

Wasatch Emerging Markets Select Fund

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

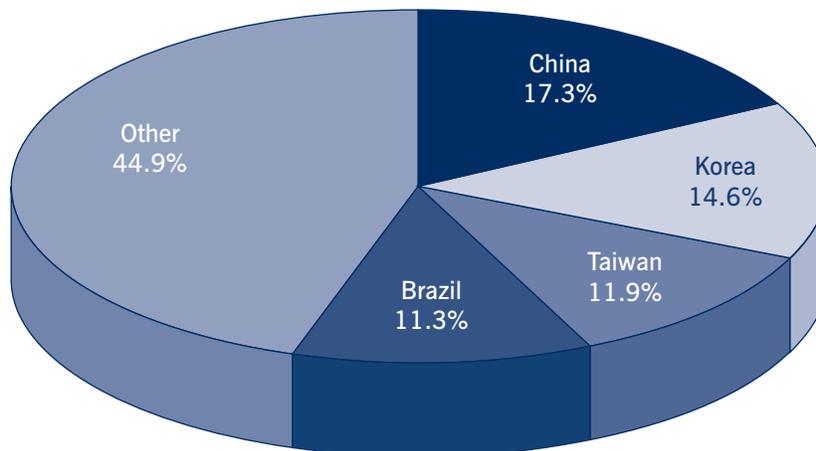
- Larger countries
- Large-cap and mega-cap companies
- Global cyclicals
- Exporters to developed countries
- Passive management (index products)

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

- Difficulty of doing proprietary emerging-markets 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 the pie chart below) is skewed toward the countries that are large exporters to the developed world. For example, 55% of the Index is represented by China, Korea, Brazil and Taiwan.

**MSCI Emerging Markets Index
Country Weights**



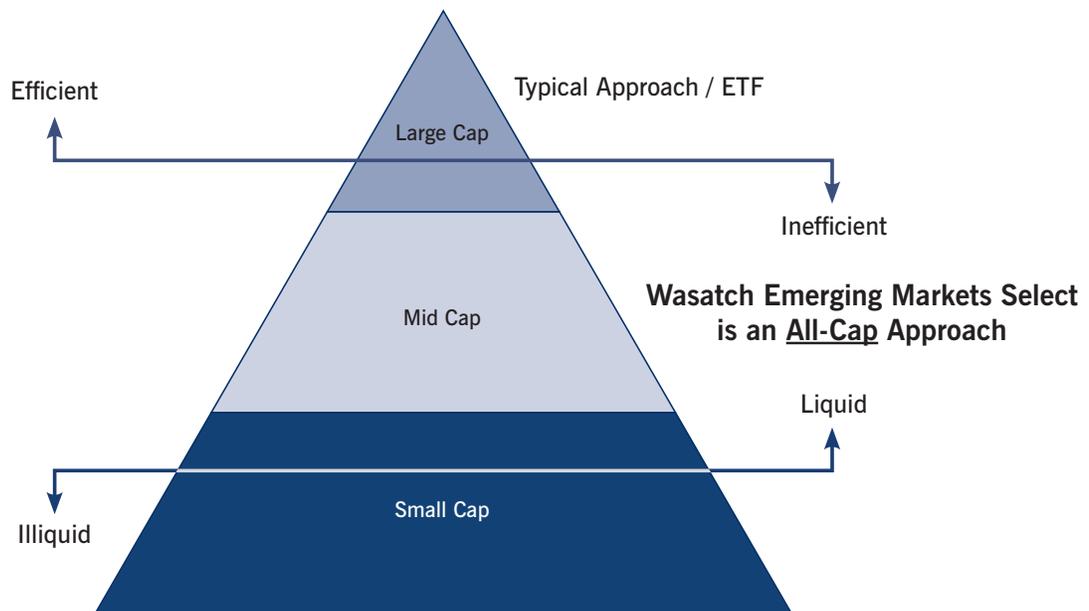
Source: FactSet, as of June 30, 2013.

A DIFFERENT APPROACH

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

- Poor geographic diversification
- Holdings highly correlated with one another
- Holdings highly correlated with developed markets
- Investors believe they are getting emerging-markets 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

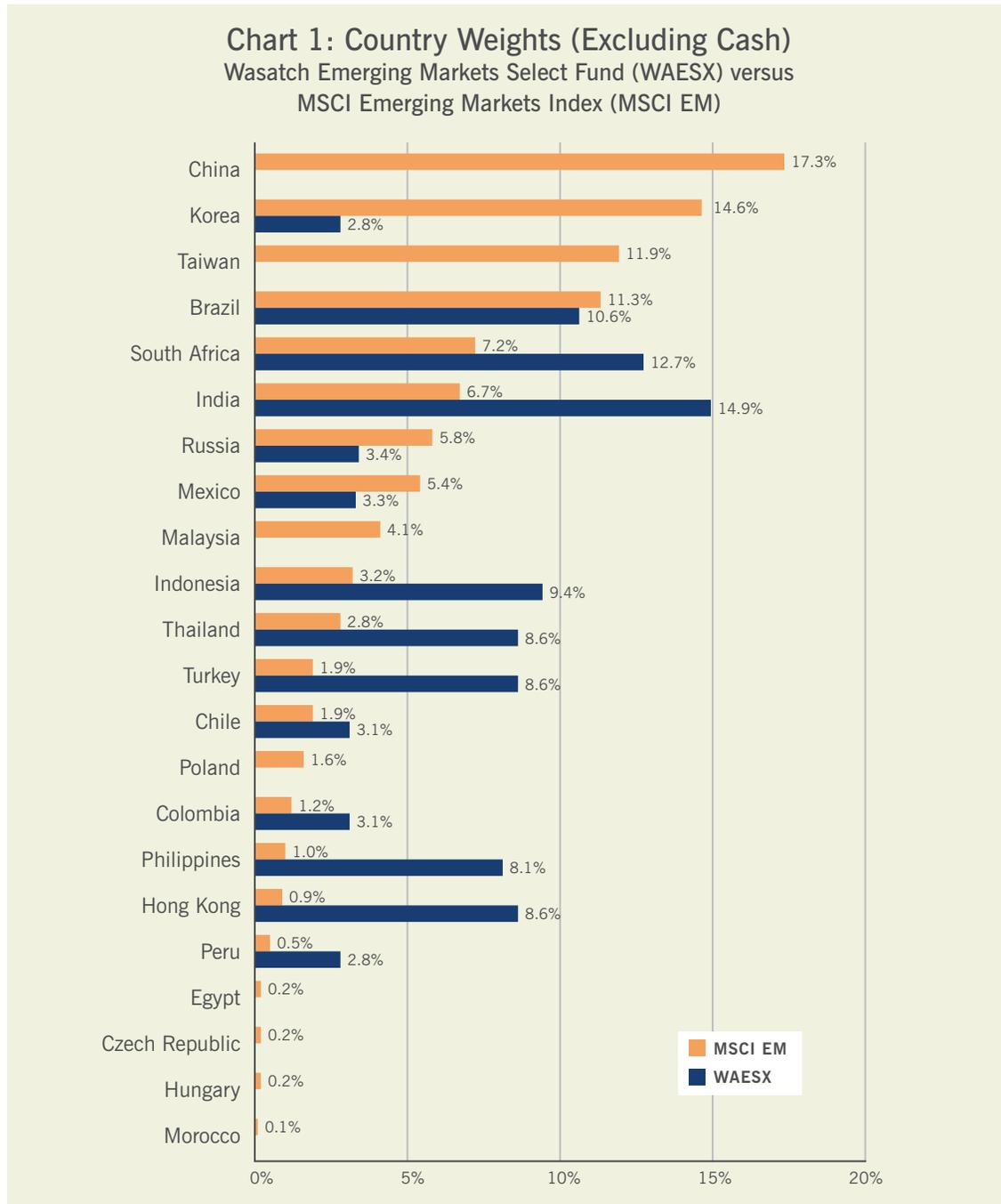
The **Wasatch Emerging Markets Select Fund (WAESX)** takes a **different** approach. The Fund pursues greater country diversification and focuses more on companies that are meeting home-country consumer demands. In addition, as described in the diagram below, the Fund seeks the **intersection of liquidity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



According to FactSet, as of June 30, 2013, the weighted average market cap for the Wasatch Emerging Markets Select Fund was \$7.5 billion versus \$40.7 billion for the MSCI Emerging Markets Index.

GEOGRAPHIC DIVERSIFICATION

Country weights for the Wasatch Emerging Markets Select Fund versus the MSCI Emerging Markets Index are plotted in Chart 1. The chart 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, represent 32% of the Index and only 3% of the Fund. Meanwhile, the frequently underinvested countries of Indonesia, Thailand, the Philippines and Turkey together account for 35% of the Fund, but only 9% of the Index.



Source: FactSet, as of June 30, 2013. Current and future holdings are subject to risk and may change at any time.

QUALITY GROWTH COMPANIES

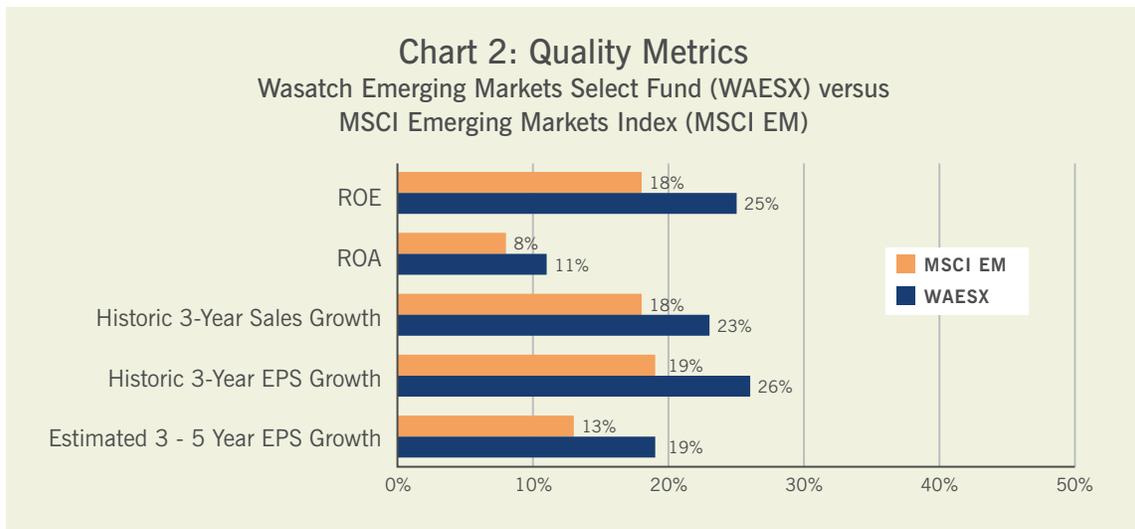
A central Wasatch investment theme is to identify and own the *World's Best Growth Companies*.® These are what we believe to be the highest-quality companies that possess an identifiable, sustainable competitive advantage, are well-managed, and are producing above-average earnings growth relative to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

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

- Sustainable competitive advantage
- 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 Chart 2. The favorable comparisons in Chart 2 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 June 30, 2013. Past performance is not indicative of future results. Quality metrics are subject to change. The Wasatch Emerging Markets Select Fund is new and has limited operating history.

THE GRADUATION EFFECT

Ideally, some small companies in the other Wasatch emerging-markets 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 New Strategy For New Opportunities

Emerging Markets Select is a new 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.

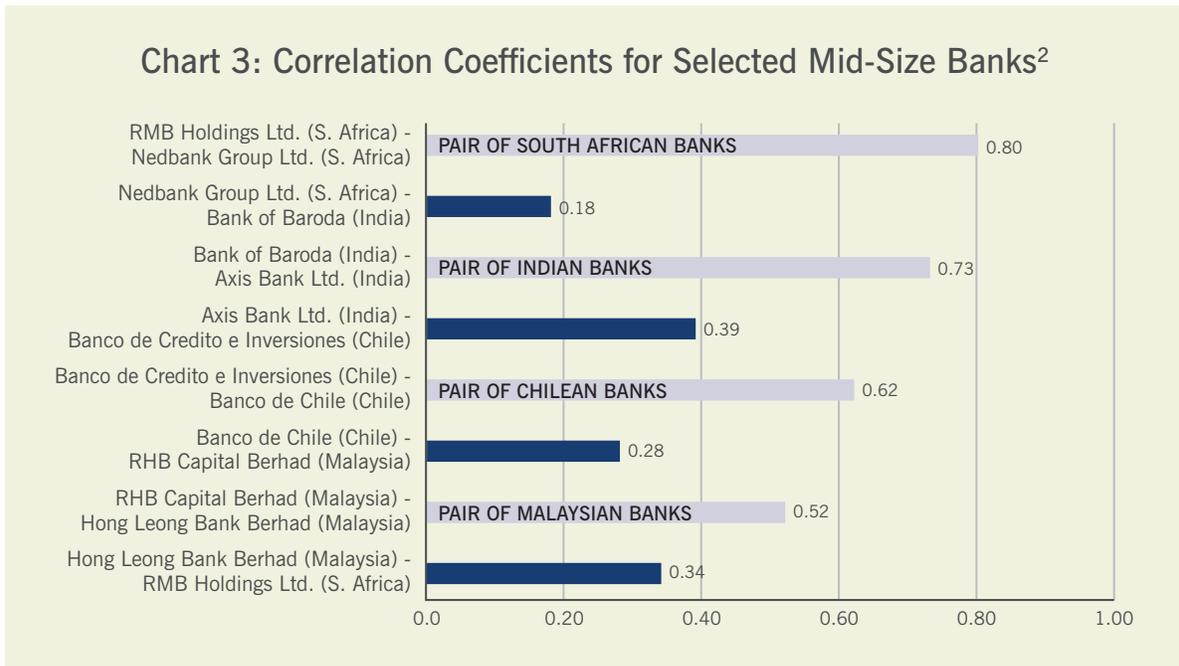
The proliferation of emerging-markets mutual funds and exchange-traded funds (ETFs) has paralleled the development of U.S. investing. However, emerging-markets investing has progressed in reverse order. Domestic U.S. mutual funds evolved from purely active management about 25 years ago, to a market-cap/style 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 was 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 Chart 3, which plots correlation coefficients for mid-size banks in four emerging markets.

The four light gray bars in Chart 3 represent four countries—South Africa, India, Chile and Malaysia. Each light gray bar plots the correlation coefficient (ρ) for a pair of mid-size banks located in the represented country. The dark blue bars in between the light gray bars plot correlations between the previous bank listed (located in the country represented by the light gray bar above the dark blue bar), and the following bank listed (located in the country represented by the light gray bar below the dark blue bar).

Chart 3: Correlation Coefficients for Selected Mid-Size Banks²



Source: Bloomberg. Chart 3 reports correlation coefficients (ρ) for the three-year period ended June 30, 2013. 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 light gray bar from the top represents India and shows a correlation coefficient of 0.73 for Bank of Baroda and Axis Bank Ltd. That means about 53% (0.73²) 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 dark blue bar above the India bar shows a sharp drop-off in correlation to only 0.18 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 0.18², or 3.2%. The remaining 96.8% (100% - 3.2% = 96.8%) 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 dark blue bar below the light gray India bar denotes a correlation of 0.39 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 15% (0.39²) of the variation in one bank's stock price can be explained by variations in the price of the other. Together, the examples in Chart 3 serve to illustrate the weak industry-correlation effects for emerging-markets mid-caps, especially between companies in different countries.

The upshot for emerging-markets 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-markets 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.

KEY DRIVERS FOR WASATCH EMERGING-MARKETS MUTUAL FUNDS

Each of the four Wasatch emerging-markets 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-discretionary and consumer-staples companies driven largely by domestic demand growth and rising incomes. We believe such companies are likely to benefit as emerging-markets 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 emerging-markets opportunities, 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 nearly 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 13 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-markets 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 Indonesia 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-markets investments that appear to have the best potential.

Wasatch's research team consists of 23 portfolio managers and securities analysts, which includes three portfolio managers and seven analysts focused specifically on investing internationally. Each team member is dedicated to the collaborative, hands-on research process the firm employs in managing its mutual funds and institutional separate accounts.

Wasatch Advisors, investment advisor for Wasatch Funds (www.WasatchFunds.com), had \$16.5 billion in assets under management as of June 30, 2013.

Wasatch Contacts

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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, Wasatch Frontier Emerging Small Countries, and Wasatch Emerging India 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, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages (<http://www.msci.com>).

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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 June 30, 2013, the Wasatch Emerging Markets Small Cap Fund and the Wasatch Frontier Emerging Small Countries Fund did not hold RMB Holdings Ltd., Nedbank Group Ltd., Bank of Baroda, Axis Bank Ltd., Banco de Credito e Inversiones, Banco de Chile, RHB Capital Berhad or Hong Leong Bank Berhad. As of June 30, 2013, the Wasatch Emerging Markets Select Fund had 2.9% of net assets in Banco de Chile and the Wasatch Emerging India Fund had 1.7% of net assets in Axis Bank Ltd., but these two funds did not hold any of the other companies.

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