WASATCH
GLOBAL INVESTORS

Market Scout

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Capturing Mispriced Quality: Value Investing With a Growth-Oriented Lens

By blending growth and value characteristics, Portfolio Managers Mark Madsen and Karson Schrader bring a distinct perspective to their craft. In a roundtable discussion, the two explained how their strategies — the Wasatch International Small Cap Value Strategy and Global Small Cap Value Strategy — differ from traditional value investing, where they're currently finding opportunities in the market, and the career lessons that shaped their unique style of investing.

BRIEFLY DESCRIBE YOUR APPROACH TO VALUE INVESTING AND HOW IT'S DIFFERENT FROM TRADITIONAL VALUE STRATEGIES.

Mark Madsen: The best way to describe our style is "quality value." We run a value strategy embedded within a quality-growth shop, and we work closely with the broader team of growth investors. If you divide our investment universe into quintiles based on quality, we're hunting for the best risk/reward opportunities within that top quintile.

Where we differ from other value strategies: We're not deep-value investors. We don't chase turnaround stories or companies carrying heavy debt loads. We look for high-quality companies trading at a discount—either to their own historical multiple or to the multiple of their peers. Those companies can fall in the growth or value camp.

Mark Madsen, CFA
Lead Portfolio Manager, Global Small Cap Value
Lead Portfolio Manager, International Small Cap Value

22 YEARS OF EXPERIENCE / 5 YEARS AT WASATCH

Karson Schrader
Associate Portfolio Manager, Global Small Cap Value
Associate Portfolio Manager, International Small Cap Value

8 YEARS OF EXPERIENCE / 1 YEAR AT WASATCH

YOU BREAK THE PORTFOLIO INTO THREE DISTINCT BUCKETS. WHAT ARE THEY, AND WHAT MAKES A COMPANY QUALIFY FOR EACH?

Karson Schrader: The first bucket is what we call Fallen Angels—growth companies that have suffered a sharp stock-price decline that we believe was a market overreaction. These companies have hit a bump in the road, not the end of the road: They've stumbled or mis-executed in some way, but the business is still high quality and the long-term growth story is still intact.

The second bucket is Undiscovered Gems—companies with strong quality and growth characteristics that the market simply hasn't caught onto yet. Maybe they have a short history as a public company or have a market cap too small to attract much analyst coverage. Sometimes they don't fit neatly into a specific sector or they're listed in one country but generate most of their profits in another. Whatever the reason, the market hasn't done the work to find them—we have.

The third bucket, Quality Value, is closest to traditional value investing. These companies may grow more modestly on the top line, but they're still high-quality businesses with real competitive advantages that translate into strong cash generation and high returns on capital. We buy these companies at conservative valuation multiples that we think underestimate the longevity of their quality and competitive advantage.

WHAT DREW YOU TO THIS STYLE OF INVESTING?

Mark Madsen: It's a byproduct of everything I've been exposed to in my career. Early on, I was an analyst on Wasatch's U.S. Small Cap Value Strategy, which follows the same approach we employ in our portfolios today. Learning from Jim Larkins, the strategy's portfolio manager at the time, was foundational for me. I then moved to a family office, where I studied the principles of Warren Buffett and Berkshire Hathaway. My next stop specialized in high-quality growth investing, which reinforced that discipline. Quality Value is really the sum of those experiences—value discipline, quality investing and growth, all in one strategy.

Karson Schrader: I like this style of investing because it's flexible, which fits how I think about markets. We're not confined to looking at the world through a purely growth or purely value lens. Further, we can dynamically allocate across the three buckets of our portfolio, rather than being locked into equal weightings. This lets us lean into whatever opportunities we feel the market is giving us at a given time.

CAN YOU SHARE SOME LESSONS YOU'VE LEARNED THAT HAVE REFINED YOUR APPROACH TO QUALITY-VALUE INVESTING?

Mark Madsen: Don't buy melting ice cubes. We don't want to own a company where the intrinsic value or competitive advantage is shrinking. Early in my career, I made mistakes overthinking situations like that—a cheap valuation can make a deteriorating business look interesting, but our track record there wasn't strong, so we've moved away from it.

Karson Schrader: Avoid "double trouble." What I mean is, we don't want to invest in a company facing multiple issues at the same time. For a Fallen Angel, that could mean macro headwinds, a company-specific execution issue, a change in management, a weaker balance sheet or something else entirely. A high-quality company can usually work through one of those issues and come out fine. But if it's facing more than one at the same time, the odds are usually stacked against it, and it's best to steer clear.

WHERE HAVE YOU HISTORICALLY FOUND THE MOST OPPORTUNITIES THAT FIT YOUR INVESTMENT STYLE?

Karson Schrader: Fallen Angels are very company-specific, so those opportunities can come from anywhere. On the Quality Value side, we've historically found a lot of opportunities in Taiwan. For Undiscovered Gems, Japan has been especially fruitful—it's a vibrant small-cap market with thousands of companies that get little analyst coverage and are often not well understood.

We've also historically found a lot of opportunities in the U.K. There's been a mass exodus of capital from the market—partly due to a sluggish domestic economy and Brexit but also because large U.K. pension funds have been paring back their domestic equity allocations. That's left companies with strong businesses and great management teams—some of which derive the majority of their revenue from outside the U.K.—trading at attractive discounts.

Mark Madsen: On a sector basis, certain areas tend to be fertile hunting grounds for high-quality companies. We tend to find a lot of durable competitive advantages in technology, health care and industrials as well as among nonbank

financials. By contrast, we tend to find fewer attractive opportunities in energy, materials and real estate. There are exceptions, but many of those businesses are more capital intensive, with competitive moats that tend to be narrower.

WHAT ARE SOME CURRENT THEMES REPRESENTED IN YOUR PORTFOLIOS?

Mark Madsen: We're always building the portfolio from the bottom up based on company-specific research rather than top-down themes. That said, a few themes naturally emerge from that process. One is deglobalization. Over the past decade, we've seen traditional geopolitical and economic partnerships fray or unwind, and in response, countries and regions are working to localize key industries such as defense. That's given rise to local champions in specific industries—and many of them are small-cap companies. We own several defense-oriented industrial businesses that benefit from this trend.

Another theme is professional services—a broad category we define as information-technology (IT) services firms, select financial businesses and other consulting or advisory-driven business models. Stocks tied to these industries sold off broadly in early 2026 on concerns about disruption driven by artificial intelligence (AI). We think those concerns are valid for some businesses, but we also believe the market has taken an overly broad, negative view of the space. Through our own research into individual companies, we've found several we believe will continue to grow well into the future. In many cases, we think AI will be a tailwind for the professional services businesses we hold, not a threat to them.

COULD EACH OF YOU SHARE A STOCK THAT PROVIDES A GOOD EXAMPLE OF YOUR INVESTMENT STYLE?

Karson Schrader: We own a U.K.-based advisory firm that specializes in restructuring, corporate finance and debt advisory services. It's a good example of a Hidden Gem. The firm basically serves as the administrator a company goes to when restructuring its debt during bankruptcy—a unique skill set that sits somewhere between legal, accounting and financial advice. It's a specialized business, and we think the market has failed to realize its durable growth potential.

We also think investors are overlooking how the business landscape is changing in ways that make the firm's services more valuable. Debt structures have become far more complex, which drives more demand for the advisory firm's services. At the same time, the industry is experiencing an ongoing shortage of qualified professionals; bankruptcy administration requires specialized licensing earned through rigorous exams, and fewer candidates have been pursuing those qualifications as pass rates have generally declined. That scarcity puts a premium on the firm's in-house talent. And by improving productivity, AI could allow the business to serve more clients with the same limited pool of experienced administrators.

Mark Madsen: A good example of a Fallen Angel is the payments company we own. The firm operates a cloud-based platform that enables utilities and other essential-service billers to accept payments across multiple channels through a single integration. Earlier in 2026, the stock sold off sharply amid concerns about how AI could disrupt software, professional services and payments business models. As I mentioned, AI is a genuine threat for some businesses. But we think this company is insulated from that risk, and so far, its earnings have continued to march higher.

In our view, the company's value isn't in its underlying software but in the relationships it has built and the workflow it has embedded with utility companies. They're the ones responsible for letting a utility customer pay their bill via Apple Pay, a credit card, a bank withdrawal, a QR code or whatever method the customer prefers. We think it would be nearly impossible for a municipal electric or water utility to build this kind of network on its own.

WHEN YOU CAME TO WASATCH, YOU JOINED A BROADER RESEARCH TEAM. HOW DID THAT CHANGE YOUR INVESTMENT PROCESS?

Mark Madsen: It's given us a lot of additional research resources, particularly on the U.S. side. As a result, the U.S. allocation in our global portfolio has increased relative to where it's been historically. But we're benefiting from more support outside the U.S. as well.

I also think the risk-management tools here have made us more disciplined about running the portfolio in a balanced way. Ideally, we want the vast majority of our alpha to come from stock picking—not from unintended sector, country or factor exposures that creep into the portfolio unintentionally. The risk-management tools help us monitor for that, so those exposures stay incidental rather than becoming a meaningful source of risk or return in their own right.

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