

Investor  
WMCVX / Institutional  
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# Wasatch Small Cap Value Fund

MARCH 31, 2024

## A Balanced, Long-Term Approach Has Driven Continued Outperformance

### OVERVIEW

U.S. equities performed well in the first quarter as investors grew more optimistic about a potentially ideal scenario of positive economic growth and the beginning of interest-rate cuts by the U.S. Federal Reserve. However, as was the case in 2023, much of the gain came from larger companies, growth stocks and companies considered beneficiaries of the growth in artificial intelligence (AI). On the other hand, the small-cap value category (as represented by the Fund's benchmark, the Russell 2000® Value Index) trailed the overall market with a return of 2.90%. Although the Index produced lackluster performance during the quarter, the Wasatch Small Cap Value Fund—Investor Class posted a 6.74% gain and comfortably outperformed.

### DETAILS OF THE QUARTER

Our tilt toward the higher-growth end of the value category was a key factor in the Fund's relative strength. One reason for the portfolio's "growthier" bent is our emphasis on Fallen Angels, our term for growth stocks that have fallen into value territory. This approach

### FUND MANAGERS



**Austin Bone**  
Lead Portfolio Manager

4 / 7  
YEARS ON FUND / YEARS AT WASATCH



**Jim Larkins**  
Portfolio Manager

25 / 28  
YEARS ON FUND / YEARS AT WASATCH

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*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—1.18% / Institutional Class—1.07%. 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 1/31/2025.***



helps position the Fund for a wider range of outcomes in the economy and markets, rather than being solely dependent on the direction of the broader value style.

We also benefited from our preference for higher-quality companies, as gauged by metrics such as profitability, return on equity and free cash flow. We steadily built up the portfolio's quality profile during late 2022 and 2023, and this decision has proven to be a tailwind for performance in recent months. **Allison Transmission Holdings, Inc. (ALSN)**, the Fund's leading individual contributor for the quarter, was a prime example of a higher-quality stock that outperformed. The company has a strong competitive position that affords it impressive pricing power, a trait we think should hold it in good stead even if the economy begins to slow.

The health-care sector was a notable area of strength for the Fund in the first quarter, led by **Viking Therapeutics, Inc. (VKTX)**. Shares of the company soared in February after its injectable weight-loss drug demonstrated best-in-class efficacy in a mid-stage clinical trial. A separate, early-stage trial testing the safety and tolerability of an orally administered version of the drug also yielded positive data. However, we sold the position on the view that the risk/return profile was no longer favorable.

Outside of health care, **Nova Ltd. (NVMI)** was a top performer. Nova, which has been held in the Fund for approximately six years, makes equipment that helps semiconductor manufacturers ensure the quality of their chips. The stock has surged recently as the growth of AI has led to improving prospects for companies in the sector.

The consumer-discretionary sector was the Fund's primary area of weakness during the quarter. Shares of **YETI Holdings, Inc. (YETI)**, a producer of high-quality coolers and drinkware, slid on concerns about slower consumer spending on higher-ticket items. Similarly, **Fox Factory Holding Corp. (FOXF)**, a producer of components for bicycles and motorized vehicles, lost ground on worries about weaker end markets. **SiTime Corp. (SITM)**, a semiconductor company whose chips are primarily used in consumer electronics, was also pressured by the prospect of a consumer slowdown.

We're analyzing each of these companies to make sure their recent stock-price weakness is in fact related to larger macroeconomic issues rather than company-specific developments. As long-term investors, we'll hold on to a stock during times of cyclical weakness if we have faith that the management teams can guide their companies through the full business cycle. We believe this is a more prudent approach than one that attempts to react to changes in the economic backdrop. *(Current and future holdings are subject to risk and change.)*

## OUTLOOK

Our recent portfolio activity was largely a function of the shifting valuation opportunities across the market. We identified some segments in both the portfolio and the broader small-cap space where the risk/return profile became less attractive, and we looked to trim in those areas. Biotechnology stocks were a prime example. We added some biotech holdings in mid-2022 as part of our Fallen Angel strategy, and their prices moved materially higher during the fourth quarter of 2023 and the first three months of this year. Seeing less potential for upside in these holdings, we closed the positions and rotated the proceeds into areas where we saw more compelling opportunities.

**Boot Barn Holdings, Inc. (BOOT)**, a retailer of Western and work-related footwear and apparel, was a notable addition in this regard. While we've never owned the stock in the Small Cap Value Fund, it's been held in other Wasatch funds since early 2019. We therefore recognized the company for its strong balance sheet, high-quality management team, and potential to deliver meaningful profit growth over the next three to five years. This



institutional knowledge positioned us to capitalize on the stock's recent weakness by establishing a position at an attractive valuation.

We also initiated a position in **Standex International Corp. (SXI)**, a producer of food-service and industrial equipment that we view as an Undiscovered Gem (our term for inexpensive growth companies flying below Wall Street's radar). Standex is experiencing a longer-term turnaround story that we believe isn't fully appreciated by the market.

Not least, we added to the Fund's existing holdings in energy. We have a few positions in the sector that we've come to know well over time, so we felt confident deploying new capital to this space following a period of underperformance. More broadly speaking, we think our recent activity illustrates our longstanding view that the small-cap arena is a "perpetual-motion machine" where good companies continually stumble and fall into value territory.

Finally, we remain focused on building a balanced portfolio that's positioned to withstand a wide range of outcomes with respect to the economy, interest rates and other variables that affect the market. This approach is designed to allow stock-picking to drive the portfolio's performance, which plays to our strength of bottom-up company research. We believe this strategy—rather than one that seeks to anticipate headline events or chase "hot" sectors—helps create the foundation for continued long-term outperformance.

Thank you for the opportunity to manage your assets.

Sincerely,

Austin Bone and Jim Larkins



## TOTAL RETURNS

FOR PERIODS ENDED MARCH 31, 2024

	Quarter*	1 Year	3 Years	5 Years	10 Years
Small Cap Value Fund—Investor	6.74%	33.07%	6.18%	11.47%	9.83%
Small Cap Value Fund—Institutional	6.76%	33.18%	6.29%	11.61%	9.95%
Russell 2000® Value Index**	2.90%	18.75%	2.22%	8.17%	6.87%
Russell 2000® Index†	5.18%	19.71%	-0.10%	8.10%	7.58%

\*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—1.18% / Institutional Class—1.07%**

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 1/31/2025.** 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 equity (ROE) measures a company's efficiency in generating profits from shareholders' equity.*

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

## SMALL CAP VALUE FUND – TOP 10 HOLDINGS

AS OF DECEMBER 31, 2023

Security Name	Percent of Net Assets
Kadant, Inc.	3.4%
Ensign Group, Inc.	3.0%
Innospec, Inc.	2.9%
National Storage Affiliates Trust	2.7%
Pinnacle Financial Partners, Inc.	2.7%
Bank OZK	2.6%
Skyline Champion Corp.	2.6%
Artisan Partners Asset Management, Inc., Class A	2.5%
YETI Holdings, Inc.	2.2%
Moelis & Co., Class A	2.2%
Total	26.8%
<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>	