



Investor / Institutional  
WMCVX / WICVX

# Wasatch Small Cap Value Fund

DECEMBER 31, 2023

## A Focus on Quality and Balance Was Effective in 2023

### OVERVIEW

The Russell 2000® Value Index produced an impressive gain of 15.26% in the fourth quarter and finished 2023 firmly in positive territory with a return of 14.65% for the year. Small-cap value stocks experienced significant volatility over most of the year in response to evolving sentiment regarding economic growth, the interest-rate outlook and the health of the regional-banking sector. In contrast, the final quarter brought a substantial rally on mounting expectations that the U.S. Federal Reserve would pause future interest-rate increases and potentially start lowering rates in 2024.

We navigated this shifting environment effectively, and the Wasatch Small Cap Value Fund—Investor Class outperformed the Index, gaining 16.21% for the quarter and 31.62% for the full year. We believe this positive result stemmed from two factors. First, we sought to maintain a balanced portfolio that was positioned for a wide range of outcomes with respect to the economy and interest rates rather than trying to chase market trends or headlines. Second, we continued upgrading the portfolio's quality as gauged by metrics such as return on assets, free cash flow and gross profit margins. Both elements of our investment

### FUND MANAGERS



**Jim Larkins**  
Lead Portfolio Manager

24 / 28  
YEARS ON FUND / YEARS AT WASATCH



**Austin Bone**  
Portfolio Manager

3 / 7  
YEARS ON FUND / YEARS AT WASATCH

*The performance data quoted represents past performance. Past performance does not guarantee future results. 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. The 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.***



strategy added value at a time of elevated uncertainty about the macroeconomic outlook.

Notably, all three of the investment types we use as building blocks of portfolio construction—Fallen Angels, Quality Value and Undiscovered Gems—outperformed the Index in 2023. We generated the best returns through our holdings in Fallen Angels, our term for growth companies that have hit a bump in the road and whose stocks have dropped into value territory. We increased the portfolio's weighting in this area in late 2022 and early 2023, when market volatility created compelling opportunities among the faster-growing stocks in the Russell 2000 Value Index. This shift worked well given the outperformance of growth stocks over the past 12 months, as Fallen Angels were heavily represented among the top contributors in 2023. **Medpace, Inc. (MEDP)**, a contract research organization for biotechnology companies, and **Saia, Inc. (SAIA)**, a trucking firm that benefited from great execution and better-than-expected economic growth and the bankruptcy of a major competitor, were among the top performers in this area. We also generated outperformance through our Undiscovered Gems, our term for inexpensive growth companies flying below Wall Street's radar, as well as Quality Value stocks, those with characteristics such as robust fundamentals, low leverage and attractive valuations. Both segments benefited from the market's rotation toward quality, helping our performance. We believe the success achieved within all three investment types in 2023 helps illustrate the potential merits of our multifaceted approach.

## DETAILS OF THE QUARTER

During the fourth quarter, our holdings delivered double-digit returns in all but two sectors in which we were invested. Energy was the only negative-performing sector in both the benchmark and the Fund, but our underweight in the category was a positive for relative performance. Stock selection in financials, particularly among banks, also made a meaningful contribution. As the market gained conviction that interest rates were coming down, smaller banks experienced a relief rally. Our holdings performed especially well, which we see as a function not just of our preference for higher-quality operators, but also our tilt toward banks with a notable advantage (such as a favorable geographic profile or a company-specific story). **Bank OZK (OZK)** and **Pinnacle Financial Partners, Inc. (PNFP)** were among the top contributors in this area. In addition, capital-markets-driven businesses—such as **Artisan Partners Asset Management, Inc. (APAM)**—performed well on optimism about improving market conditions.

On the negative side, we lost ground from a position in **Fox Factory Holding Corp. (FOXF)**. Fox, a producer of parts for bicycles and motor vehicles, was punished for making an acquisition outside of its core business. **Helios Technologies, Inc. (HLIO)**, which makes controls for industrial applications, also came under pressure from falling profit margins brought about, in part, by its investments for future growth. **HealthEquity, Inc. (HQY)**, which acts as a trustee for health savings accounts, was another detractor of note. The stock tends to have a high degree of interest-rate sensitivity, which investors viewed negatively as rates started to fall near the year's end. We continued to own all three companies as our investment thesis for each remains intact. *(Current and future holdings are subject to risk and change.)*

## OUTLOOK

We believe trying to determine what will happen with the economy is difficult and unlikely to add value, so we don't attempt to manage the Fund based on our broader outlook. Instead, we strive to build a portfolio that is balanced across all outcomes. We view this approach as being particularly important now, given the elevated uncertainty regarding the path of economic growth in 2024. In this respect, we think the portfolio is well-positioned through its holdings in Fallen Angels, which we believe will benefit from a "soft landing" for the economy (a scenario in which growth stays positive). At the same time, we think the Fund can navigate a hard landing (a recession)



through our continued emphasis on higher-quality companies that have the potential to hold up better if the economy stalls. The most challenging development would be a rally in deep-value companies similar to the one that occurred following the 2016 election—when investors focused on inexpensive stocks regardless of quality. We think this scenario, while possible, is the least probable outcome and one that would likely prove short-lived if it were to occur.

Although the small-cap value category finished the year with a strong, double-digit gain, we continue to identify plentiful opportunities in reasonably valued, higher-quality stocks. We're finding ideas across all three segments of the portfolio, which should provide latitude to maintain the balanced stance that held us in good stead throughout 2023. With this said, we think the Fallen Angel space is home to the largest number of compelling individual stocks, particularly in the technology and health care/biotechnology areas.

We also note that small-cap stocks as an asset class remain undervalued relative to large-caps following their long stretch of underperformance. Given the respective size of the two categories, even a modest investment shift from large-caps toward smaller companies could have a meaningful impact on small-caps' relative performance. We began to see this trend at work in the fourth quarter, and a continuation may provide latitude for small-cap stocks to deliver positive absolute returns in the year ahead.

Thank you for the opportunity to manage your assets.

Sincerely,

Jim Larkins and Austin Bone



## TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2023

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	16.21%	31.62%	8.98%	12.48%	9.64%
Small Cap Value Fund—Institutional	16.25%	31.80%	9.12%	12.63%	9.75%
Russell 2000® Value Index**	15.26%	14.65%	7.94%	10.00%	6.76%
Russell 2000® Index†	14.03%	16.93%	2.22%	9.97%	7.16%

\*Returns less than one year are not annualized.

The performance data quoted represents past performance. Past performance does not guarantee future results. Information in this document regarding market or economic trends, or the factors influencing historical or future performance, reflects the opinions of management as of the date of this document. These statements should not be relied upon for any other purpose. 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](http://wasatchglobal.com). The Advisor may absorb certain Fund expenses, without which total returns 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—1.16%. Institutional Class—Gross: 1.06%, 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 1/31/2024.** 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. The 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.*

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*Free cash flow is a measure of a company's financial performance, calculated as operating cash flow minus capital expenditures. It is the cash a company generates after spending the money required to maintain or expand its asset base.*

*Return on assets (ROA) measures a company's profitability by showing how many dollars of earnings a company derives from each dollar of assets it controls.*

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

## SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF SEPTEMBER 30, 2023

Security Name	Percent of Net Assets
Kadant, Inc.	3.7%
Ensign Group, Inc.	3.5%
Innospec, Inc.	3.1%
Fabrinet	2.9%
Grand Canyon Education, Inc.	2.8%
Magnolia Oil & Gas Corp. Class A	2.6%
Bank OZK	2.4%
HealthEquity, Inc.	2.4%
Skyline Champion Corp.	2.4%
Valvoline, Inc.	2.2%
Total	28.0%

*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.*