Japan: Land of Generational Change

September 5, 2017

INTRODUCTION

For most of the 1990s and 2000s, Japan's economy was mired in deflation, which made for a very tough backdrop for investors to make money. During the last five years, however, we've identified a number of positive changes — many of which have been sparked by policies introduced by Prime Minister Shinzo Abe, collectively known as "Abenomics." Not only is Japan the largest country allocation in the international developed market universe, based on the MSCI EAFE Index, but in our view it also remains one of the most misunderstood. In this paper, we discuss some of our reasons for being optimistic regarding Japan and highlight some of the sustainable improvements we've been seeing in Japan's market environment.

INEFFICIENT MARKET WITH ABUNDANT INVESTMENT OPPORTUNITIES

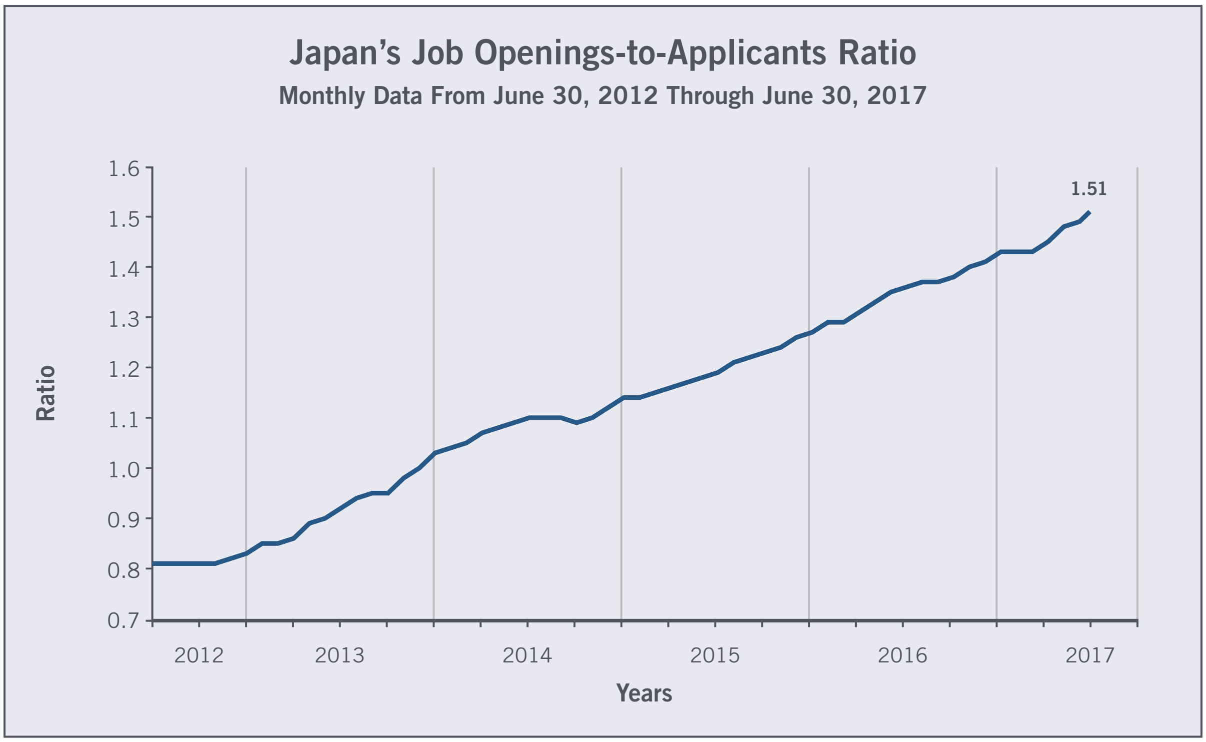
When we raise the topic of investing in Japan, we typically receive comments like "Japan's population is shrinking," "the economy isn't growing" and "Japan has been in deflation for two decades." While these comments are true, they miss a big part of the real picture regarding what's happening in Japan.

Following the December 2012 Japanese general election, newly elected Prime Minister Abe introduced an economic framework based on "three arrows" — economic policy, fiscal stimulus and structural reforms. The first two arrows were aimed at fighting deflation and providing a more immediate boost to the economy. The third arrow of Abenomics is intended to have a medium- to long-term impact with initiatives aimed at things such as improving corporate governance, encouraging companies to have more independent directors, boosting business competitiveness, increasing productivity and obtaining better mobility in the labor force.

The broad array of initiatives comprising this third arrow makes it more complex and harder to understand. We've even heard the third arrow referred to as "one thousand needles" given the sheer number of policies and initiatives. In addition to those mentioned above, other initiatives are targeted at specific industries or segments of the economy, and are intended to stimulate changes in business and consumer behavior. The changes we've seen occurring as a result of third-arrow initiatives have opened up more interesting and attractive investment opportunities, and are part of our growing optimism for investing in Japan.

One cannot rely solely on current economic data to gauge the success of these initiatives. But our on-the-ground research in Japan tells us that changes happening at the micro level are real, and being in the country helps us understand these more subtle changes. Members of the Wasatch research team travel regularly to Japan and have a firsthand account of how the business environment has evolved over time. Our firsthand knowledge combined with our analysis of corporate and country-level financial data have prompted us to increase our allocation to Japanese stocks significantly over the last five years as compared to the previous five years. Most importantly, we believe Japan provides ample opportunities for investors willing to commit the time and resources to understand the environment and the companies.

Many of Prime Minister Abe's initiatives are aimed at addressing the challenges Japan faces. For example, Japan has a labor shortage—which is depicted by the following graph. In June 2017, the job openings-to-applicants ratio was 1.51, which was the highest level seen for decades. With an aging population, Japan is extending the retirement age. We witnessed this during a recent research trip when an 80-year-old man drove us in a taxi. Another Abe initiative dubbed "womenomics" seeks to encourage women to enter the workforce with policies aimed at improving the childcare-support system, creating a more women-friendly work environment, and bolstering cooperation between the government and companies to facilitate better work/life balance. It's also a great time to be a young person in Japan. We regularly hear from management teams that they're hiring students right out of college, hiring more part-time employees and even starting to embrace the concept of outsourcing.



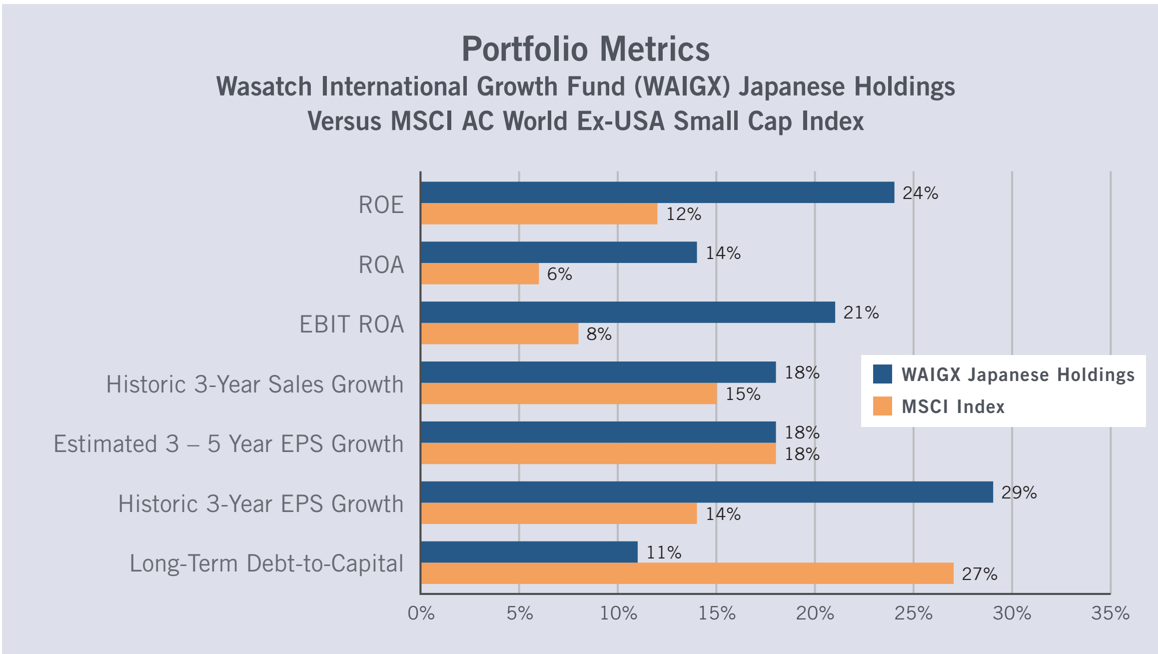
Source: Bloomberg.

With unemployment at a multi-decade low of 2.8%, this is leading to modest wage inflation in some parts of the economy—but isn't obvious when looking at overall economic statistics given the structure of the labor market. The official part-time employee ratio is 30%, which is up from 25% a decade ago. And although Japan's wages have been rising, part-time employees earn much less than full-time equivalents. This spread is even more dramatic when including employee benefits such as health care. A more vibrant employment picture is typically a positive indicator for increased consumer spending and economic activity. The quagmire in Japan's case is that consumers are saving instead of spending. In Japan, the gross household savings rate as a percentage of gross domestic product (GDP) has increased from 23.5% in 2012 to nearly 28% in 2017. Our research indicates incremental saving is going into areas like health care, due to an aging society and a desire by young people to assist their parents during the golden years. In our opinion, this is one issue Prime Minister Abe needs to address.

IMPROVING CORPORATE GOVERNANCE

One of Abenomics' more important reform initiatives focuses on improving corporate governance. Since these reforms were undertaken, we've seen shareholders demand better performance and corporate directors and management teams become more focused on shareholders. This trend has been evident in improving financial metrics such as return on equity (ROE). One reason ROE had been historically low in Japan was because corporations held excess cash on their balance sheets. Over the past few years, companies have been starting to deploy this excess cash, using it either to grow their businesses or to return cash to shareholders in the form of dividends and/or share buybacks.

Indicating the improvements in Japan, the following chart shows the ROE—along with other portfolio metrics—for the Japanese holdings in the Wasatch International Growth Fund versus the benchmark MSCI AC World Ex-USA Small Cap Index.



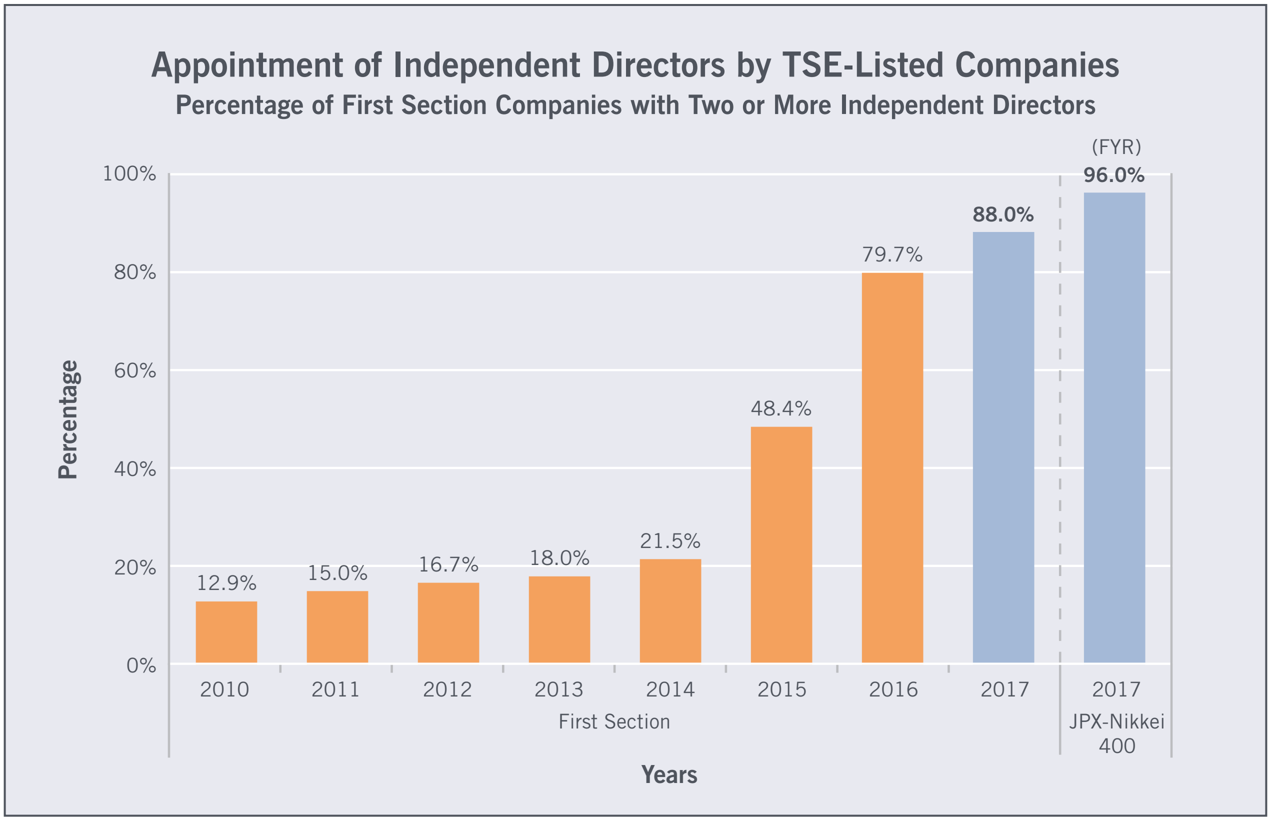
Sources: FactSet and Wasatch Advisors, as of June 30, 2017. Past performance is not indicative of future results. Portfolio metrics are subject to change.

Corporate Japan is embracing initiatives such as the stewardship code and the corporate governance code. And there's a welcome trend toward more independent directors. Five years ago, fewer than half the companies in the TOPIX—which tracks the First Section of the Tokyo Stock Exchange (TSE)—had two or more independent directors. Now, as shown in the first chart on page 4, nearly 90% of those companies do.

More and more Japanese companies are embracing shareholder-friendly practices, which has led to an increasing subset of companies that meet Wasatch's strict quality standards. At Wasatch, we focus on small-cap, high-quality, long-duration growth companies. And we now have a bigger universe of stocks to choose from in Japan. During the last five years, we've seen the number of companies in the small-cap quality universe increase by approximately 50%. In 2012, there were about 300 Japanese listed companies with market capitalizations between US$250 million and US$5 billion and ROEs greater than 10%. Now, there are more than 450 companies with that profile.

Not only is the universe of high-quality companies increasing, but Japan also remains an inefficient and misunderstood market—which provides ample opportunities for investors willing to dig in and do the work. Beyond the obvious language barrier, obtaining information on Japanese companies is more challenging than in many of the other countries in which we invest. Many financial reports and presentations are released only in Japanese. This requires us to travel to the country to meet management teams in person in order to understand their business and strategy. On our most recent research trip to Japan, we met a company's executives who told us we were the first foreign investors to meet with them. Add to that a culture unlike any other, and we can see why many investors become frustrated too early in the process. Investing in Japan does require hard work, but we believe the potential rewards are worth the effort.

"People only see what they are prepared to see."
—Ralph Waldo Emerson

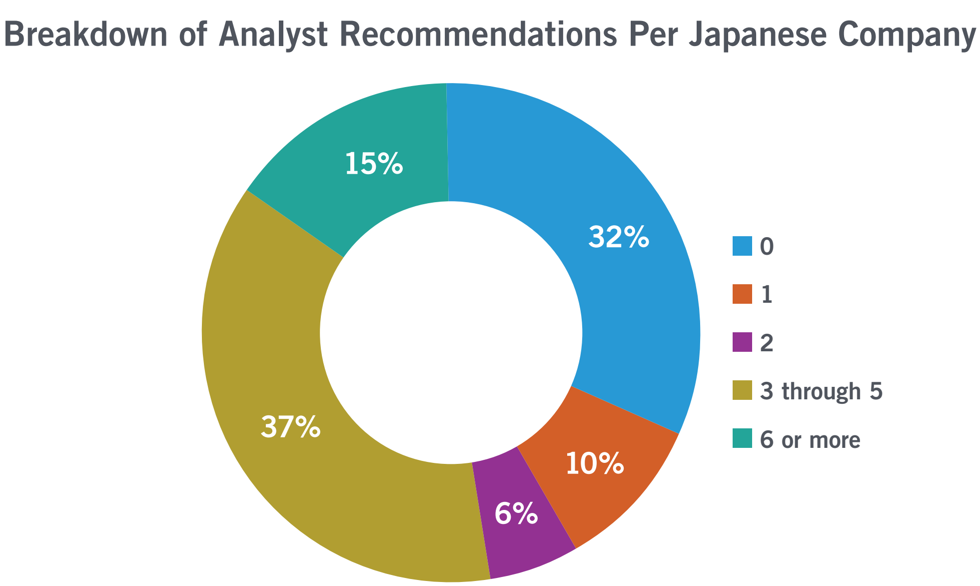


Source: Japan Exchange Group. Figures for years prior to 2017 are based on corporate governance reports. The figures for 2017 are based on corporate governance reports submitted by listed companies as of July 14, 2017.

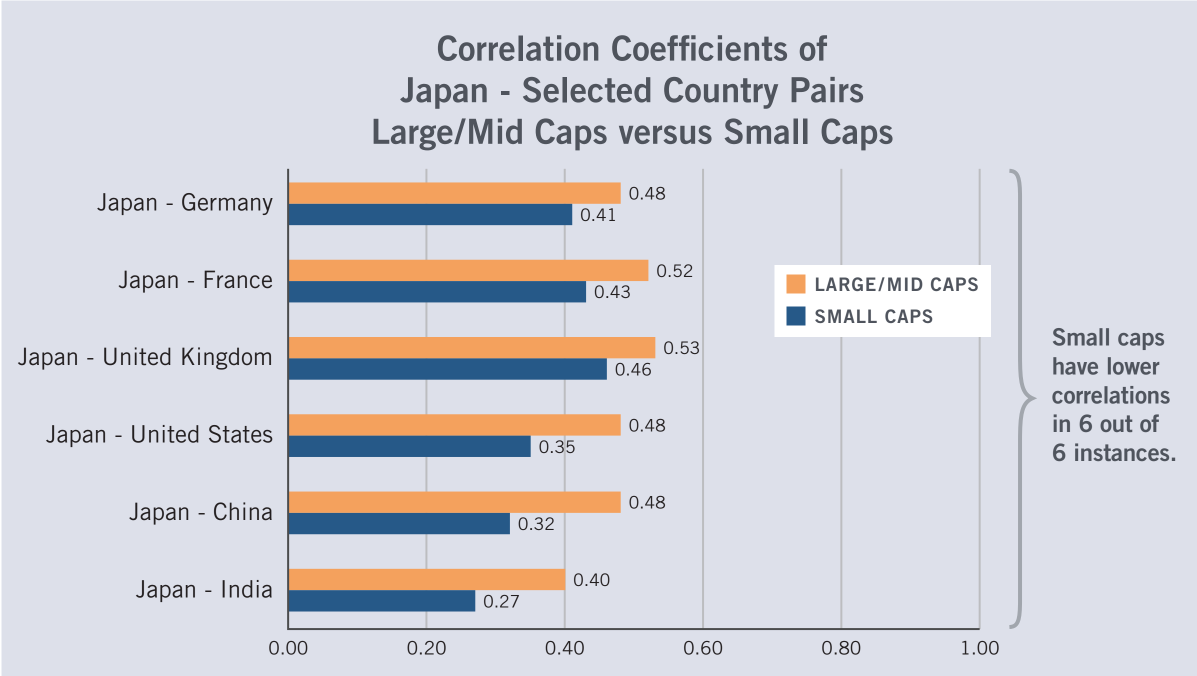
JAPANESE COMPANIES ARE UNDERFOLLOWED

There's also a lack of sell-side or broker coverage on Japanese companies. Nearly half of the listed companies in Japan have just two or fewer analysts researching them. Many of these are small- or micro-cap companies. The following pie chart shows the breakdown of analyst recommendations per Japanese company.

We believe the fact that Japanese companies are underfollowed is one reason for the relatively low correlations in the performance of Japanese stocks compared to those in other countries. The first chart on page 5 shows the correlation coefficients of stocks in Japan versus four other developed markets and two emerging markets. Notice that the large/mid-cap stocks are not highly correlated, and that the small-cap stocks have even lower correlations.



Source: JP Morgan, Bloomberg, February 19, 2016. For Illustrative purposes only.



Source: Bloomberg based on various MSCI indices. Correlation coefficients computed in U.S. dollars for the five years ended July 31, 2017.

Next consider the chart on page 6, which shows the correlation coefficients of stocks in several other countries. Notice that developed markets are typically more highly correlated with each other and that correlations tend to fall when emerging markets are included. Also notice that the country correlations with Japan in the chart above are generally lower than the correlations in the chart on page 6. In fact, correlations with Japan are at levels that are more typical of emerging-market correlations.

What conclusions can we draw from these correlation charts? First, because Japan is generally less correlated with other countries, Japanese stocks can provide a portfolio with attractive diversification characteristics. Second, small-cap stocks—which are the ones we tend to find most attractive—generally have even lower correlations and therefore offer even better diversification benefits.

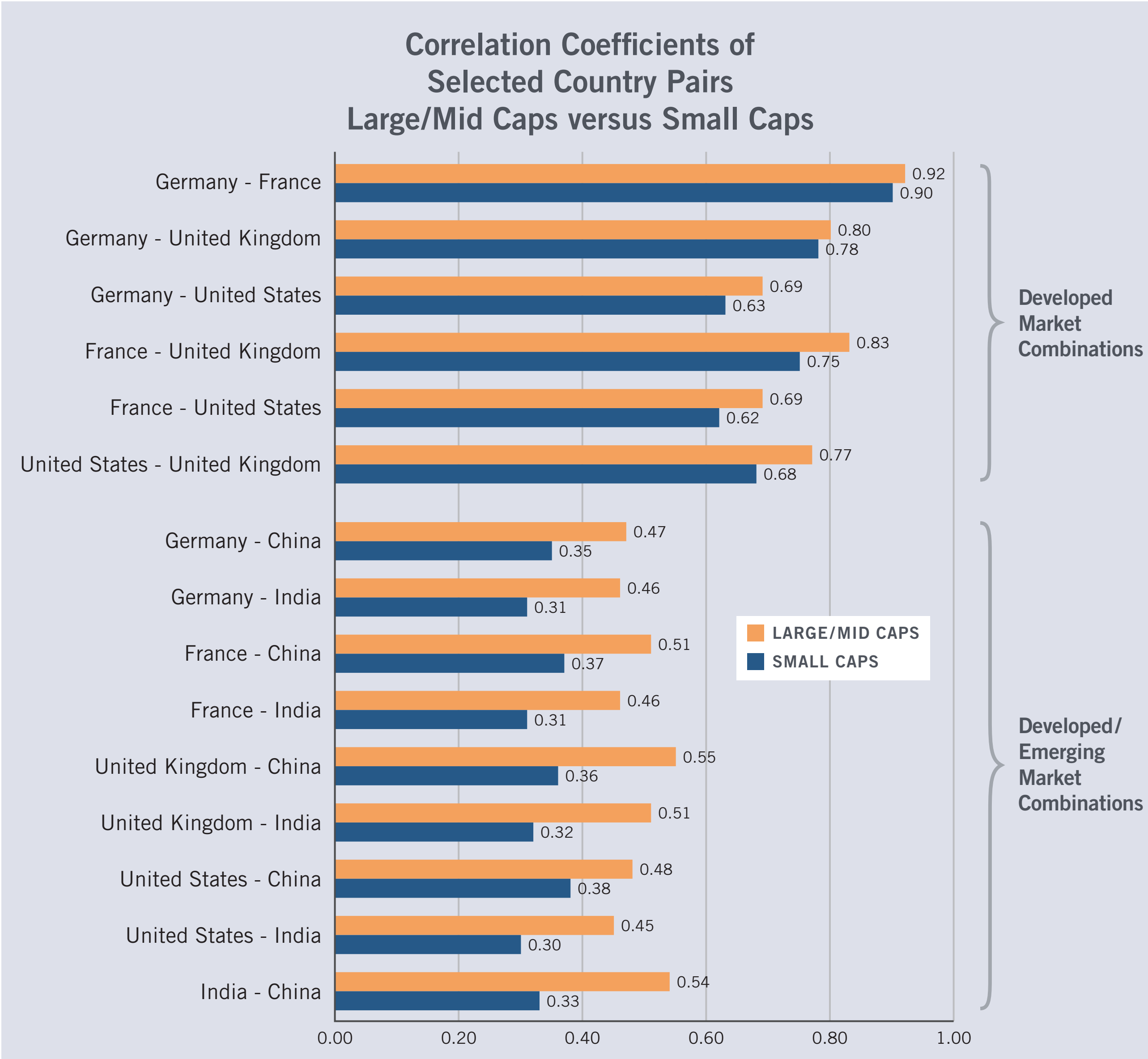
VIBRANT SMALL-CAP MARKET

We believe Japan has one of the most interesting small-cap markets in the world. A vibrant small-cap market is a sign of an entrepreneurial and innovative environment where investors can plant seeds and watch them grow into tall trees over the long term. Within the MSCI Japan Small Cap Index, about 86% of the stocks are below a

Market Capitalizations in U.S. Dollars
MSCI Japan Small Cap Index versus MSCI USA Small Cap Index
As of June 30, 2017

	MSCI Japan Small Cap Index		MSCI USA Small Cap Index	
Mid/Large: Above $5 billion	—		22.44%	
SMID: $3 to $5 billion	13.59%		31.47%	
Small: $1 to $3 billion	57.20%	= 86.41%	35.90%	= 46.09%
Micro: Below $1 billion	29.21%		10.19%	

Source: FactSet.



Source: Bloomberg based on various MSCI indices. Correlation coefficients computed in U.S. dollars for the five years ended July 31, 2017.

market capitalization of US$3 billion. This compares to the MSCI USA Small Cap Index, where just 46% are below a market capitalization of US$3 billion. A more detailed comparison is provided by the table at the bottom of page 5. In Japan, we've been finding a lot of interesting companies in sectors like information technology and health care, and also companies that are disrupting traditional business practices. Some of our best investments in Japan have been in very small companies that have grown to boast multi-billion-dollar market caps.

Two examples of interesting Japanese companies we've found in the health-care sector are **Japan Lifeline Co. Ltd.** and **M3, Inc.** Japan Lifeline sells medical equipment related to the cardiovascular system. The company benefits from its distribution of cutting-edge products in the heart-ablation field. Japan Lifeline is also involved in a number of other businesses including cardiovascular-surgery products such as prosthetic heart valves, stent grafts and vascular grafts. M3 is a health-technology company that's flourished by helping pharmaceutical companies more effectively deliver drug information to doctors online. Leveraging its doctor network and technology platform, M3 entered the contract research organization (CRO) space a few years ago and has become one of the top three CRO companies in Japan. M3's platform automates and optimizes portions of the clinical-trial process to help bring drugs to market faster and less expensively.

Another sign of a healthy business environment is the number of initial public offerings (IPOs). In the three years ended June 30, 2017, Japan led the number of IPOs at 162 versus other developed international countries like the United Kingdom (U.K.) at 106, Australia at 83 and

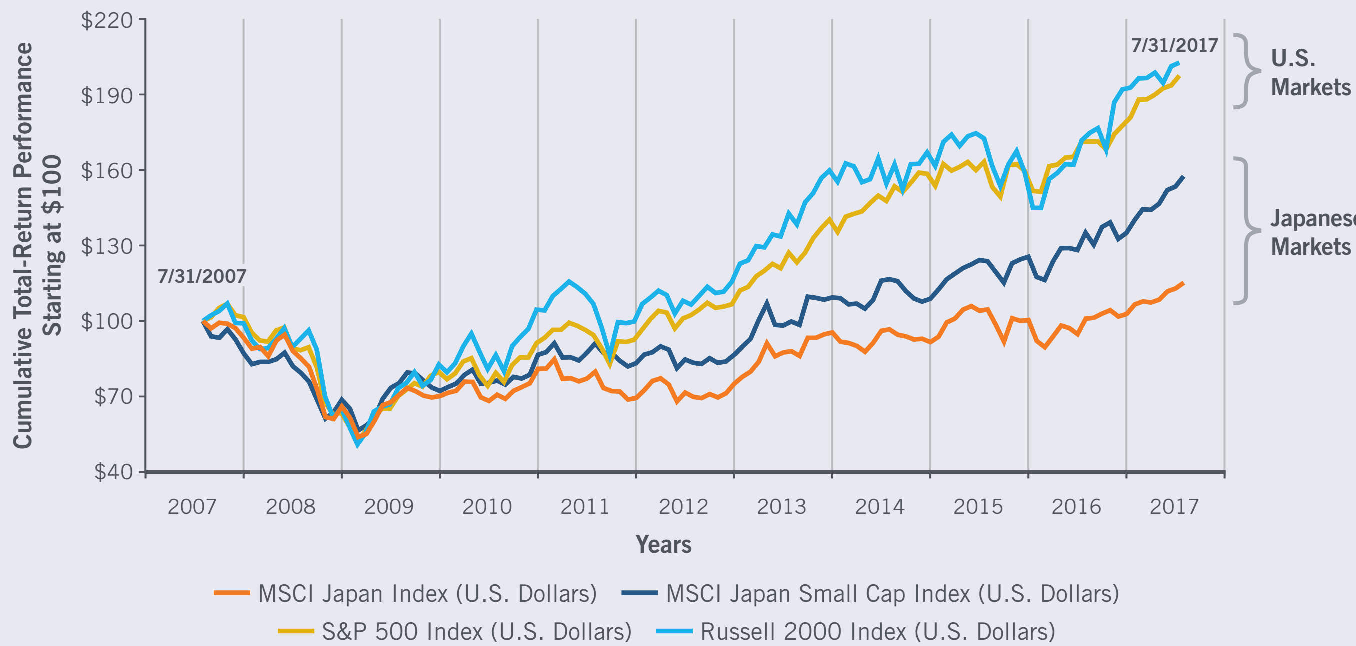
Sweden at 56. A robust IPO market means that entrepreneurs are able to access an efficient way to capitalize their businesses and grow. We see Japan's IPO market as providing a more dynamic small-cap universe and future investment opportunities.

The following graph shows the performance of Japanese markets versus U.S. markets over the past 10 years. While all of these markets suffered during the global financial crisis, they have since recovered — with U.S. markets having risen the most, potentially to the point of reaching some of the higher valuations in the world. Japanese markets, we believe, have greater upside potential. And Japanese small caps, even considering their outperformance of large/mid caps since the global financial crisis, have the most headroom for further growth.

The table at the bottom of this page shows the average annual total returns and the annualized standard deviations of the MSCI Japan Index (large/mid caps) versus the

MSCI Japan Index and MSCI Japan Small Cap Index Versus S&P 500® Index and Russell 2000® Index

Monthly Data From July 31, 2007 Through July 31, 2017



Source: Morningstar.

Risk-Return Characteristics

MSCI Japan Index versus MSCI Japan Small Cap Index
As of July 31, 2017

	Average Annual Total Returns				Annualized Standard Deviations			
	1 Year	3 Years	5 Years	10 Years	1 Year	3 Years	5 Years	10 Years
MSCI Japan Index	14.19%	6.04%	10.53%	1.43%	5.40%	12.47%	12.44%	15.74%
MSCI Japan Small Cap Index	16.62%	10.54%	13.57%	4.65%	10.22%	10.88%	12.12%	14.96%

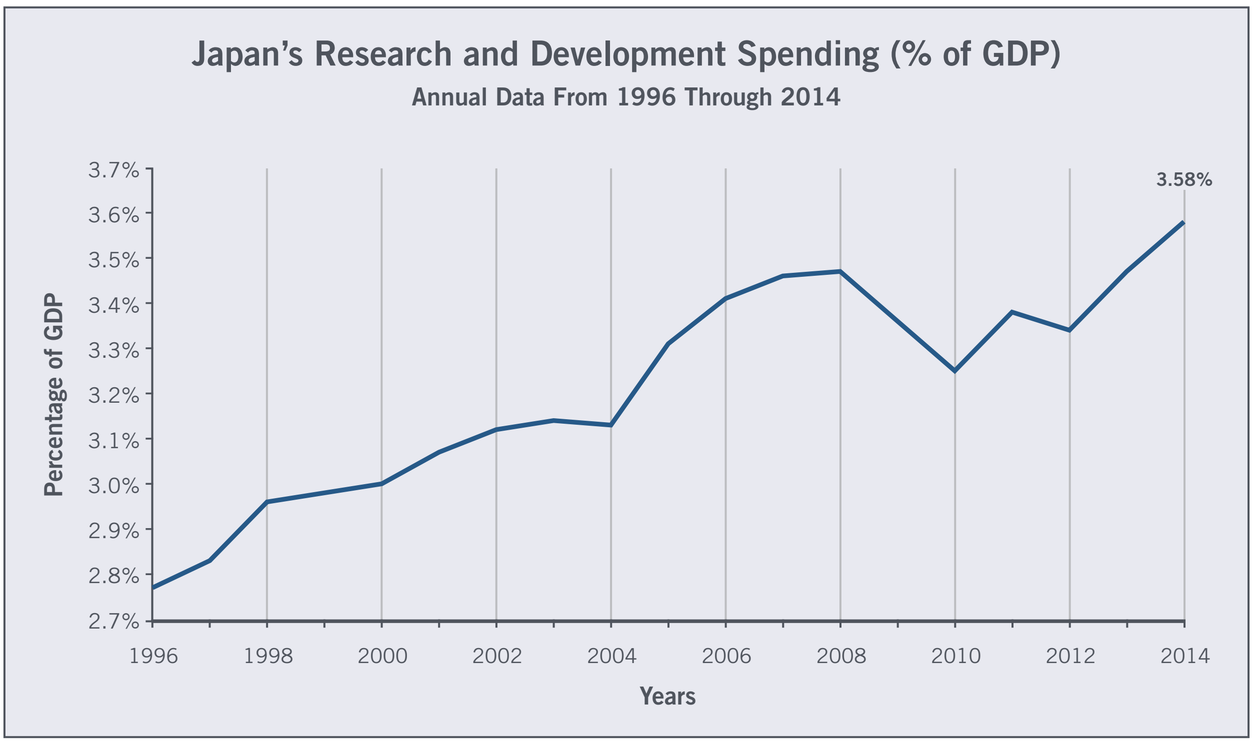
Source: Morningstar. All data and information are gathered from sources believed to be reliable but are not warranted to be correct, complete or accurate. Information was calculated using U.S. dollar-denominated returns. Past performance is not indicative of future results. You cannot invest directly in an index.

MSCI Japan Small Cap Index. What's interesting to note is that the standard deviation — one measure of risk — is lower for the Japan Small Cap Index over three years, five years and 10 years despite small caps having better returns than large/mid caps during these periods.

GLOBAL LEADER IN INNOVATION

When it comes to innovation, Japan is a global leader. Research and development spending as a percentage of nominal GDP is the third highest in the world and has been increasing over the last two decades as shown in the graph below. In 2016, a Japanese scientist was awarded the Nobel Prize in Medicine, which was the 17th Nobel Prize for Japan since 2000, making it the third-largest recipient of Nobel Prizes this century — trailing only the United States and the U.K. Also in 2016, Japan led the list of Clarivate Analytics (formerly Thomson Reuters) Top 100 Global Innovators with a total of 34 companies.

In Japan, there's long been a tradition of incremental innovation. This tradition is embodied in the Japanese word ***kaizen***, which literally means to "make better." The kaizen philosophy was first used to increase the efficiency of the manufacturing process. Today, kaizen is broadly applied in business and is the process of making continual improvements in managing all aspects of a company's operations — from inventory and production to marketing and administration. Over time, the cumulative effect of small, innovative changes can be significant. The benefits of practicing kaizen may include increasing sales, reducing costs, improving supply chains, gaining market share and providing additional cash to invest in growing the business.



Source: The World Bank and the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Institute for Statistics.

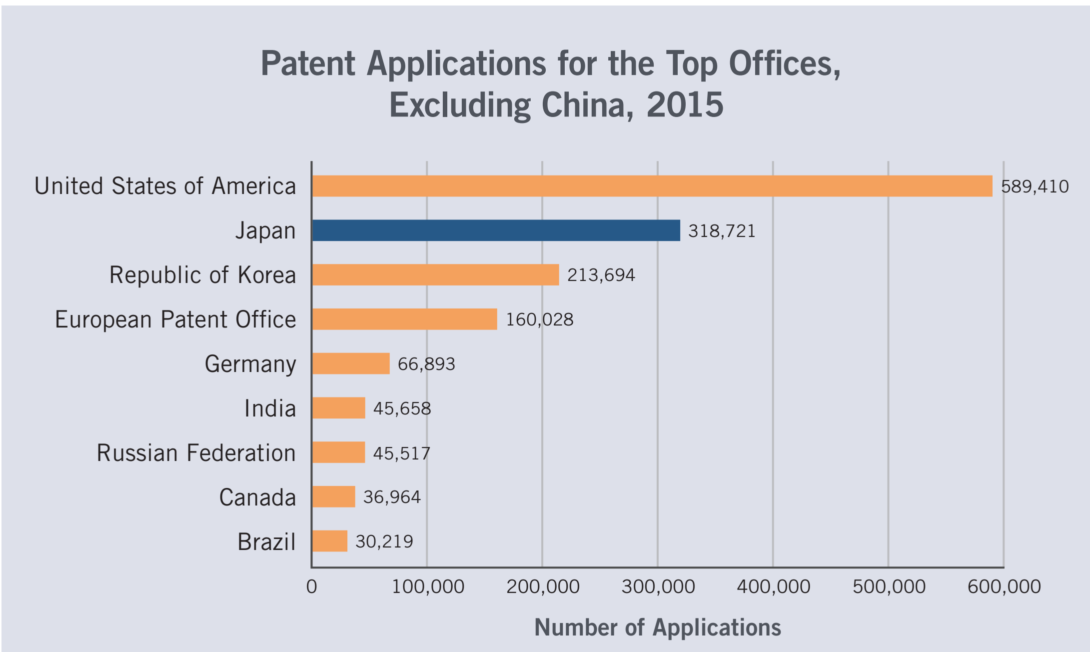
Wasatch investment **MISUMI Group, Inc.** was established in 1963 and has grown to become a leading manufacturer of dies and factory items such as nuts and bolts. MISUMI's corporate mission statement and history shows a commitment to kaizen. In 2014, the company won the "innovations in manufacturing processes" award from the Japan Management Association. The company is an industry leader in logistics, where scale and speed are important metrics. With a heavy investment in rapid logistics between Japan, China and Vietnam, MISUMI has also entered the maintenance, repair and operations (MRO) business.

Combine the radical innovation of big ideas being brought to market by Japan's entrepreneurs and the incremental innovations of practicing kaizen, and you get a dynamic business culture that can hold its own on the world stage and provide attractive opportunities for investors.

WILLINGNESS TO DO THINGS DIFFERENTLY

We're witnessing a generational change unfold in Japan. There's a wave of younger and more vibrant CEOs leading Japan's companies of the future. We look for CEOs who understand Japan's economic landscape but bring a different perspective, perhaps having worked or been educated abroad. When SoftBank Group Corp. listed in 1994, it was a small-cap stock. But the company now boasts a US$90 billion market cap. SoftBank's founder and now Chairman, Masayoshi Son, was educated in the United States. His vision and ability to adapt the business over the years led to the company's success.

Another important change we're seeing in Japan is management teams' willingness to do things differently. Despite Japan's reputation as a technological leader, its online sector has been slower to develop than one might expect. But this is changing. We've been finding many interesting Japanese companies where management teams understand what makes a successful business model or what are the best practices being used by companies globally, and seek to replicate them in their own businesses. Given the social and cultural barriers, it's very difficult for large global companies to penetrate the Japanese market—leaving a lot of opportunities for local entrepreneurial companies to more fully develop their industries.



Note: Application numbers are a sum of direct filings and the Patent Cooperation Treaty national phase entries received by offices (where applicable). Source: World Intellectual Property Organization.

The level of patent applications is one measure of a country's willingness to try new things. By this measure, as indicated in the chart above, Japan is a global leader.

In many of Japan's industries, traditional distribution channels had been entrenched. But now we see more companies willing to disrupt those channels, and they often use technology to enable this. A good example is Wasatch holding **MonotaRO Co. Ltd.** The company created an online distribution channel for the maintenance, repair and operations (MRO) industry. MonotaRO provides customers with a solution that is less expensive, is delivered faster and provides outstanding customer service compared to traditional-channel rivals. Furthermore, we believe MonotaRO is building a sustainable competitive advantage with a strong infrastructure in the form of technology (including integration with customers' systems) and a physical warehouse presence nationwide. MonotaRO is the leading online player in the MRO industry, yet controls less than 2% of the industry in Japan. That figure could go much higher, in our view. We see tremendous potential for Japanese companies willing to do things differently, especially as market reforms take place.

CONSOLIDATION OF FRAGMENTED INDUSTRIES

Japan is home to many fragmented industries. In much of the developed world, a few large companies generally come to dominate some 60% to 70% of a given industry. That figure is approximately 40% in Japan, but is moving toward the global average with factors like wage and cost inflation acting as catalysts for change. We're drawn to companies that can capitalize on this opportunity by consolidating their industries and gaining market share from their competitors.

Japan's pharmacy industry is a good example. Wasatch investment **Ain Holdings, Inc.** is one of the largest pharmacy operators in Japan with about 1,100 locations out of a total of approximately 60,000 locations for the industry as a whole. Ain has doubled in size over the last five years, yet the company still has less than 2% market share. In the U.S., the four top pharmacy companies (Walgreens, CVS, Rite Aid and Wal-Mart) control the majority of the retail pharmacy industry. Over time, we believe the consolidation trends that have happened elsewhere will also occur in Japan. In our opinion, the economics are clearly aligned with that trend, especially given the shareholder-friendly reforms being enacted by many companies.

CONCLUSION

Our optimism for investing in Japan is supported by Abenomics, and particularly by third-arrow initiatives that are being embraced by corporations. The adoption of many of these initiatives has helped to broaden the universe of attractive small-cap companies available to investors in Japan. Improving corporate governance has led to improving financial metrics for many companies.

Despite being one of the largest developed economies in the world, Japan's market is still inefficient and misunderstood by many investors, which provides opportunities for hands-on investors like Wasatch to find companies with outstanding investment potential. Being on the ground in Japan, we've uncovered a wealth of innovative small companies that are ripe for investment.

We believe Japan is headed in a positive direction. We're seeing this from the bottom up by analyzing the investment potential of individual companies. We see a vibrant culture of innovation and entrepreneurship giving rise to exciting small companies that have significant headroom for growth by consolidating their industries, expanding their geographic reach and using technology to take market share from their competitors.

At Wasatch, we're committed to investing in small-cap, high-quality, long-duration growth companies. In Japan, we're seeing sustainable improvements in the market environment that are supportive of the kinds of small companies in which we like to invest.

THE WASATCH ADVANTAGE

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

Wasatch Advisors 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 since then.

Deep Due Diligence

To take full advantage of the inefficiencies and opportunities available internationally, portfolio managers and analysts must be willing to do on-the-ground research 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. Our portfolio managers and analysts regularly travel the world to meet with management teams, who sometimes mention just how rare it is for them to actually get a visit from an investor.

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.

Cross-Team Collaboration

Another key element of Wasatch's approach is cross-team collaboration. For example, we don't send one person to Japan 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 portfolio managers and 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 investments that appear to have the best potential.

Wasatch's research team consists of 31 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

Roger Edgley, CFA
Director of International Research,
Portfolio Manager

Roger Edgley is Director of International Research and the Lead Portfolio Manager for the Wasatch International Growth Fund, Wasatch Emerging Markets Small Cap Fund and the Wasatch Frontier Emerging Small Countries 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.

Ken Applegate,
CFA, CMT
Portfolio Manager

Ken Applegate has been a Portfolio Manager for the Wasatch International Growth Fund since 2016. He joined Wasatch Advisors in 2014. His investment experience has focused exclusively on small cap growth investing.

Mr. Applegate's career began in 1994 in London, where he served as a financial analyst and later as a co-manager of a foreign exchange hedge portfolio for Refco. In 1996, he moved to the U.S. where he spent 11 years specializing in small cap investing for RCM and then Berkeley Capital Management. Later, he returned to his native New Zealand to join Fisher Funds as a senior portfolio manager, and was integral in launching and managing international small cap funds. In 2012, he moved back to the U.S. to launch the Pacific View Asset Management international small cap strategy.

Mr. Applegate completed his Bachelor of Management studies at the University of Waikato in New Zealand. He is also a CFA charterholder and a Certified Market Technician (CMT).

Ken enjoys traveling, sports, outdoor activities and spending time with his wife and two children.

Linda Lasater, CFA
Associate Portfolio
Manager

Linda Lasater has been an Associate Portfolio Manager for the Wasatch International Growth Fund since 2014. She has been a Portfolio Manager for the Wasatch International Opportunities Fund since 2016. She joined Wasatch Advisors in 2006 as a Senior Equities Analyst on the international research team. She also completed a successful research internship with Wasatch during the summer of 2005.

Prior to joining Wasatch Advisors, Ms. Lasater worked as a project lead and systems analyst in the portfolio analytics group at AIM Investments, where she developed tools that enabled portfolio managers and analysts to make informed investment decisions.

Ms. Lasater earned a Master of Business Administration from the Tuck School of Business at Dartmouth. Earlier, she received a Bachelor of Business Administration in Management Information Systems from the University of Texas, where she was a chairperson and membership director of the Asian Business Students' Association. She is also a CFA charterholder.

Linda is fluent in Vietnamese. She enjoys biking, reading and spending time with her family.

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 $15.9 billion in assets under management as of August 31, 2017. Wasatch Advisors, Inc. is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

Wasatch Contacts

Individual Investors: 800.551.1700 • Financial Advisors: 800.381.1065
Institutional Investors: 801.983.4119 • Retirement Plan Solutions: 801.415.5524

RISKS AND DISCLOSURES

Investing in foreign securities entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Investing in small- and micro-cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds.

Diversification does not eliminate the risk of experiencing investment losses.

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 document regarding market or economic trends or the factors influencing historical or future performance reflects the opinions of management as of the date of this document. 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 International Growth Fund is long-term growth of capital.

Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Funds or their Advisor. Current and future holdings are subject to risk.

As of June 30, 2017, the percentage of shares outstanding held by Wasatch Funds in the following companies was: Japan Lifeline Co. Ltd. 1.0%; M3, Inc. 0.2%; MISUMI Group, Inc. 0.6%; Ain Holdings, Inc. 0.6% and MonotaRO Co. Ltd. 0.7%. As of June 30, 2017, Wasatch Funds did not hold SoftBank Group Corp., CVS Health Corp., Rite Aid Corp., Walgreens Boots Alliance, Inc. or Wal-Mart Stores, Inc.

CFA® is a trademark owned by CFA Institute.

ALPS Distributors, Inc. is not affiliated with Wasatch Advisors.

DEFINITIONS

Abenomics *refers to the economic policies advocated by Japanese Prime Minister Shinzo Abe after his December 2012 re-election to the post he last held in 2007. His aim was to revive the sluggish economy with "three arrows"—a massive fiscal stimulus, more aggressive monetary easing from the Bank of Japan, and structural reforms to boost Japan's competitiveness.*

The **Clarivate Analytics Top 100 Global Innovators** *methodology analyzes patent and citation data across four main criteria: volume; success; globalization and influence. This is done using Clarivate Analytics solutions including Derwent World Patents Index (DWPI), Thomson Innovation and Derwent Patent Citations Index (PCI). Clarivate Analytics was formerly the intellectual property and science business of Thomson Reuters.*

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

The **correlation coefficient** *is a number between -1.0 and 1.0. If there were no relationship between two variables, the correlation coefficient would be 0. As the strength of the relationship between the two variables increases, so does the correlation coefficient. A perfect positive fit gives a coefficient of 1.0. A perfect negative fit gives a coefficient of -1.0.*

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.*

EBIT (earnings before interest and taxes) *is a measure of a firm's profit that includes all expenses except interest and income tax expenses. It is the difference between operating revenues and operating expenses. EBIT is also called "operating earnings," "operating profit," or "operating income."* **EBIT ROA** *is the ratio of EBIT to the total capital invested in operating assets.*

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.*

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 measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the* *deviation. In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.*

The **Tokyo Stock Price Index**, *commonly known as* **TOPIX**, *is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange (TSE) First Section. It is calculated and published by the TSE.*

Correlation coefficients are based on the following MSCI country indices and MSCI country small cap indices. The **MSCI Japan Index** *is designed to measure the performance of the large and mid cap segments of the Japanese market. With 320 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. The* **MSCI France Index** *is designed to measure the performance of the large and mid cap segments of the French market. With 75 constituents, the index covers about 85% of the equity universe in France. The* **MSCI Germany Index** *is designed to measure the performance of the large and mid cap segments of the German market. With 58 constituents, the index covers about 85% of the equity universe in Germany. The* **MSCI USA Index** *is designed to measure the performance of the large and mid cap segments of the U.S. market. With 634 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S. The* **MSCI United Kingdom Index** *is designed to measure the performance of the large and mid cap segments of the U.K. market. With 109 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.K. The* **MSCI India Index** *is designed to measure the performance of the large and mid cap segments of the Indian market. With 78 constituents, the index covers approximately 85% of the Indian equity universe. The* **MSCI China Index** *captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 150 constituents, the index covers about 85% of this China equity universe. The* **MSCI Japan Small Cap Index** *is designed to measure the performance of the small cap segment of the Japanese market. With 899 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Japan equity universe. The* **MSCI France Small Cap Index** *is designed to measure the performance of the small cap segment of the French equity market. With 89 constituents, the index represents approximately 14% of the free float-adjusted market capitalization in France. The* **MSCI Germany Small Cap Index** *is designed to measure the performance of the small cap segment of the German market. With 117 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Germany equity universe. The* **MSCI USA Small Cap Index** *is designed to measure the performance of the small cap segment of the U.S. market. With 1,833 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in the U.S. The* **MSCI UK Small Cap Index** *is designed to measure the performance of the small cap segment of the U.K. equity market. With 267 constituents, the index represents approximately 14% of the free float-adjusted market capitalization in the U.K. The* **MSCI India Small Cap Index** *is designed to measure the performance of the small cap segment of the Indian market. With 255 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the India equity universe. The* **MSCI China Small Cap Index** *is designed to measure the performance of the small cap segment of the China market. With 397 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the China equity universe.*

The **MSCI All Country (AC) World Ex-USA Small Cap Index** *is an unmanaged index and includes reinvestment of all dividends of issuers located in countries throughout the world representing developed and emerging markets, excluding securities of U.S. issuers. This index is a free float-adjusted market capitalization index designed to measure the performance of small capitalization securities.*

The **MSCI EAFE Index** *is an equity index that captures large and mid cap representation across developed market countries around the world, excluding the U.S. and Canada. With 926 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*

You cannot invest in these or any indices.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or 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 or 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. (www.msci.com)

The **Russell 2000 Index** *is an unmanaged total return index of the smallest 2,000 companies in the Russell 3000 Index. The Russell 2000 is widely used in the industry to measure the performance of small company stocks. You cannot invest directly in this or any index.*

Frank Russell Company is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. This is a presentation of Wasatch Advisors, Inc. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in Wasatch Advisors, Inc.'s presentation thereof.

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. You cannot invest directly in this or any index.*