

A Different Approach To Investing in Emerging Markets

The **typical** emerging-market investment approach often focuses on:

- Larger countries
- Large-cap and mega-cap companies
- Global cyclicals
- Exporters to developed countries
- Passive management (index products)

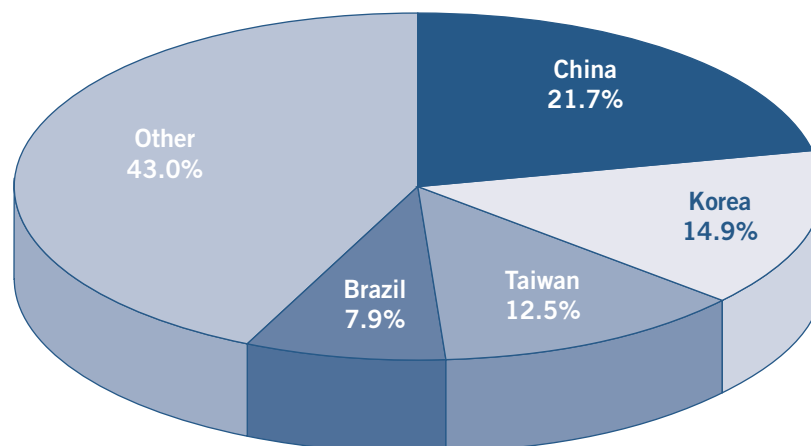
And the reasons for the **typical** approach often come down to the following:

- Difficulty of doing proprietary emerging-market research

- Fear of underperforming the benchmark, which is heavily weighted in larger countries and large-cap companies
- Institutional research focuses on larger countries and large-cap companies
- Higher potential capacity and fees for the manager

The MSCI Emerging Markets Index (as shown in Figure 1 below) is skewed toward the countries that are large exporters to the developed world. For example, over 55% of the Index is represented by China, Korea, Taiwan and Brazil.

**Figure 1: MSCI Emerging Markets Index
Country Weights**



Source: FactSet, as of April 30, 2015.

A DIFFERENT APPROACH

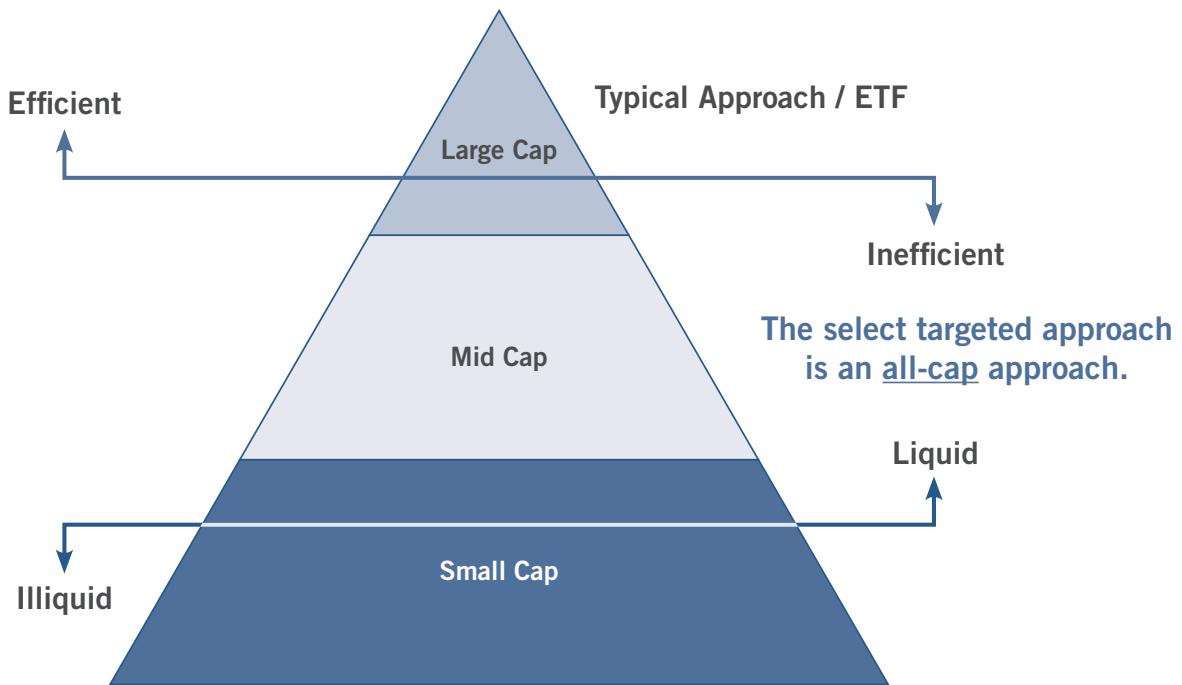
At Wasatch Advisors, we believe there are problems with the **typical** emerging-market investment approach:

- Poor geographic diversification
- Holdings highly correlated with one another
- Holdings highly correlated with developed markets
- Investors believe they are getting emerging-market exposure, but they have significant exposure to global cyclicals
- Large- and mega-cap stocks tend to be more efficiently priced
- Little chance of finding overlooked opportunities

The **Wasatch Emerging Markets Select Fund (WAESX)** takes a **different** approach. The Fund pursues greater country diversification and focuses more on companies that are meeting home-country consumer demands. In addition, as described in the diagram below, the Fund seeks the **intersection of liquidity and inefficiency**.

According to FactSet, as of March 31, 2015, the weighted-average market cap for the Wasatch Emerging Markets Select Fund was \$8.4 billion versus \$48.3 billion for the MSCI Emerging Markets Index.

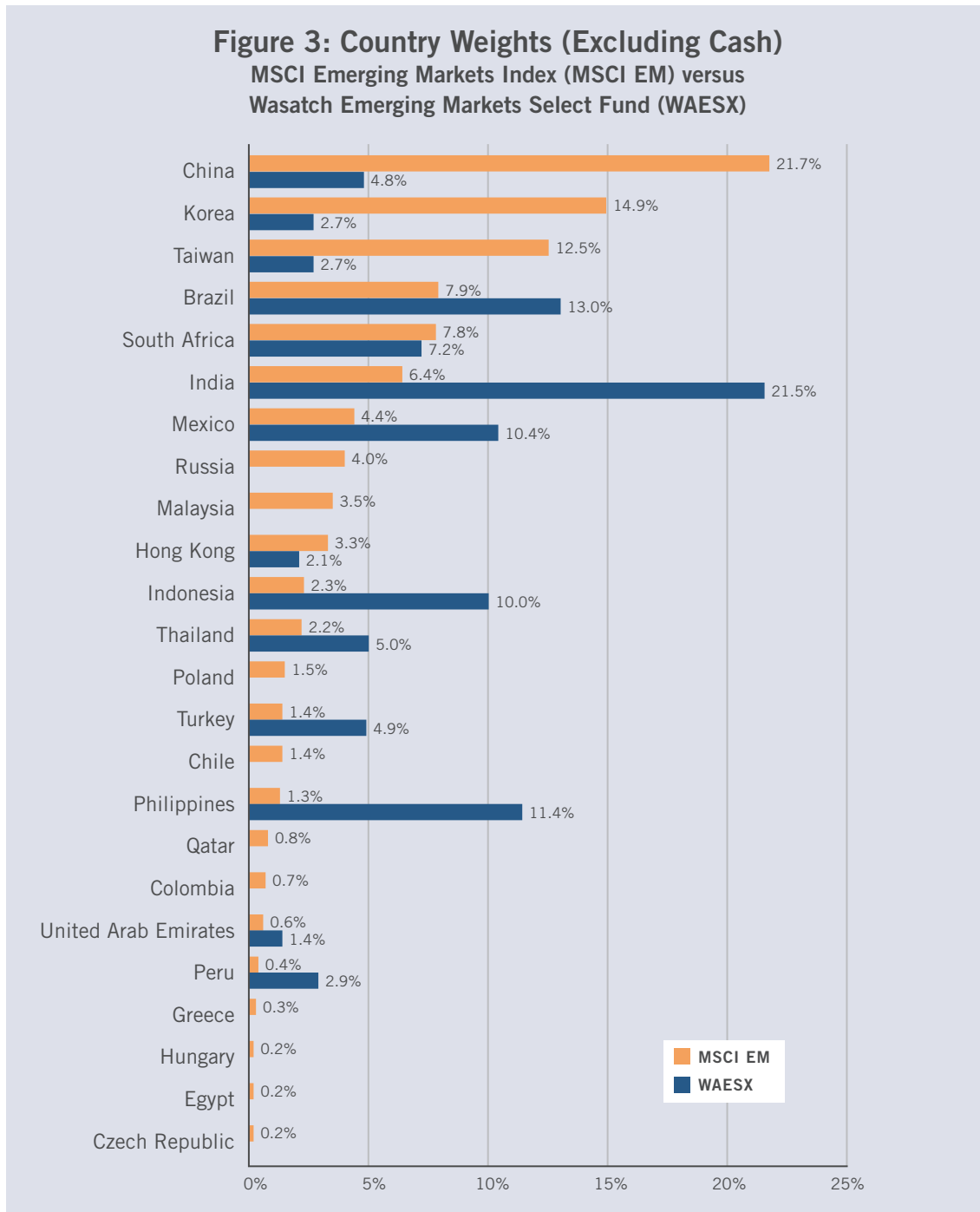
Figure 2: The Select Targeted Approach to Emerging Markets



GEOGRAPHIC DIVERSIFICATION

Country weights for the Wasatch Emerging Markets Select Fund versus the MSCI Emerging Markets Index are plotted in Figure 3. The Figure illustrates how the Fund's investments are more geographically diversified and less concentrated in large-capitalization countries. The major,

export-oriented markets of China and Korea, for example, represented about 37% of the Index and less than 8% of the Fund as of April 30, 2015. Meanwhile, the frequently underinvested countries of Indonesia, Thailand, the Philippines and Turkey together accounted for about 31% of the Fund, but just over 7% of the Index as of April 30, 2015.



Source: FactSet, as of April 30, 2015. Current and future holdings are subject to risk and may change at any time.

QUALITY GROWTH COMPANIES

A central Wasatch investment theme is to identify and own the *World's Best Growth Companies*.[®] These are what we believe to be the highest-quality companies that possess an identifiable, sustainable competitive advantages, are well-managed, and are producing above-average earnings growth relative to their industries and countries of origin.

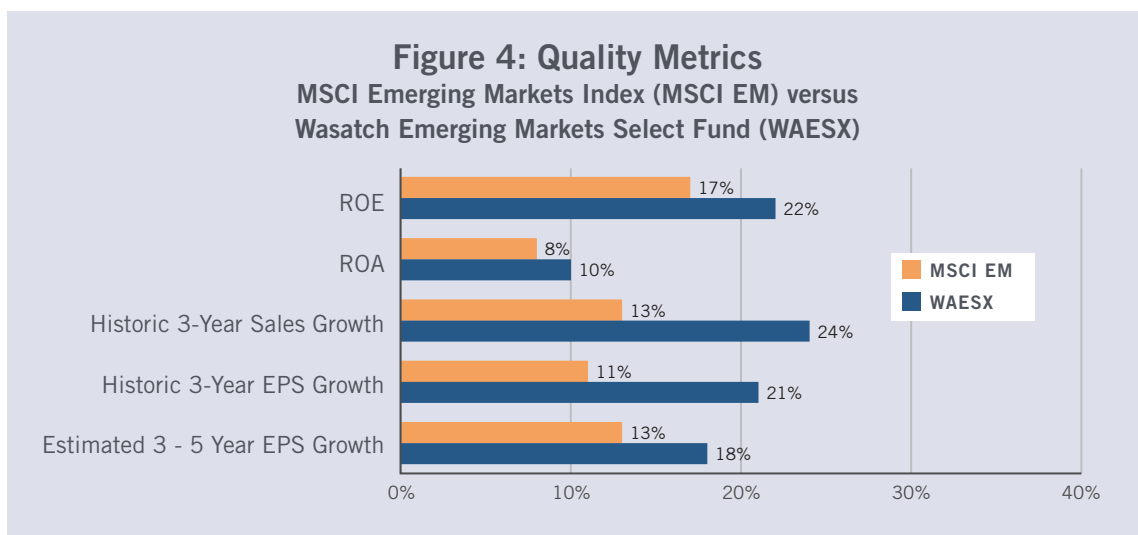
As we analyze emerging-market companies, we are most interested in finding:

- Sustainable competitive advantages
- An experienced, proven management team
- Potential for significant and sustained revenue and earnings growth
- High return on capital
- Market leadership and/or growing market share
- Ability to capitalize on favorable long-term trends

- Strong financial health and controls
- Reasonable use of debt
- Expanding operating margins
- Substantial insider ownership
- Attractive valuation

In short, our philosophy is to capture earnings growth at rational prices and let performance take care of itself. We also think extensive, fundamental due diligence is one of the best risk-control tools.

Some key quality metrics for the Wasatch Emerging Markets Select Fund and its benchmark, the MSCI Emerging Markets Index, are presented in Figure 4. The favorable comparisons in Figure 4 are the product of our international team's research expertise and proprietary systems applied within a collaborative process that we believe is unique among investment managers.



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

THE GRADUATION EFFECT

Ideally, some small companies in the other Wasatch emerging-market funds will eventually develop into larger companies—and thus outgrow the funds' mandate for them. Frequently, members of this select group may graduate out of the small-cap space while the companies remain essentially unknown to foreign investors. In addition, these companies often are neglected and poorly understood by Wall Street analysts and many of their buy-side cohorts.

The Wasatch Emerging Markets Select Fund is designed to take advantage of such inefficiencies, as well as other

opportunities within the world of emerging markets, while maintaining the flexibility to invest in companies of any size. Normally, the Fund will invest in between 30 and 50 stocks.

Consistent with the Wasatch investment philosophy, the Emerging Markets Select Fund focuses on the *World's Best Growth Companies*. These may be businesses the Wasatch international team followed for years while the companies were still small. Having graduated beyond the small-cap space, many of the companies are now market leaders within their respective countries and still have room to grow.

A Unique Strategy for Today's Opportunities

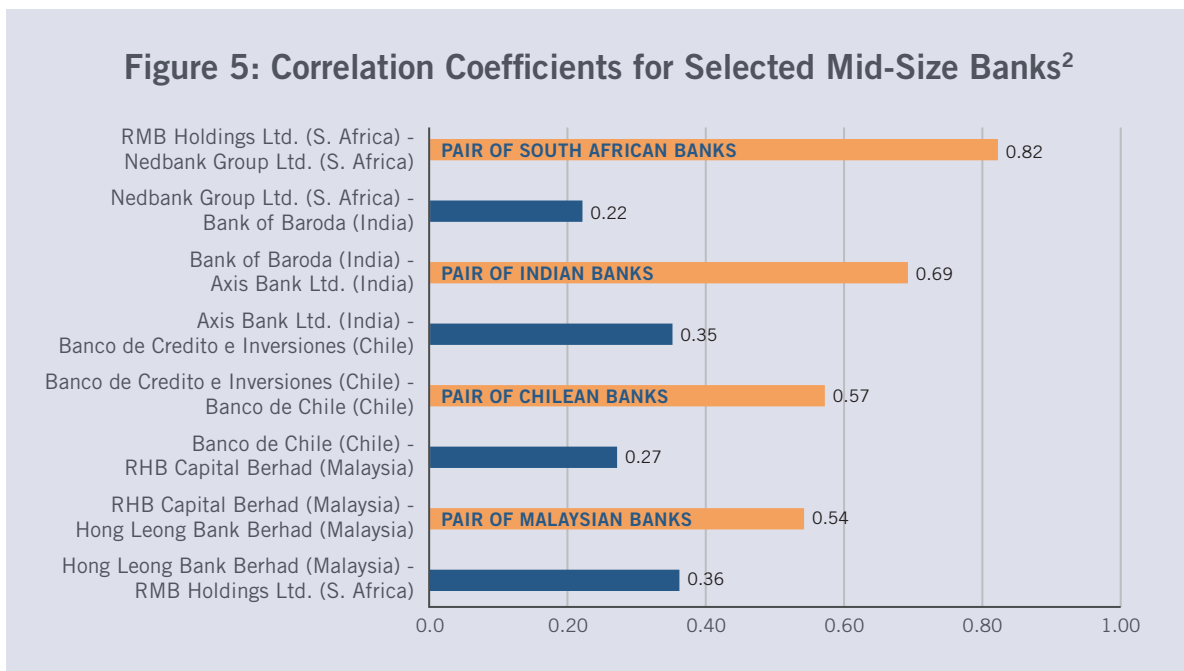
Emerging Markets Select is a unique strategy developed by Wasatch for today's emerging markets. Important aspects include its 30- to 50-stock portfolio, a typical allocation to mid-cap stocks, broad country diversification and flexibility to invest in companies of all sizes.

The proliferation of emerging-market mutual funds and exchange-traded funds (ETFs) has paralleled the development of U.S. investing. However, emerging-market investing has progressed in reverse order. Domestic U.S. mutual funds evolved from purely active management about 25 years ago, to a market-cap/style focus in the 1990s, and eventually to the heavy reliance on indexing we observe today. For emerging markets, on the other hand, indexing was sufficiently prevalent at the outset that analyst coverage has been slow to develop, especially with regard to small-cap companies, mid-cap companies and smaller countries. The end result is that indexing has, in a sense, made investors blind to the opportunities available to those with the expertise to exploit them.

Managing Risk as Well as Returns

Managing a portfolio of as few as 30 stocks requires careful attention to risk. Accordingly, for the Wasatch Emerging Markets Select Fund the risk-mitigating factors discussed previously—high-quality focus, extensive geographic diversification and low correlations between countries—take on added importance. An additional, potentially helpful dynamic is that small- to mid-cap stocks tend to display less sensitivity to global industry influences than large-cap stocks.¹ The effects can be seen in Figure 5, which plots correlation coefficients for mid-size banks in four emerging markets.

The four orange bars in Figure 5 represent four countries—South Africa, India, Chile and Malaysia. Each orange bar plots the correlation coefficient (ρ) for a pair of mid-size banks located in the represented country. The blue bars in between the orange bars plot correlations between the previous bank listed (located in the country represented by the orange bar above the blue bar), and the following bank listed (located in the country represented by the orange bar below the blue bar).



Source: Bloomberg. Figure 5 reports correlation coefficients (ρ) for the five-year period ended March 31, 2015. Current and future holdings are subject to risk. References to specific securities should not be construed as recommendations by the Funds or their Advisor.

Taking the two Indian banks as examples, the second orange bar from the top represents India and shows a correlation coefficient of 0.69 for Bank of Baroda and Axis Bank Ltd. That means about 48% (0.69^2) of the variation in the price of either stock can be explained by variations

in the price of the other. For companies of similar size operating within the same country (India) and the same industry (banking), that is only a moderate degree of correlation to begin with. However, the blue bar above the India bar shows a sharp drop-off in correlation to only

0.22 between Bank of Baroda and the previous bank listed, Nedbank Group Ltd. of South Africa. Note that for these two banks the explained variation has fallen to only 0.22², or 4.8%. The remaining 95.2% (100% - 4.8% = 95.2%) of the variation in each bank's stock price occurs independently of the other bank's stock price.

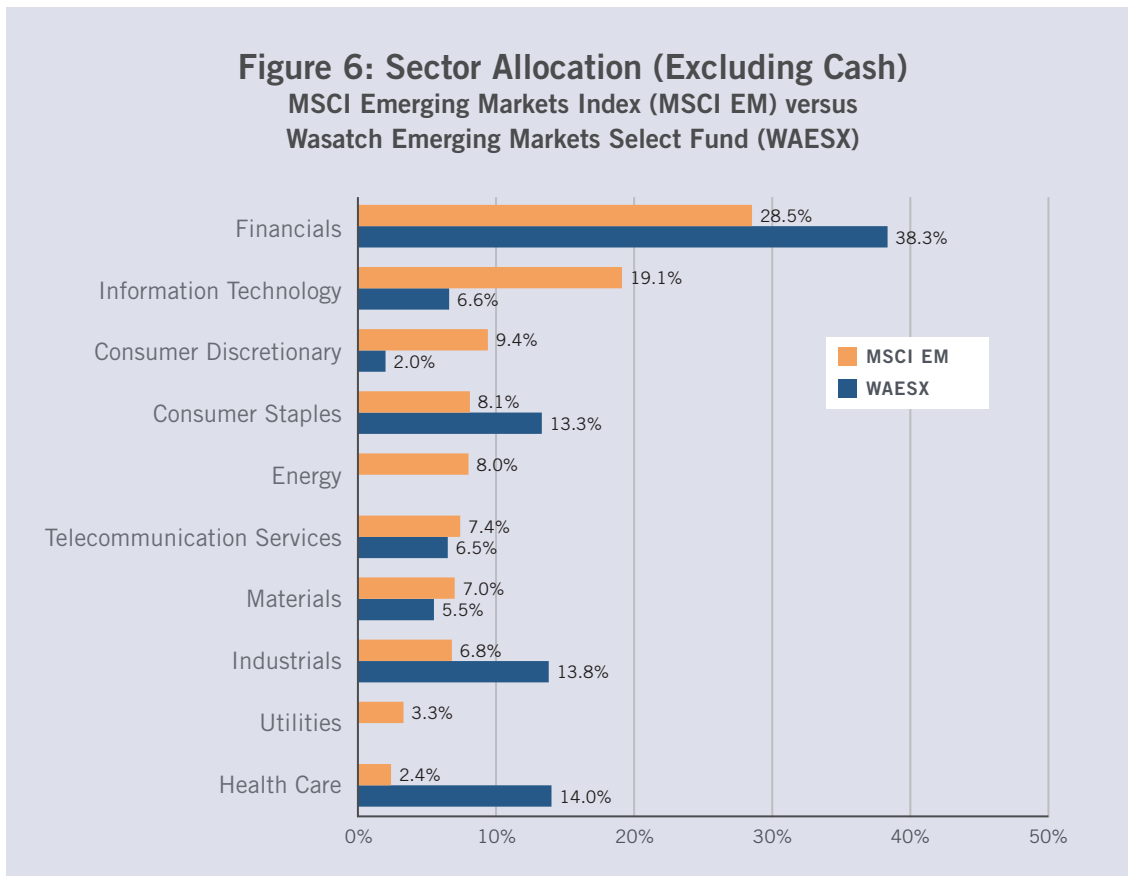
Continuing with the example of the Indian banks, the blue bar below the orange India bar denotes a correlation of 0.35 between the second Indian bank, Axis Bank Ltd., and the following bank listed, Banco de Credito e Inversiones of Chile. For this pair, only about 12% (0.35²) of the variation in one bank's stock price can be explained by variations in the price of the other. Together, the examples in Figure 5 serve to illustrate the weak industry-correlation effects for emerging-market mid caps, especially between companies in different countries.

The upshot for emerging-market mid cap as an asset

class is that research and analysis of individual companies, security selection and country allocation are likely to be better risk-control tools than top-down industry allocation. Moreover, for an emerging-market mid-cap portfolio that is already geographically diversified, the risk benefits of additional industry diversification are not great, and so it is not necessary to have large numbers of stocks in the portfolio.

Exploiting Inefficiencies

Wasatch believes the Emerging Markets Select Fund employs a promising strategy for targeting new opportunities that arise from inefficiencies in today's emerging markets. The Fund may be appropriate for core exposure to emerging markets, or for a high-alpha complement to existing investments.



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

Table 1: Wasatch Emerging Markets Select Fund Top 10 Holdings

As of March 31, 2015

Holding	Country	Sector	% of Net Assets
Lupin Ltd.	India	Health Care	3.9%
International Container Terminal Services, Inc.	Philippines	Industrials	3.6%
PT Tower Bersama Infrastructure Tbk	Indonesia	Telecommunication Services	3.6%
Kasikornbank Public Co. Ltd.	Thailand	Financials	3.5%
IndusInd Bank Ltd.	India	Financials	3.4%
HCL Technologies Ltd.	India	Information Technology	3.3%
Universal Robina Corp.	Philippines	Consumer Staples	3.2%
Metropolitan Bank & Trust	Philippines	Financials	3.2%
Axis Bank Ltd.	India	Financials	3.1%
PT Jasa Marga Persero Tbk	Indonesia	Industrials	3.0%
Total			33.8%

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.

KEY DRIVERS FOR WASATCH EMERGING-MARKET MUTUAL FUNDS

Each of the four Wasatch emerging-market mutual funds (Emerging Markets Select, Emerging Markets Small Cap, Frontier Emerging Small Countries, and Emerging India) employs a different targeting strategy to seek returns with different drivers and different sources of alpha. Consequently, these funds are designed to fit together and complement each other within an investment portfolio. Overlap between the funds is expected to be minimal, so investors may reasonably own all four.

Behavioral changes resulting from urbanization and a growing middle class is an investment theme shared by all four funds. Wasatch believes budding consumer economies present attractive opportunities for companies with scalable business models that can target the large and growing populations of the less-developed world. In particular, the funds may emphasize high-quality consumer-oriented companies driven largely by domestic demand growth and rising incomes. We believe such companies are likely to benefit as emerging-market economies mature and consumerism takes root.

Companies with domestic-demand orientations tend

to be less sensitive to global economic factors and more dependent upon developments within their home countries. Accordingly, extensive geographic diversification may provide the Wasatch Emerging Markets Select Fund with risk benefits not available to index funds that are heavily weighted in larger exporting countries tied to the developed world. Finally, the Fund does not hedge its currency exposures, which offers investors another source of diversification and return.

THE WASATCH ADVANTAGE

We believe Wasatch is uniquely positioned to exploit opportunities in emerging markets, both present and future. We're willing to dig deep to find them. And we have a proven track record of doing so. Past performance is not indicative of future results.

Wasatch Advisors, investment advisor to Wasatch Funds, was founded in 1975 as a small-cap growth investment boutique. The firm has spent over 40 years developing unique expertise in the small- and micro-cap space. We launched our first international product in 2000 and have continued to build our international team over the past 16 years.

Deep Due Diligence

To take full advantage of the inefficiencies and opportunities available in emerging markets, analysts must be willing to roll up their sleeves and travel in order to gain a true understanding of the companies and their markets. A Wasatch cornerstone has always been the deep due diligence applied to each investment we make. The international team regularly travels the world to meet with management teams, who sometimes mention just how rare it is for them to actually get a visit from an analyst.

Wasatch believes its deep due diligence can better determine a company's growth potential, financial stability and management quality. The Wasatch heritage is "bottom-up," which means analyzing the investment potential of individual companies. All four Wasatch emerging-market funds employ this same approach.

Cross-Team Collaboration

Another key element of Wasatch's approach is cross-team collaboration. For example, we don't send one person to the Philippines to determine the best companies in that country. We send a team of members with different backgrounds in order to get a more-robust understanding of each company. This team gets together with analysts who have been trekking through other parts of the world, as well as with the U.S. team, to compare companies from around the globe to help select emerging-market investments that appear to have the best potential.

Wasatch's research team consists of 30 portfolio managers and securities analysts. Each team member is dedicated to the collaborative, hands-on research process the firm employs in managing its mutual funds and institutional separate accounts.

ABOUT THE PORTFOLIO MANAGERS



Ajay Krishnan, CFA
Lead Portfolio
Manager

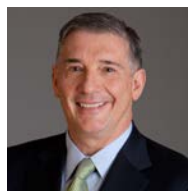
Ajay Krishnan is the Lead Portfolio Manager for the Wasatch Emerging Markets Select and Emerging India Funds. He is also a Portfolio Manager for the Wasatch Global Opportunities Fund. He was a Portfolio Manager for the Ultra Growth Fund from 2000 to 2013. In addition, he was a Portfolio Manager for the World Innovators Fund from 2000 to 2007. He joined Wasatch Advisors as a Research Analyst in 1994. He was a Research Analyst on the Ultra Growth Fund prior to becoming a Portfolio Manager.

Mr. Krishnan earned a Master of Business Administration from Utah State University, where he also worked

as a graduate assistant. He completed his undergraduate degree at Bombay University, earning a Bachelor of Science in Physics with a Minor in Mathematics.

Mr. Krishnan is a CFA charterholder and a member of the Salt Lake City Society of Financial Analysts. He specializes in analyzing the investment potential of fast-growing companies.

Ajay is a native of Mumbai, India and speaks Hindi and Malayalam. He enjoys traveling, reading, playing squash and road biking.



Roger Edgley, CFA
Director of Inter-
national Research,
Portfolio Manager

Roger Edgley is Director of International Research and the Lead Portfolio Manager for the Wasatch International Growth Fund and the Wasatch Emerging Markets Small Cap Fund. He is also a Portfolio Manager for the Wasatch Emerging Markets Select Fund. In addition, he was the Lead Portfolio Manager for the Wasatch International Opportunities Fund from 2005 to 2015. He joined Wasatch Advisors in 2002 and is a member of the Board of Directors. A native of the United Kingdom, he also holds U.S. citizenship and has many years of international investing experience.

Prior to joining Wasatch Advisors, Mr. Edgley was a principal, director of international research and portfolio manager for Chicago-based Liberty Wanger Asset Management, which managed the Acorn Funds. He was also a co-manager for the Acorn Foreign Forty Fund. Earlier, he worked in Hong Kong as a financial-services analyst for Societe Generale Asia/Crosby Securities and as an analyst for Strategic Asset Management.

Mr. Edgley has a Master of Arts in Philosophy from the University of Sussex and a Master of Science in Social Psychology with Statistics from the London School of Economics, where he was awarded a Social Science Research Scholarship. He earned a Bachelor of Science with honors in Psychology from the University of Hertfordshire. He is also a CFA charterholder.

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

In addition to the risks of investing in foreign securities in general, the risks of investing in the securities of companies domiciled in frontier and emerging markets countries include increased political or social instability, economies based on only a few industries, unstable currencies, runaway inflation, highly volatile securities markets, unpredictable shifts in policies relating to foreign investments, lack of protection for investors against parties that fail to complete transactions, and the potential for government seizure of assets or nationalization of companies.

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.

Being non-diversified, the Wasatch Emerging Markets Select and Wasatch Frontier Emerging Small Countries Funds can invest a larger portion of their assets in the stocks of a limited number of companies than diversified funds. Non-diversification increases the risk of loss to these Funds if the values of these securities decline.

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 investment objective of the Wasatch Emerging Markets Select, Wasatch Emerging Markets Small Cap, Wasatch Frontier Emerging Small Countries, and Wasatch Emerging India Funds is long-term growth of capital.

DEFINITIONS

Alpha is a risk-adjusted measure of the so-called "excess return" on an investment. It is a common measure of assessing an active manager's performance as it is the return in excess of a benchmark index or "risk-free" investment. The difference between the fair and actually expected rates of return on a stock is called the stock's alpha.

Correlation, in the financial world, is a statistical measure of how asset classes, securities, markets, or countries move in relation to each other.

Earnings Growth is a measure of growth in a company's net income over a specific period, often one year.

Earnings-Per-Share or EPS is the portion of a company's profit allocated to each outstanding share of common stock. EPS growth rates help investors identify companies that are increasing or decreasing in profitability.

Operating Margin equals operating income divided by revenues, expressed as a percentage.

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

World's Best Growth Companies (WBGCs) are defined by Wasatch as companies that we believe possess an identifiable, sustainable competitive advantage, are well managed, undervalued and are producing above average earnings growth relative to their industry and country of origin.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. You cannot invest in this or any index.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments, products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including,

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FOOTNOTES

¹De Moor, Lieven and Sercu, Piet M. F. A., Country v. Sector Effects in Equity Returns: Are Emerging-Market Firms Just Small Firms? (May 2007). Available at SSRN: <http://ssrn.com/abstract=1025864> or <http://dx.doi.org/10.2139/ssrn.1025864>

²As of March 31, 2015, the Wasatch Emerging Markets Select Fund had 3.1% of net assets in Axis Bank Ltd. The Fund did not hold any of the other companies.

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