

Wasatch Frontier Emerging Small Countries Fund

Each of the four Wasatch emerging-markets mutual funds (Frontier Emerging Small Countries, Emerging Markets Small Cap, Emerging Markets Select, and Emerging India) targets a different segment of the emerging-markets universe. By focusing more attention on smaller companies and on companies located outside the largest of the emerging markets, these funds seek to identify growth-oriented investments that are not yet widely recognized. The funds share our central investment style, which emphasizes **high quality, reasonable valuation** and a **long-term horizon**.

Diversification across countries and into smaller-capitalization, less-developed emerging markets may help to lower risk and reduce volatility. We generally seek countries with attractively valued stock markets and growing consumer economies driven by domestic demand and an expanding middle class. In contrast, the emerging-markets indices typically are constructed without regard to fundamental investment considerations such as P/E ratios or the cash flows of the underlying businesses. Additionally, the indices may be heavily weighted in export-driven economies whose fortunes are tied more closely to the developed world than is commonly perceived.

Using a standardized methodology, the Wasatch international team systematically and repeatedly screens the universe of emerging markets for attractive, potentially overlooked opportunities. This process is designed to capture companies both with and without sell-side analyst coverage, as well as initial public offerings (IPOs).

GOING OFF THE BEATEN PATH

The **Wasatch Frontier Emerging Small Countries Fund (WAFMX)** ventures the furthest afield of all Wasatch funds by targeting frontier markets and emerging small countries. As yet undiscovered by many investors, these markets have lower capitalizations and less liquidity than more-developed emerging markets. They include publicly listed companies across Asia, Africa, Europe, Latin America and the Middle East. Many companies in frontier markets and emerging small countries have limited analyst coverage and offer untapped investment opportunities.

We believe frontier markets are in the early stages of a potentially long-term investment cycle. Frontier countries currently account for 21.6% of the world's population, 6% of its nominal gross domestic product (GDP), and only 3.1% of world market capitalization.¹ Large, young populations are driving urbanization and a growing middle class. Meanwhile, as burdensome regulations and taxation within the developed world continue to escalate, there is every reason to believe outsourcing and globalization trends will continue to create jobs and drive growth toward frontier markets.

The preceding factors—together with higher GDP growth trends, nascent consumer economies and low debt-to-GDP ratios—make frontier markets and emerging small countries an especially appealing group for equity investors. Our goal is to capture the next generation of potentially large emerging markets—the next BRICs

(Brazil, Russia, India and China), Korea and Taiwan. We believe frontier-market countries and the countries that are the smallest within the traditional emerging-markets indices represent a significant long-term opportunity for investors willing to do their homework and put boots on the ground.

QUALITY GROWTH COMPANIES

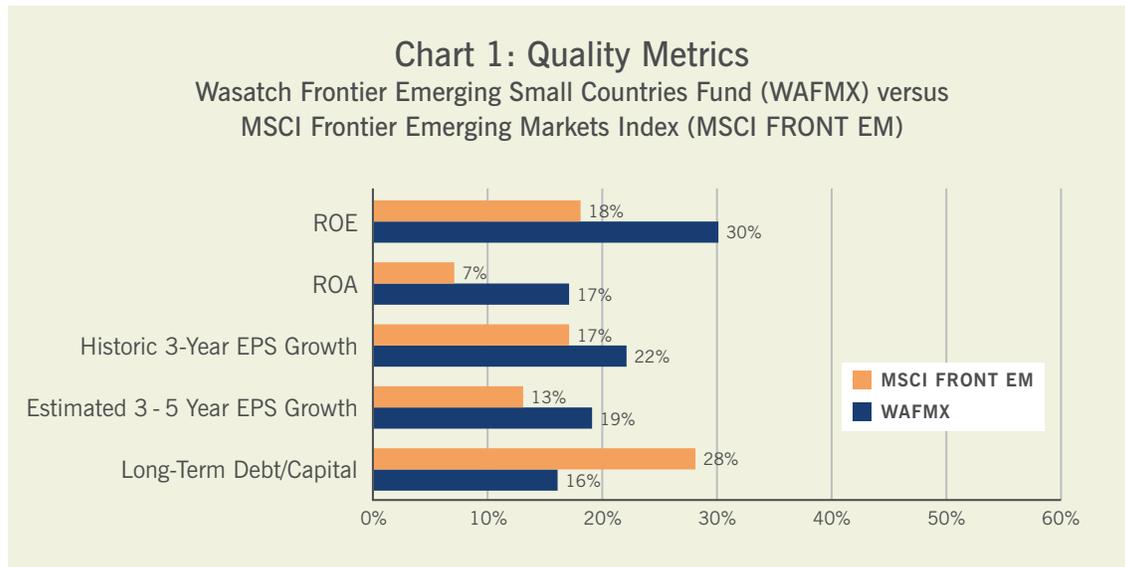
A central Wasatch investment theme is to identify and own the *World's Best Growth Companies*.® These are what we believe to be the highest-quality companies that possess an identifiable, sustainable competitive advantage, are well-managed, and are producing above-average earnings growth relative to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

As we analyze companies in frontier markets and emerging small countries, 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.

The Wasatch Frontier Emerging Small Countries Fund shares the same high-quality-growth orientation as the other Wasatch emerging-markets funds. Chart 1 illustrates the generally higher quality of the Fund's portfolio versus its benchmark, the MSCI Frontier Emerging Markets Index. The favorable comparisons in Chart 1 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.

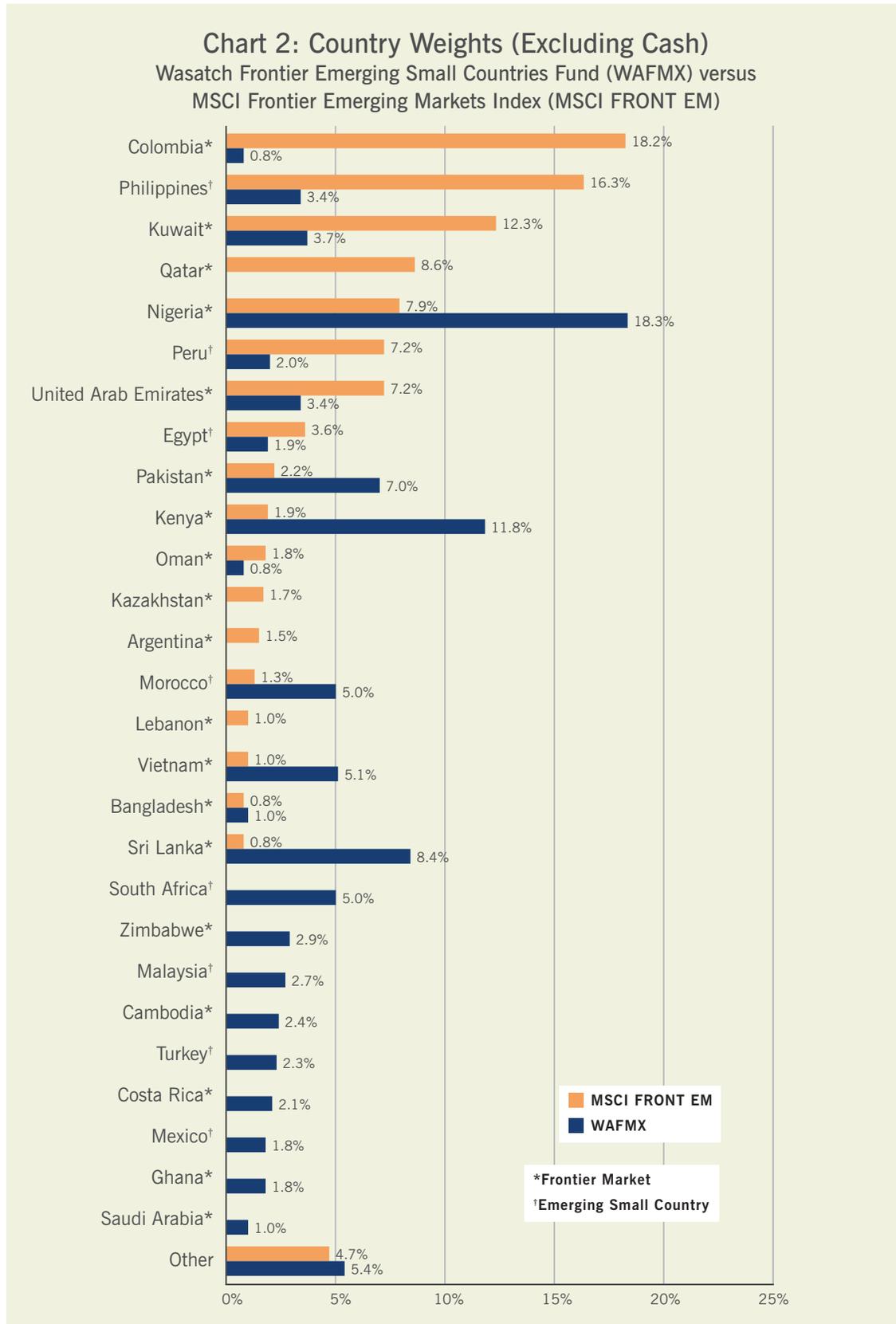


Sources: FactSet and Wasatch Advisors, as of June 30, 2013. Past performance is not indicative of future results. Quality metrics are subject to change.

GEOGRAPHIC DIVERSIFICATION

Chart 2 presents country weights for the Wasatch Frontier Emerging Small Countries Fund and its benchmark. It is clear from the chart that not only are the Fund’s allocations more broadly diversified, but they also are very different. For example, 55% of the MSCI Frontier Emerging Markets Index is accounted for by its four most heavily weighted countries (Colombia, the Philippines, Kuwait and Qatar). The Fund’s four highest weightings are a completely different group (Nigeria, Kenya, Sri Lanka and Pakistan) and represent 46% of its non-cash assets.

While there can be no guarantee that benchmark overlap will always be this low, Chart 2 demonstrates the Fund’s flexibility to pursue returns that are driven differently from those of the MSCI Frontier Emerging Markets Index. For investors seeking exposure to frontier markets and emerging small countries, the Fund’s high-quality focus and extensive diversification across countries may make it a sensible core holding.

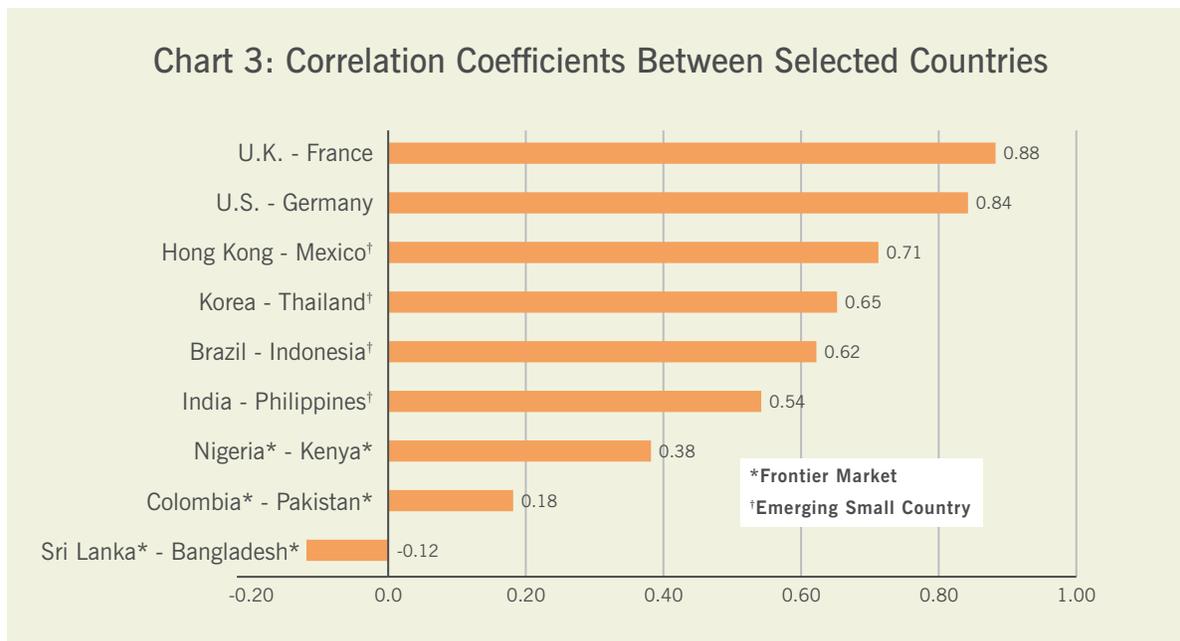


Source: FactSet, as of June 30, 2013. Current and future holdings are subject to risk and may change at any time.

DIFFERENCES BETWEEN “HERE” AND “THERE”

While all world stock markets are correlated to some extent, the degree of correlation between emerging markets generally is less than for developed countries. Frontier markets tend to be the least correlated of all.

Chart 3 compares the correlation coefficients (ρ) between selected pairs of countries. Of the pairings shown, the United Kingdom (U.K.) and France ($\rho = 0.88$) are the most highly correlated. Next is U.S.-Germany at 0.84, a number that indicates about 71% (0.84^2) of the variation in the German stock market can be explained by what happens on Wall Street. Among emerging markets, the correlation coefficients begin to drop off appreciably. For the three pairs of frontier markets in the chart, the coefficients are minuscule: 0.38 for Nigeria-Kenya, 0.18 for Colombia-Pakistan and -0.12 for Sri Lanka-Bangladesh.



Source: Bloomberg. Chart 3 reports correlation coefficients (ρ) for the three-year period ended June 30, 2013.

The message of Chart 3 is that emerging markets tend to be more local in character, driven largely by the country’s own economic and political development and less subject to whims of the global economy. This is especially true for frontier markets and emerging small countries.

Low correlations between the holdings in a portfolio may reduce its volatility because investments that are less correlated are less likely to move together in price. This effect can be observed in Table 1, which shows returns and standard deviations for the MSCI Frontier Markets Index, the MSCI Frontier Emerging Markets Index and three other indices included for comparison. Here, standard deviations provide a generally accepted yardstick for comparing the volatility of one portfolio or index with another. It’s worth noting that for both frontier-markets indices, the three-year standard deviations (12.68% and 13.55% for MSCI Frontier Markets and MSCI Frontier Emerging Markets, respectively) are lower than for the other indices included for comparison, including the MSCI EAFE Index and the S&P 500 Index.

Table 1: Risk-Return Characteristics
Frontier Markets and Comparative Indices
as of June 30, 2013

	Average Annual Total Returns			Annualized Standard Deviations	
	1 Year	3 Years	5 Years	3 Years	5 Years
MSCI Frontier Markets Index	22.98%	6.65%	-9.11%	12.68%	23.76%
MSCI Frontier Emerging Markets Index	10.28%	7.08%	-5.62%	13.55%	23.70%
MSCI Emerging Markets Index	2.87%	3.38%	-0.43%	20.86%	27.77%
MSCI EAFE Index	18.62%	10.04%	-0.63%	18.34%	22.98%
S&P 500 Index	20.60%	18.45%	7.01%	13.57%	18.42%

Source: Morningstar. All data and information are gathered from sources believed to be reliable but are not warranted to be correct, complete or accurate. Past performance is not indicative of future results.

Another important point displayed in Table 1 is that the five-year average annual total returns of the MSCI Frontier Markets Index and the MSCI Frontier Emerging Markets Index are still negative. We believe this is one indication that these markets have not yet caught up to the valuations in more-developed markets.

KEY DRIVERS FOR WASATCH EMERGING-MARKETS MUTUAL FUNDS

Each of the four Wasatch emerging-markets mutual funds (Frontier Emerging Small Countries, Emerging Markets Small Cap, Emerging Markets Select, 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 Frontier Emerging Small Countries 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 Frontier Emerging Small Countries, Wasatch Emerging Markets Select, 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 Frontier Emerging Small Countries, Wasatch Emerging Markets Small Cap, Wasatch Emerging Markets Select, 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.

Gross Domestic Product (GDP) is a basic measure of a country’s economic performance and is the market value of all final goods and services made within the borders of a country in a year.

An **Initial Public Offering (IPO)** is a company’s first sale of stock to the public.

Long-Term Debt to Capital is a company’s debt as a percentage of its total capital. Debt includes all short-term and long-term obligations. Total capital includes the company’s debt and shareholders’ equity, which includes common stock, preferred stock, minority interest and net debt.

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

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

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.

Standard Deviation is a statistical measure of the extent to which returns of an asset vary from its average.

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

World's Best Growth Companies (WBGs) 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 S&P 500 Index represents 500 of the United States' largest stocks from a broad variety of industries.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. The MSCI Frontier Emerging Markets and MSCI Frontier Markets indices are free float-adjusted market capitalization indices designed to measure equity market performance in the global frontier and emerging markets. The MSCI EAFE (Europe, Australasia, Far East) Index is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. You cannot invest in these or any indices.

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FOOTNOTE

¹Speidell, Lawrence, *Frontier Market Equity Investing: Finding the Winners of the Future* (May 2011). CFA Research Foundation of CFA Institute, ISBN 978-1-934667-36-1.