housing-related stocks also performed well on positive supply-and-demand trends and hope that rates have hit their peak for this cycle. This led to sizable gains for homebuilders **Skyline Champion Corp. (SKY)** and **LGI Homes, Inc. (LGIH)**.

On the negative side, our three largest detractors were bank stocks: **Bank OZK (OZK)**, **Hancock Whitney Corp. (HWC)** and **ServisFirst Bancshares, Inc. (SFBS)**. Although all continued to exhibit sound fundamentals, their shares were pressured by the larger concerns about the sector. We would note, however, that the Fund's bank stocks were down less than their benchmark counterparts, and our weighting in banks is well below that of the Index. We also benefited from the relatively good performance in our non-bank financials.

Given that bank stocks make up over 18% of the Russell 2000 Value Index, even bottom-up investors like Wasatch are focused on the banking sector. Currently, liquidity and deposit stability are the primary concerns when evaluating individual banks. We are assessing these risks by looking at the balances our bank holdings have in securities they intend to hold to maturity, as well as analyzing both the percentage of uninsured deposits and the nature of their deposits. Ultimately, we believe credit risk will be the most important determinant of the long-run success of our bank investments. As we look at our holdings, we don't see concerns in any of these risk factors. This gives us confidence that our investments in this area should be well-positioned for healthy relative performance versus the banking sector as a whole. We therefore kept all our current bank holdings, and we added one additional investment in **Pinnacle Financial Partners, Inc. (PNFP)**, a bank we previously owned in the Fund. This slightly increased our overall weighting in banks, but we maintained an underweight in the category relative to the benchmark. *(Current and future holdings are subject to risk and change.)*

## OUTLOOK

The Fed appeared to be in a challenging position following the events of the first quarter. On one hand, it faced the need to continue raising rates in order to dampen persistently high inflation. On the other, it had to consider the impact tighter policy would have on the overall financial system. In addition, the banking crisis reduced the odds of a soft landing and increased the likelihood of a recession. Our approach to this uncertainty is not to attempt to



predict the direction of the economy, but rather to position the Fund to perform well in any environment. As always, we seek to achieve this by staying focused on quality, especially at the balance-sheet level, as well as by maintaining a balance between value versus growth, and offense versus defense. We believe this approach will hold the Fund in good stead as the macroeconomic picture sorts itself out 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 MARCH 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	5.58%	-8.11%	22.81%	6.00%	9.67%
Small Cap Value Fund—Institutional	5.64%	-8.03%	22.93%	6.13%	9.81%
Russell 2000® Value Index**	-0.66%	-12.96%	21.01%	4.55%	7.22%
Russell 2000® Index†	2.74%	-11.61%	17.51%	4.71%	8.04%

\*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 1/31/2024.** 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](http://wasatchglobal.com) or call 800.551.1700. Please read the prospectus carefully before investing.**

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.



*\*\*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.*

*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.*

## SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF DECEMBER 31, 2022

Security Name	Percent of Net Assets
Kadant, Inc.	3.9%
Ensign Group, Inc.	3.7%
Bank OZK	3.1%
Innospec, Inc.	2.9%
Valvoline, Inc.	2.7%
Fabrinet	2.5%
Moelis & Co. Class A	2.5%
Hamilton Lane, Inc. Class A	2.3%
Skyline Champion Corp.	2.2%
Medpace Holdings, Inc.	2.2%
Total	28.0%
<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>	