Looking for What Could Go Right

For David Powers, the Lead Portfolio Manager of the **Wasatch Large Cap Value Fund (FMIEX)**, value investing is a natural extension of his contrarian world view and his accounting background. As a baseball pitcher in high school and college, Dave strove to deliver what the batter was least expecting. **Today, Dave seeks to invest in companies where many other investors don't expect to find much potential, but where he believes there are compelling valuations.**

With an accounting background and initially employed as a tax accountant, Dave transitioned to an investment career at the State Teachers Retirement System of Ohio where he felt at home with the value style that was prevalent among his colleagues. **"Value investing," he says, "focuses on a company's intrinsic worth. And trying to determine intrinsic worth — the present value of a company's future cash flows — is a natural part of who I am."**

The Wasatch Large Cap Value Fund seeks to provide capital appreciation and income. The Fund primarily invests in U.S.-based value companies with market capitalizations greater than $5 billion at the time of purchase. Up to 20% of the Fund's assets may be invested in companies with market capitalizations below $5 billion. As of March 31, 2015, the Fund's **weighted-average market cap was $142 billion** and its **median market cap was $73 billion**. These compare to $106 billion and $8 billion, respectively, for the Fund's benchmark, the Russell 1000® Value Index.

The Fund was launched by 1st Source Corporation Investment Advisors on September 25, 1996 with Ralph Shive at the helm. Wasatch Advisors acquired the Fund on December 15, 2008 and Ralph continued to serve as Lead Portfolio Manager with Michael Shinnick as Portfolio Manager through August 19, 2013 when Dave Powers was named Lead Portfolio Manager. Ralph continues to co-manage the **Wasatch Long/Short Fund (FMLSX)** with Lead Portfolio Manager Mike Shinnick. Ralph also continues to contribute his macroeconomic expertise to Wasatch as a whole.

Ralph managed the Wasatch Large Cap Value Fund employing a predominantly top-down investment approach. Following the global financial crisis, however, Ralph came to believe that the markets had changed and that the Large Cap Value Fund would benefit more from a rigorous, fundamental, bottom-up approach to stock selection. That led to a portfolio-manager search and the selection of Dave Powers to manage the Fund going forward. Ralph's macro views are still very important to the firm, particularly for the Long/Short Fund, where his economic and market outlooks are integral components in determining the Fund's overall long and short exposure.

Dave Powers' past experiences with the State Teachers Retirement System of Ohio, later with the ING Large Cap Value Fund and most recently with Eagle Asset Management provide an excellent fit for the Wasatch Large Cap Value Fund. While he had exposure to small energy companies when analyzing natural-resource industries, **Dave's prior investment-management roles mainly focused on large companies and some mid caps, the same target universe for his role at Wasatch**.

THE VALUE INVESTING PROCESS

The process that underpins Dave's approach to value investing stands in sharp contrast to that of many growth investors, who typically purchase companies experiencing success that's already reflected in the stock price. Hopefully, such success will continue. So for growth investors, the key question is often, "What could go wrong that would derail the success?"

For Dave, who frequently invests in companies that have fallen out of favor, the question is, "What could go right that other investors are not anticipating?" As a value investor, he is looking for companies trading below their intrinsic worth that other investors have ignored, and that he believes have significant opportunities for improvement yet to be recognized in the marketplace.

Relying on screens, discussions with analysts and company management teams, and information from industry conferences, Dave seeks companies that meet his investment criteria. **When he senses an opportunity, he resorts to his accounting background and constructs a spreadsheet model in great detail, with many components that examine the company's individual segments including balance sheet, income statement, cash-flow statement, plant and equipment, debt, share buybacks, valuation, and other factors that may be relevant to a particular company or industry.**

Wasatch Large Cap Value Fund
Top 10 Holdings
As of March 31, 2015

Holding	Sector	% of Net Assets
General Electric Co.	Industrials	4.4%
Johnson & Johnson	Health Care	4.3%
Pfizer, Inc.	Health Care	4.1%
Citigroup, Inc.	Financials	4.1%
JPMorgan Chase & Co.	Financials	4.0%
Wells Fargo & Co.	Financials	3.8%
Cisco Systems, Inc.	Information Technology	3.8%
American International Group, Inc.	Financials	3.8%
Medtronic plc	Health Care	3.6%
Verizon Communications, Inc.	Telecommunication Services	3.3%
	Total	**39.1%**

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.

MODELING THE FUTURE

Dave can then put the model through various scenarios to determine the company's business drivers, and calculate what aspects of the business have already been recognized in the marketplace. **From there, Dave uses the model to project where the company is headed, what its earnings, cash flow and capital structure may look like over the next few years and, ultimately, what he believes the company is actually worth.**

Using the model this way allows Dave to explore how the company may perform in different environments. After examining what he considers to be both the best- and worst-case scenarios, Dave believes he is able to determine with some confidence whether a company is trading sufficiently below its worth to warrant an investment.

Discounted cash flow is a key ingredient in his models, and is highly dependent on the underlying

determination of a company's weighted-average cost of capital (WACC). Because the WACC calculation is very subjective, Dave does it two different ways. The first, what he calls a derived WACC, is based on the company's capital structure. The second, or "neighborhood" WACC, is based on industry comparisons. Often the two calculations yield similar results, though occasionally they will differ materially, which could result in a less-clear forecast.

A company's price-to-earnings (P/E) ratio is another important factor that Dave takes into consideration. He thinks of the P/E ratio as a place to start. He looks at where the company's stock has traded historically and then projects whether the company will generate higher returns and growth rates than it has in the past, pushing up the stock's P/E.

Dave cautions, however, that **P/E ratios can be misleading; that a company trading at six times earnings is not necessarily less expensive than one trading at eight times** if the latter company is going to grow earnings and cash flows and/or increase returns on capital at a faster rate than the one trading at six times, particularly so if those improvements are not already priced into the stock.

ARE IMPROVEMENTS BEING FULLY RECOGNIZED?

Returning to the question of "What could go right?" — **Dave looks to see if there is any improvement taking place at a company and, if so, whether or not that improvement has been incorporated into the stock price.** Is there a change in capital allocation that the stock market doesn't appreciate? Is the competitive landscape evolving to the company's advantage? Is the company picking up market share that is going unnoticed? Are the industry dynamics developing more favorably than had generally been anticipated?

These are some of the factors that Dave examines to determine what could go right in a company that hasn't performed strongly in the recent past and has been overlooked by many other investors. Starting with the issues that resulted in the stock being discounted in the first place, he seeks to determine if there are counter actions that other investors will eventually acknowledge and pay for. **What is the company doing to change its current situation that will improve its growth rate and/or return on capital, either of which is likely to result in a higher share price?**

APPLE, INC.: AN EXAMPLE OF HOW THE PROCESS WORKS

When Dave was named Lead Portfolio Manager of the Wasatch Large Cap Value Fund on August 19, 2013, Apple, Inc. was already one of the Fund's holdings. But in relatively short order, Dave roughly doubled Apple's position size.

As a value investor, Dave had little interest in Apple when it had near-universal admiration due to a series of successful iPod, iPhone and iPad launches. By 2013, however, Apple had become very large and it seemed many investors doubted the company's ability to keep growing at elevated rates, to maintain attractive margins, and to continue generating satisfactory returns on capital. In addition, the stock's momentum had faltered and shares were trading well off their highs.

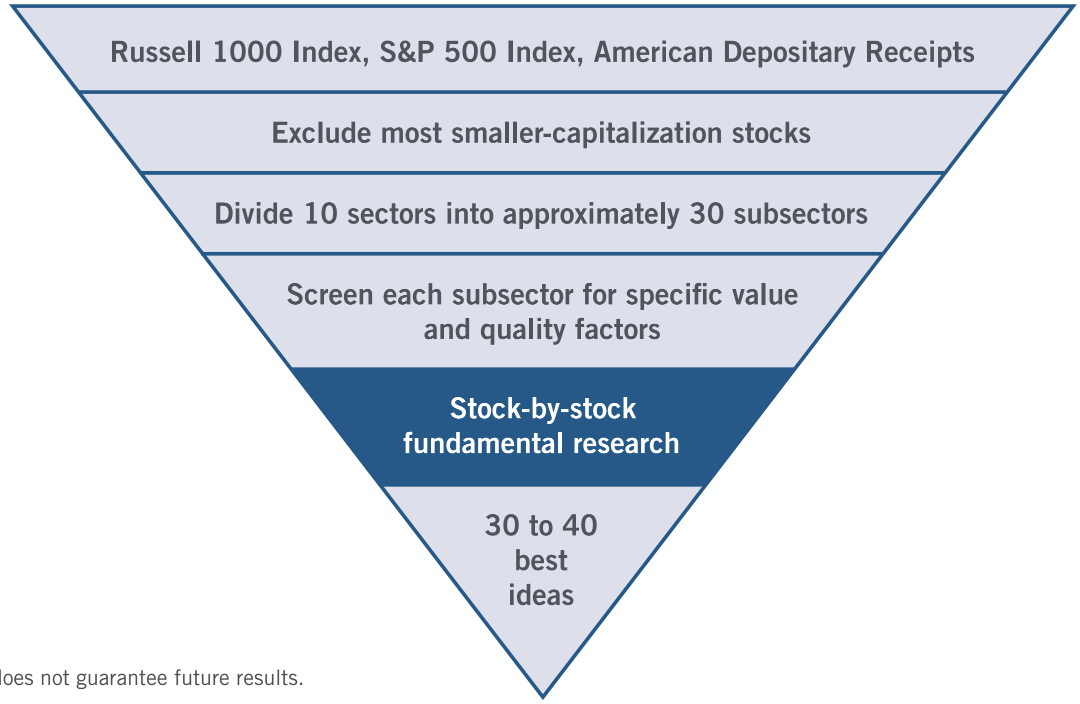
So it was clear that some growth-oriented investors were predicting what could go wrong with Apple. But Dave saw signs of what could go right. By creating a model that covered most of Apple's business segments, he determined that the lower stock price did not appropriately value the innovative culture and the tremendous assets on the company's balance sheet. Moreover, while Apple's growth had slowed somewhat, the company was still generating very strong cash flows and long-term returns on capital seemed likely to outpace those of most other large companies.

Since 2013, Apple has defied the skeptics by continuing to roll out new versions of its products that appeal to an enormous and expanding customer base. As a result, consistent with Dave's expectations, the company has been able to maintain attractive returns on capital and grow the assets on its balance sheet. Such a strong balance sheet has allowed Apple to engage in a program of increasing share buybacks and raising dividend payments. Not surprisingly, the stock price has climbed steadily off the lows of mid-2013.

Today, Apple continues to be a significant holding in the Wasatch Large Cap Value Fund—although the position size has been trimmed somewhat. The company's P/E ratio is reasonable. Cash flows are still strong. Returns on capital remain attractive. And Dave believes that many investors continue to underappreciate the strength of the company's balance sheet. In addition, Apple has committed to maintaining its program of share buybacks and dividend payments. While Dave acknowledges that much of Apple's current success rests on the iPhone, he is impressed by the company's ongoing efforts to engage customers through its expanding ecosystem, which includes iTunes, the App Store, Apple TV, Apple Pay and the Apple Watch.

Seeking to benefit from rapid innovation, investors often gravitate toward small, young companies in which profits are less certain and the need for capital is high. With an investment in Apple, by contrast, Dave thinks

Narrowing the Investment Universe



Past performance does not guarantee future results.

the Fund has upside potential from an innovative company—but at a much lower level of risk. Apple does not need to raise capital, and the company has the resources necessary to create or acquire transformative businesses of the future.

LOOKING FOR NEW INVESTMENTS

Stock selection for the Wasatch Large Cap Value Fund begins with a universe defined by the Russell 1000 and S&P 500® indices, along with some American Depositary Receipts (ADRs). Although the Fund does not purchase many ADRs, Dave likes to include them in his initial screens. From this group of companies, numbering about 1,100, Dave prunes most of the smaller-capitalization stocks. That brings the number of companies down to about 900. While Dave is careful to focus primarily on investments in large-cap stocks, he likes to include some smaller issues in his screens to get a sense of the overall market. Occasionally, he will invest in a smaller issue that appears to offer an exceptional value.

Employing a set of screens that are specific to sectors and subsectors, Dave now seeks to determine which companies have attractive value and quality characteristics. **Starting with the 10 economic sectors, and dividing some of them into subsectors, Dave categorizes the pool of companies into a total of about 30 subsectors.** Some broad sectors, like consumer staples, he leaves intact, saying the economic drivers of consumer-staple companies are generally the same throughout the sector.

Financials, however, do not look the same across all subsectors. Real-estate investment trusts (REITs) are very different from banks, which, in turn, are different from insurance companies. Similarly, in energy, integrated oil companies act differently from oil-service companies and exploration-and-production companies.

SCREENING FOR QUALITY AND VALUE

Dave then screens based on a number of quality and value factors that he has determined specifically for each subsector. The individual factors have been selected based on historical quantitative analysis and subjective experience regarding which factors are likely to be the most predictive of success in a given subsector.

In general, quality factors would include a company's asset turnover, capital expenditures relative to depreciation, accruals, changes in capital expenditures relative to total assets, changes in capital expenditures relative to free cash flow, share buybacks and dividend growth. Many of these factors are balance sheet-oriented and are intended to reflect changes that are taking place within the company.

While there are about 45 individual quality factors, each subsector is only screened for those factors shown to be predictive in that subsector. In the consumer-oriented subsectors, for example, accruals might be important. In industrial and energy subsectors, capital expenditures relative to depreciation might be important, depending on how capital-intensive the business is. In information-technology subsectors, the factors might be accruals and working-capital changes.

The value factors in the screening process include measures such as the free cash-flow yield, the price-to-earnings ratio for the next 12 months, the price-to-sales ratio and the price-to-book value ratio.

Screening with this combination of quality and value factors enables Dave to find companies that are attractive prospects, both as individual stocks and as part of an overall portfolio. The screens also help ensure that the Fund's holdings are consistent with its stated investment process and with shareholder expectations of a large-cap value fund.

IS THERE VALUE IN DIVIDENDS?

Although Dave likes companies that provide dividends, he puts value first. **If a company appears to be a good value, then a dividend — especially an increasing dividend — makes it even more attractive, he says. But he adds that a dividend doesn't mean much if the stock is expensive.**

A company providing a high dividend but lacking stability and/or strong cash flows may appear to be doing well until times get tough. Then there's pressure to cut the dividend, and stocks tend to react negatively in advance of the actual cut. **Before buying a company with a large dividend, Dave wants to ensure that the company is in an industry where cash flows are generally sufficient to sustain a dividend payout over time.**

MONITORING THE BUSINESS CYCLE

Now, having whittled the field down to a few hundred names across all sectors and subsectors, Dave begins looking at each company, name by name, paying particular attention to free cash flow yield and the overall business cycle. Valuations are indicators of where the economy is in the business cycle. Because Dave is constantly evaluating stocks for consideration in the portfolio, he gets steady feedback on the business cycle. Very often, he'll see attractive value in a particular company or industry that has yet to be recognized in the stock market.

For example, certain types of consumer-discretionary companies often lead the business cycle. After consumer-discretionary company earnings and stock prices improve and then eventually slow down, mid-cycle companies like some financials generally begin to improve. As the overall economy gains more traction, select energy companies stand to do well. And at the end of the cycle, particular opportunities might exist in certain utilities. Unexciting and largely ignored through the early and middle stages of the business cycle, these utilities may garner attention later in the cycle because they tend to be more stable with relatively attractive dividend yields.

Within each industry, the values tend to show up before the companies begin to exhibit stock-market gains. While it doesn't play out perfectly, monitoring the business cycle assists in the search for attractively valued companies.

Dave focuses on free cash flow yields. **He really likes companies with attractive valuations and sustainable free cash flow.** There are two reasons he is drawn to companies that are generating large amounts of free cash flow.

First, he says, are the opportunities cash flow creates. **When interviewing management teams, Dave seeks to find out how they will put the excess cash to work.** Will they invest it in something that will produce higher returns and growth rates? Will they increase dividends or share buybacks? Is there an inclination to use cash flow for a merger or an acquisition? Alternatively, is the cash necessary for maintenance, which likely will not result in stock-market gains? Understanding what a company is going to do with its cash is important.

"Even if I don't fully trust management teams, or I'm not certain what they plan to do with their cash, I'd rather have a company that's producing excess cash flow than one that isn't," says Dave. "It's a great start."

The second reason he likes free cash flow is that in times of difficulty there's less need for the company to cut dividends or reduce reinvestment in its business at the very time—the bottom of the business cycle—that the company would be getting the best long-term return on that investment.

AVOIDING THE VALUE TRAP

The focus on cash flow and quality provides an additional benefit, which is avoiding the "value trap" — purchasing a stock that's low-priced because, in fact, the company's business model is so poor that the stock has little chance of appreciating. **If a company starts out with lots of cash, says Dave, and it starts to dry up, and the quality measures turn negative, these are signals of deterioration in the business and the possibility of being caught in a value trap. But if I understand the business drivers that could lead to a temporary decrease in quality measures, and the cash flow stays reasonable or is improving, he says, then the risk of the company being a value trap is reduced.**

Following this careful scrutiny of value and cash flow, there may be just a small number of companies that Dave feels warrant further examination. For these, he will proceed to the most time-consuming step: constructing his detailed spreadsheet models, which will point to a handful of companies that appear significantly undervalued by the stock market.

CLASSIC VALUE VERSUS DEEP VALUE

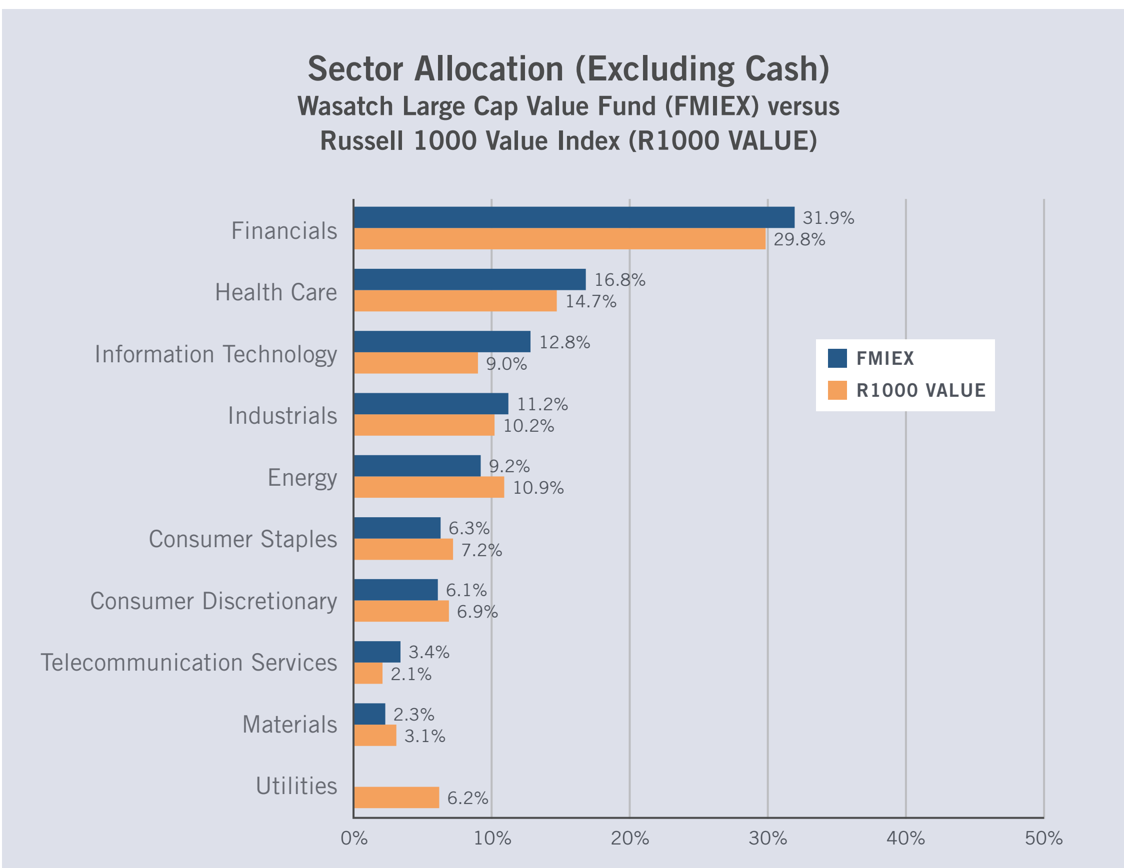
Most of the companies he invests in for the Fund can be described as "classic value." These are companies Dave believes have a margin of safety in their business operations. Occasionally, however, he purchases companies that he considers "deep value" — companies that have been severely beaten down, perhaps because of a bankruptcy or other business failure. Deep-value companies may take over a year before the fundamentals improve, or management makes the changes necessary to grow earnings and increase returns on capital. These companies are so significantly discounted that they have been especially overlooked by other investors. There's tremendous opportunity in deep-value companies because the true economics of the businesses are very difficult to understand. Says Dave, "I might get a great bargain, but the risks are much higher."

How much Dave invests in deep-value companies depends in large part on what the stock market gives him. When the market is strong, deep-value companies are often concentrated in industries that are perceived to be broken. So it would be hard to build a diversified portfolio across most sectors with deep-value stocks; risk would be concentrated in just a few sectors. A market-wide correction, however, provides the opportunity to spread out that risk, as deep-value stocks emerge in more sectors.

The Wasatch Large Cap Value Fund will invest in a combination of classic-value and some deep-value stocks. **The goal is to have a certain number of stocks that are performing well now, some stocks that Dave anticipates will perform well within a year, and then the deep-value stocks that may take longer to fulfill their potential.**

BUILDING A PORTFOLIO

The Wasatch Large Cap Value Fund typically holds 30 to 40 stocks, each generally comprising about 2% to 4% of total assets. **When adding new names, Dave thinks in terms of the portfolio as a whole. Is the new opportunity better than something else?** I don't want to build a portfolio of individual companies, he says, and wind up



Sources: Wasatch Funds and FactSet, as of March 31, 2015. Current and future holdings are subject to risk and may change at any time.

with something that doesn't reflect what I've set out to do, or has inadvertently taken on risks that I haven't foreseen.

Dave uses attribution reports that help him to understand the market-specific, industry-specific and company-specific risks that he is taking in the portfolio. **But he also seeks to understand risks that may be unintended.** For example, despite good sector diversification, is the portfolio highly susceptible to changes in interest rates, oil prices, currency values or government regulations?

Attribution reports that include risk measures also help determine how to balance individual holdings against each other and determine appropriate position sizes. **Using beta (a measure of a stock's volatility relative to the benchmark) as an example, Dave says that if he adds a company that has a beta of 2.0, he may offset that stock's relatively high volatility with one that has a beta of 1.0 or even 0.5.** The position size may reflect Dave's overall conviction in the stock, its volatility, projected changes in earnings, or liquidity, among other factors.

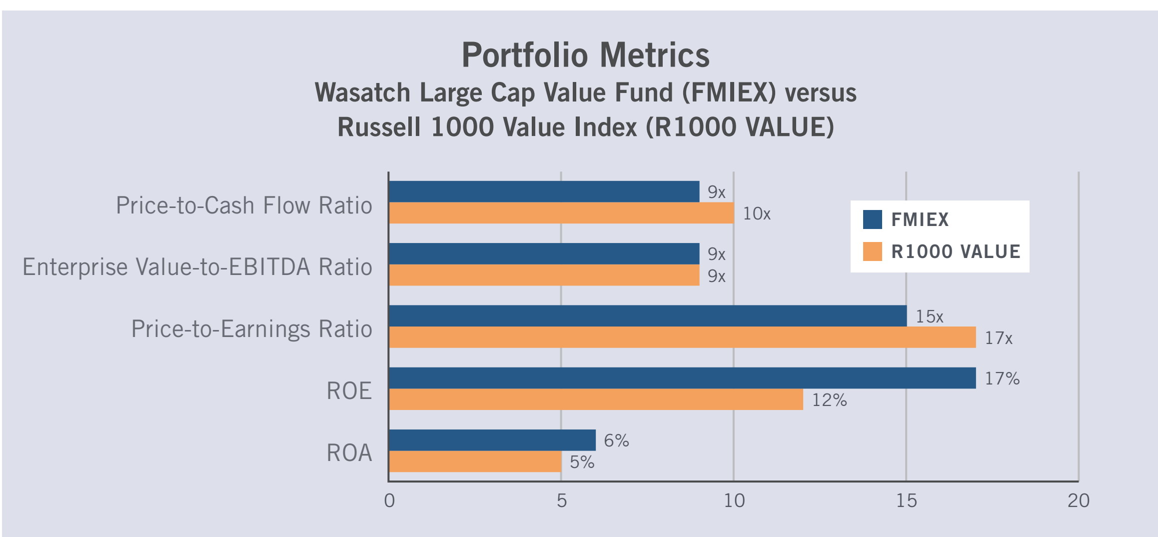
Sector, subsector and industry weightings are additional considerations in building the portfolio. **Typically, the Fund's sector weightings are within plus or minus 10% of the benchmark's weightings.** But the Fund may sometimes underweight or avoid a sector entirely. Most likely, in those cases the reason is because Dave is finding the characteristics of that sector elsewhere at a better valuation. For example, early in the business cycle it may be hard to find good value in utilities. But it may be possible to find less-expensive telecommunication stocks that have many of the same characteristics.

While the Fund is not trying to mimic its benchmark, staying informed about the benchmark assists in monitoring risk. "We want to take risk," Dave says. "We don't think anyone will pay us not to take risk. Using the benchmark as an indicator of how we line up and where our risks are is very helpful." At the same time, Dave's investment process is not heavily benchmark-driven. He looks for stocks that are inexpensive and underappreciated, where something can go right and the stock has the potential to be rewarded for it.

In the end, Dave is building a diversified portfolio for shareholders, not a collection of stocks. While he believes he can add value on a stock-by-stock basis, in the portfolio construction phase, he examines how each stock fits with the others. Ultimately, he says, I'm creating what I believe is the best portfolio, given the opportunities and risk considerations.

PORTFOLIO CHARACTERISTICS

While shareholders might expect the portfolio metrics of the Wasatch Large Cap Value Fund to reflect lower valuations than the benchmark, there will be times when that is not the case. For example, Dave says, if I'm underweighted in financials by five to 10 percentage



Sources: FactSet and Wasatch Advisors, as of March 31, 2015. Past performance is not indicative of future results. Portfolio metrics are subject to change.

points, it would be difficult to show a portfolio that has a below-average price-to-book value ratio.

Financials typically trade at less than two times book value, whereas most consumer-staple and pharmaceutical companies, with their high returns on capital and consistency, often trade at two, three or four times book value. So if financial stocks have done really well and don't seem to offer attractive valuations, but consumer-staple and pharmaceutical stocks appear to be reasonably priced, the Fund may have higher overall price-to-book value and price-to-sales ratios than the benchmark.

Similarly, the Fund's overall price-to-earnings (P/E) ratio will vary with the business cycle. Toward the end of the cycle, a company's trailing earnings might tend to be high. After an initial run-up, the stock price of that company might eventually start to come down as investors begin to recognize the company cannot sustain its earnings. At that point, the stock could have a compressed P/E ratio that looks inexpensive, but really isn't because the future trend in earnings is likely to be downward. In fact, cyclical stocks are often most attractive when their P/E ratios are high, which could be the result of earnings being low. That could be the time to buy, in anticipation of improvements in earnings.

While the specific characteristics of the Fund's portfolio may vary over time, Dave is emphatic that one aspect will not vary **— the portfolio will always be large-cap value.**

WHEN IS IT TIME TO SELL?

The sell discipline for the Wasatch Large Cap Value Fund consists of five triggers. First, Dave's original investment thesis was correct and the stock has appreciated to the point where he believes the company's intrinsic worth is now fully reflected in the stock price.

Second, Dave thinks the fundamentals have changed and the stock now fairly reflects the company's worth. This is not because the investment thesis was correct, but because the situation has degraded and the rational thing to do is acknowledge that the stock is fully valued and it's time to move on.

Third, Dave comes to believe that his original investment thesis was wrong. The competitive environment and the company fundamentals may not be developing as expected, and Dave's view has changed to the point that he doesn't think the company is undervalued. He no longer has confidence that the stock will perform well. So it's time to find another, hopefully better, investment idea.

Fourth, it makes sense from a portfolio perspective to reallocate positions because there is too much exposure to a given sector or other risk factor. This doesn't happen often because Dave is constantly taking the overall portfolio into account when he adds new companies. But he acknowledges that circumstances may change, and he needs to be aware of how they could impact the portfolio.

Fifth, a position has grown too large, beyond about 6%, which introduces too much single-security risk. Dave will typically begin trimming a position when it grows to be about 4% to 5% of the Fund's total assets.

OUTSIDE RESEARCH

While Dave's investment screens and spreadsheet models comprise the core of his research process, he also takes advantage of company visits, conferences and research generated by Wall Street analysts. Dave likes to attend management-team meetings and conferences to get a better understanding of current conditions in specific companies and industries.

When meeting with management teams, he focuses on capital allocation. Where are they deploying the company's capital? And why? How will the capital allocation evolve over the next several years? What are the similarities and differences compared to competitors' capital allocations? Which business segments are particularly attractive and are warranting additional capital? Which segments are receiving less emphasis? How do Wall Street analysts and other investors view the capital-allocation decisions?

The answers to these questions dovetail with the data Dave derives from his screens and models. He is less concerned with management itself, noting that—particularly in the large-cap space—company managers are generally bright, communicate well and are competent in their jobs. **For Dave, meeting with management is not so much about evaluating the people across the table as it is about understanding the company and the industry, and developing a view regarding where they're headed.**

Dave also takes advantage of the relationships he's built with Street analysts over the years. While he looks at written research reports, he feels they add relatively little to his process because those same research reports are widely available to other portfolio managers as well. Instead, Dave prefers to call on someone he knows and trusts. **At various times, he may seek help with modeling a company if he's unfamiliar with certain aspects of its business or industry. Analysts on the Street tend to make good judgments of what information is already being reflected in stock prices.** Such judgments can help Dave assess which factors other investors may have overlooked.

ABOUT THE PORTFOLIO MANAGER

David Powers, CFA
Lead Portfolio Manager

David Powers joined Wasatch Advisors in July of 2013 and became the Lead Portfolio Manager for the Wasatch Large Cap Value Fund in August of 2013.

Mr. Powers has many years of investment-research and portfolio-management experience, mainly with large-cap value stocks. Prior to joining Wasatch Advisors, he served as a portfolio manager with Eagle Asset Management. Earlier, at ING Investment Management, he was the portfolio manager for the ING Large Cap Value Fund. While at ING, he also worked as a senior sector analyst covering energy, telecommunication services, utilities and materials. His experience encompasses several senior investment positions, including as a portfolio manager with Federated Investors. He began his investment career at the State Teachers Retirement System of Ohio.

Mr. Powers holds a Bachelor of Science in Accounting from Fairleigh Dickinson University and both a Master of Science in Accounting and a Master of Business Administration from Kent State University. He is also a CFA charterholder.

Dave grew up in the Northeast, is an avid sports fan and loves to travel. He enjoys spending time with his family, reading mystery novels and playing basketball.

ABOUT WASATCH ADVISORS®

Wasatch Advisors is the investment manager to Wasatch Funds,® a family of no-load mutual funds, as well as to separately managed institutional and individual portfolios. Wasatch Advisors pursues a disciplined approach to investing, focused on bottom-up, fundamental analysis to develop a deep understanding of the investment potential of individual companies. In making investment decisions, the portfolio managers employ a uniquely collaborative process to leverage the knowledge and skill of the entire Wasatch Advisors research team.

Wasatch Advisors is an employee-owned investment advisor founded in 1975 and headquartered in Salt Lake City, Utah. The firm had $19.4 billion in assets under management as of March 31, 2015. Wasatch Advisors, Inc. is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Wasatch Contacts

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Institutional Investors: 801.983.4119 • Retirement Plan Solutions: 801.415.5524

RISKS AND DISCLOSURES

Investments in value stocks can perform differently from the market as a whole and other types of stocks and can continue to be undervalued by the market for long periods of time. Loss of principal is a risk of investing.

An investor should consider investment objectives, risks, charges, and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit www.WasatchFunds.com or call 800.551.1700. Please read it carefully before investing.

Information in this report regarding market or economic trends or the factors influencing historical or future performance reflects the opinions of management as of the date of this report. These statements should not be relied upon for any other purpose. ***Past performance is no guarantee of future results, and there is no guarantee that the market forecasts discussed will be realized.***

The Wasatch Large Cap Value Fund's investment objectives are to seek capital appreciation and income.

As of March 31, 2015, the Wasatch Large Cap Value Fund held 2.9% of net assets in Apple, Inc.

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DEFINITIONS

An **American Depositary Receipt (ADR)** *is a negotiable certificate issued by a U.S. bank representing a specified number of shares in a foreign stock that is traded on a U.S. exchange.*

Beta *is a quantitative measure of the volatility of a given stock relative to the overall market. A beta above one is more volatile than the overall market, while a beta below one is less volatile.*

Dividend yield *is a company's annual dividend payments divided by its market capitalization, or the dividend per share divided by the price per share. For example, a company whose stock sells for $30 per share that pays an annual dividend of $3 per share has a dividend yield of 10%.*

Enterprise value (EV) *is a measure of a company's value calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents. The* **EV (enterprise value)-to-EBITDA** *(earnings before interest, taxes, depreciation and amortization) ratio is enterprise value, as defined above, divided by annual EBITDA.*

Intrinsic value *or* **intrinsic worth** *is the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, taking into account tangible and intangible factors. This value may or may not be the same as the current market value. Value investors use a variety of analytical techniques in order to estimate the intrinsic value of securities in hopes of finding investments where the true value of the investment exceeds its current market value.*

Benjamin Graham and David Dodd coined the term **"margin of safety,"** *which is the difference between the intrinsic value of a stock and its market price.*

The **price-to-book value ratio** *is used to compare a company's book value to its current market price.*

The **price-to-cash flow ratio** *is a measure of investors' expectations of a firm's future financial health. Because this measure deals with cash flow, the effects of depreciation and other non-cash factors are removed. Similar to the price-to-earnings ratio, this measure provides an indication of relative value.*

The **price-to-earnings** *or* **P/E ratio** *is the price of a stock divided by its earnings per share.*

The **price-to-sales ratio** *is a stock's capitalization divided by the company's sales over the trailing 12 months. The value is the same whether the calculation is done for the whole company or on a per-share basis.*

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.*

Return on capital *is a measure of how effectively a company uses the money, owned or borrowed, that has been invested in its operations.*

Return on equity (ROE) *measures a company's efficiency at generating profits from shareholders' equity.*

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

The **weighted-average cost of capital***, or* **WACC***, is the rate a company is expected to pay, on average, to all of its security holders to finance its assets. Different securities (i.e., common stock, preferred stock, straight debt, convertible debt, warrants, options, pension liabilities, executive stock options, etc.), which represent different sources a company uses to finance its business, are expected to generate different returns. The WACC is calculated taking into account the relative weights of each component of a company's capital structure.*

The **S&P 500 Index** *includes 500 of the United States' largest stocks from a broad variety of industries. The Index is unmanaged and is a commonly used measure of common stock total return performance.*

The **Russell 1000 Value Index** *measures the performance of Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Index measures the performance of the largest 1,000 companies in the Russell 3000 Index. The Russell 3000 Index is an unmanaged total return index of the largest 3,000 U.S. companies based on total market capitalization.*

You cannot invest directly in these or any indices.