

## Emerging Markets: A Case for Targeted Approaches

Traditional emerging-markets equity portfolios often are skewed toward countries and companies with large market capitalizations. For example, 56% of the MSCI Emerging Markets Index is represented by its four most heavily weighted countries—China, Korea, Brazil and Taiwan. While there is nothing inherently wrong with investing in larger, more-established markets and businesses, the largest companies in emerging markets tend to be exporters of products to the developed world. The equity securities of such companies can behave more like developed-country investments and may provide little exposure to the home countries. Moreover, we believe the “large versus small” decision should be driven by the relative attractiveness of investment opportunities—not by popularity or convenience.

Information about the largest emerging markets certainly is more plentiful and more accessible. There is also more information available about big companies than there is about small ones. However, the high level of attention typically garnered by the large-cap segment of a market generally makes it more efficient and less attractive from an investment standpoint. Simply put, if you’re searching for overlooked opportunities, you’re not likely to find them where everyone else is looking.

Each of the three Wasatch emerging-markets mutual funds 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 high-growth 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**.

### THINKING SMALL

Small companies, by their very nature, can grow faster than large ones. Their small size enables them to be **nimble** and **responsive**. The most-successful small companies possess characteristics such as new products, new services, new markets and innovative delivery systems that allow them to rapidly increase sales, market share and earnings.

On that basis it seems plausible that a well-executed, small-company growth strategy may produce higher emerging-markets investment returns than a more-generic, capitalization-weighted approach. A case in point is the **Wasatch Emerging Markets Small Cap Fund (WAEMX)**, which targets what we believe are the highest-quality small-cap growth companies in emerging markets. As Table 1 shows, the Fund has outperformed the MSCI Emerging Markets Small Cap Index and the MSCI Emerging Markets Index over the past one-year, three-year, five-year and since-inception periods as of December 31, 2012.

**Table 1: Risk-Return Characteristics**  
 Wasatch Emerging Markets Small Cap Fund (WAEMX) versus Market Indices  
 as of December 31, 2012

	Average Annual Total Returns				Annualized Standard Deviations	
	1 Year	3 Years	5 Years	Since Inception	3 Years	5 Years
	<b>Wasatch Emerging Markets Small Cap Fund</b>	<b>27.75%</b>	<b>15.76%</b>	<b>7.71%</b>	<b>6.96%</b>	<b>19.72%</b>
MSCI Emerging Markets Small Cap Index	22.22%	4.21%	0.21%	-0.05%	22.31%	32.16%
MSCI Emerging Markets Index	18.22%	4.66%	-0.92%	-0.19%	21.80%	29.04%

Source: Morningstar. All data and information are gathered from sources believed to be reliable but are not warranted to be correct, complete or accurate.

*\*Inception: October 1, 2007. Data shows past performance. Past performance is not indicative of future performance, and current performance may be lower or higher than the data quoted. For the most recent month-end performance data, visit [www.WasatchFunds.com](http://www.WasatchFunds.com). Investment returns and principal value will fluctuate; and shares, when redeemed, may be worth more or less than their original cost. The Advisor may absorb certain Fund expenses, leading to higher total shareholder returns. **Expense Ratio—Gross: 2.19% / Net: 1.95%** The Advisor has contractually agreed to limit expenses to 1.95% through at least 1/31/2013.*

*Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes, which if reflected would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully.*

A logical question to ask is, “Has investing in small companies significantly increased portfolio volatility?” The answer suggested by Table 1 is, “Not necessarily.” As one might expect, the MSCI Emerging Markets Small Cap Index has exhibited higher volatility than the MSCI Emerging Markets Index over the past three and five years (22.31% versus 21.80% and 32.16% versus 29.04%, respectively, using standard deviation as the relevant measure of volatility). However, the Wasatch Emerging Markets Small Cap Fund has been less volatile than the MSCI Emerging Markets Index over the three-year time frame (19.72% versus 21.80%) and only slightly more volatile over the five-year time frame (29.83% versus 29.04%). In other words, since its inception the Fund has provided higher returns than the Index with little or no appreciable increase in volatility. Also noteworthy is the Fund’s lower volatility compared to its benchmark, the MSCI Emerging Markets Small Cap Index, over both time periods shown (19.72% versus 22.31% over three years and 29.83% versus 32.16% over five years).

One fundamental reason for the Wasatch Emerging Markets Small Cap Fund’s comparatively low volatility is its focus on high-quality growth companies. The Fund’s broad geographic diversification is a second important factor. A third component is the tendency for small-company stocks to behave rather idiosyncratically relative to global market and industry influences.<sup>1</sup> That is to say, we believe stock picking is more important when investing in small-caps than it is with respect to large-caps, which tend to demonstrate higher dependency on sector dynamics and the general economy. The practical implication is that emerging-markets small-cap appears to be a potentially rewarding asset class for actively managed, targeted approaches.

## QUALITY GROWTH COMPANIES

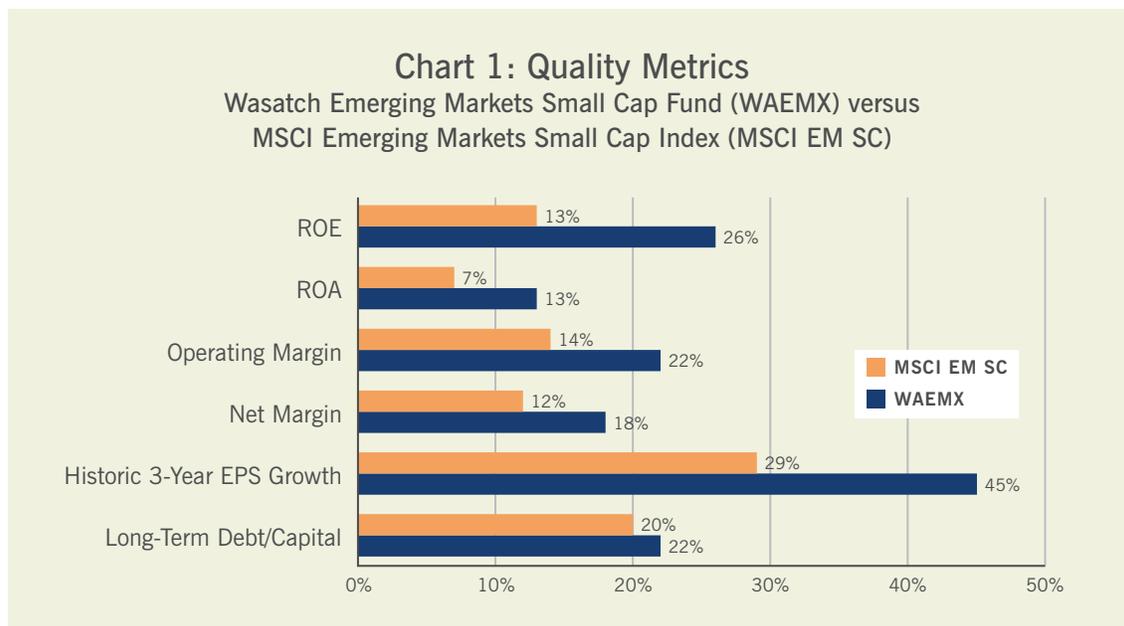
A central Wasatch investment theme is to identify and own the *World's Best Growth Companies*.® These are what we believe to be the highest-quality companies that possess an identifiable, sustainable competitive advantage, are well-managed, and are producing above-average earnings growth relative to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

As we analyze emerging-markets companies (including those 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.

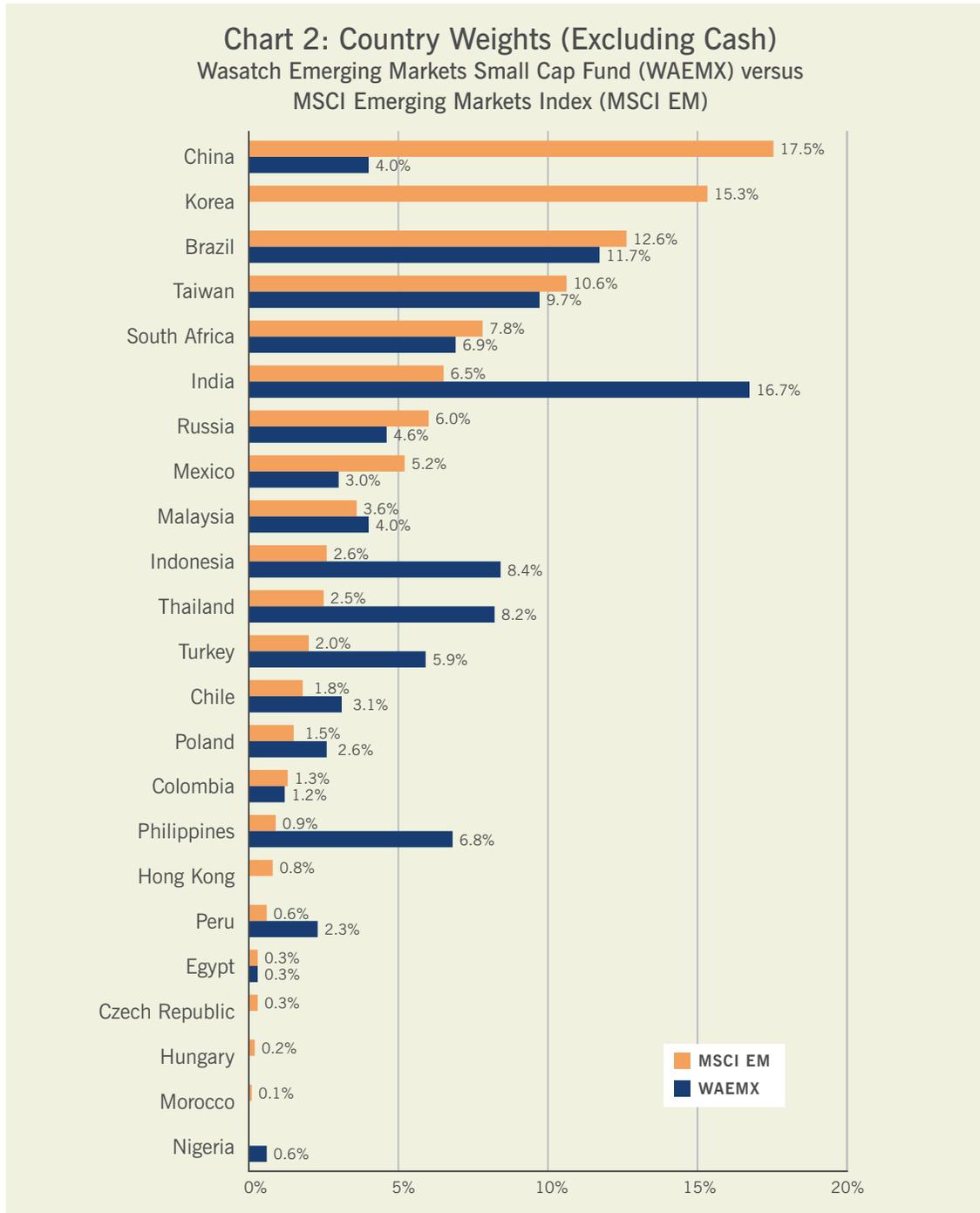
Some key quality metrics for the Wasatch Emerging Markets Small Cap Fund and its benchmark, the MSCI Emerging Markets Small Cap Index, are presented in Chart 1. The Fund's lower standard deviations relative to its benchmark in Table 1 are partly attributable to its mostly favorable comparisons on these measures.



Sources: FactSet and Wasatch Advisors, as of December 31, 2012. Past performance is not indicative of future results. Quality metrics are subject to change.

### GEOGRAPHIC DIVERSIFICATION

Country weights for the Wasatch Emerging Markets Small Cap Fund versus the MSCI Emerging Markets Index are plotted in Chart 2. 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 33% of the Index and only 4% of the Fund. Meanwhile, the frequently underinvested countries of Indonesia, Thailand, the Philippines and Turkey together account for 29% of the Fund, but only 8% of the Index.



Source: FactSet, as of December 31, 2012. Current and future holdings are subject to risk and may change at any time.

Diversification across countries and into smaller-capitalization, less-developed emerging markets may help to lower risk and reduce volatility. This is an investment theme common to all three Wasatch emerging-markets mutual funds and one that fits nicely with our research-driven approach to investing. 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).

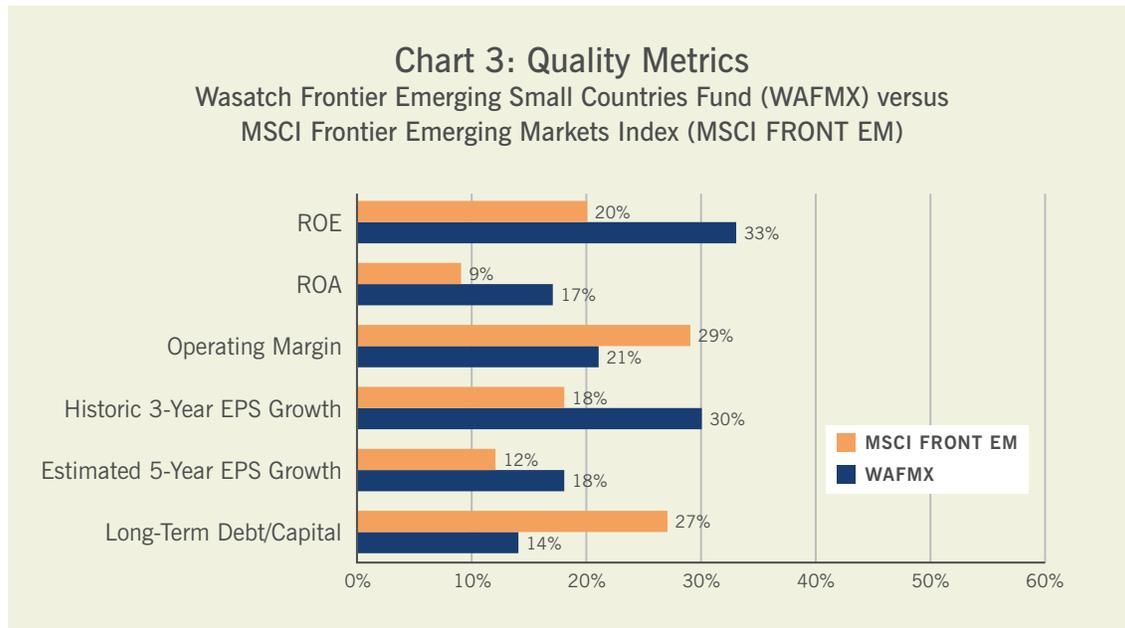
### GOING OFF THE BEATEN PATH

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.<sup>2</sup> 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.

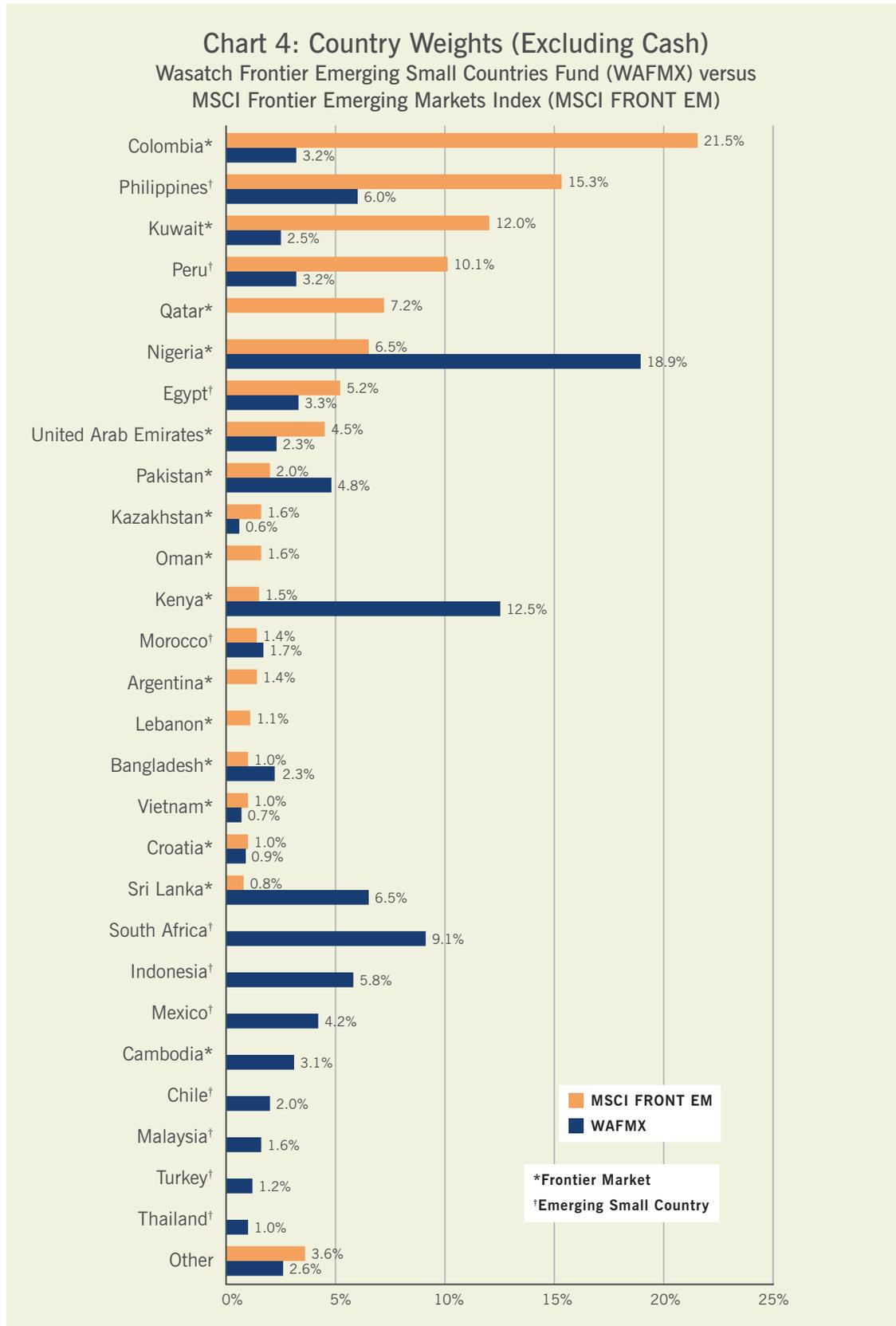
The Wasatch Frontier Emerging Small Countries Fund shares the same high-quality-growth orientation as the other Wasatch emerging-markets funds. Chart 3 illustrates the generally higher quality of the Fund's portfolio versus its benchmark, the MSCI Frontier Emerging Markets Index. The mostly favorable comparisons in Chart 3 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 December 31, 2012. Past performance is not indicative of future results. Quality metrics are subject to change. The Wasatch Frontier Emerging Small Countries Fund is new and has limited operating history.

Chart 4 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, 59% of the MSCI Frontier Emerging Markets Index is accounted for by its four most heavily weighted countries (Colombia, the Philippines, Kuwait and Peru). The Fund’s four highest weightings are a completely different group (Nigeria, Kenya, South Africa and Sri Lanka) and represent 47% of its non-cash assets.

While there can be no guarantee that benchmark overlap will always be this low, Chart 4 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.

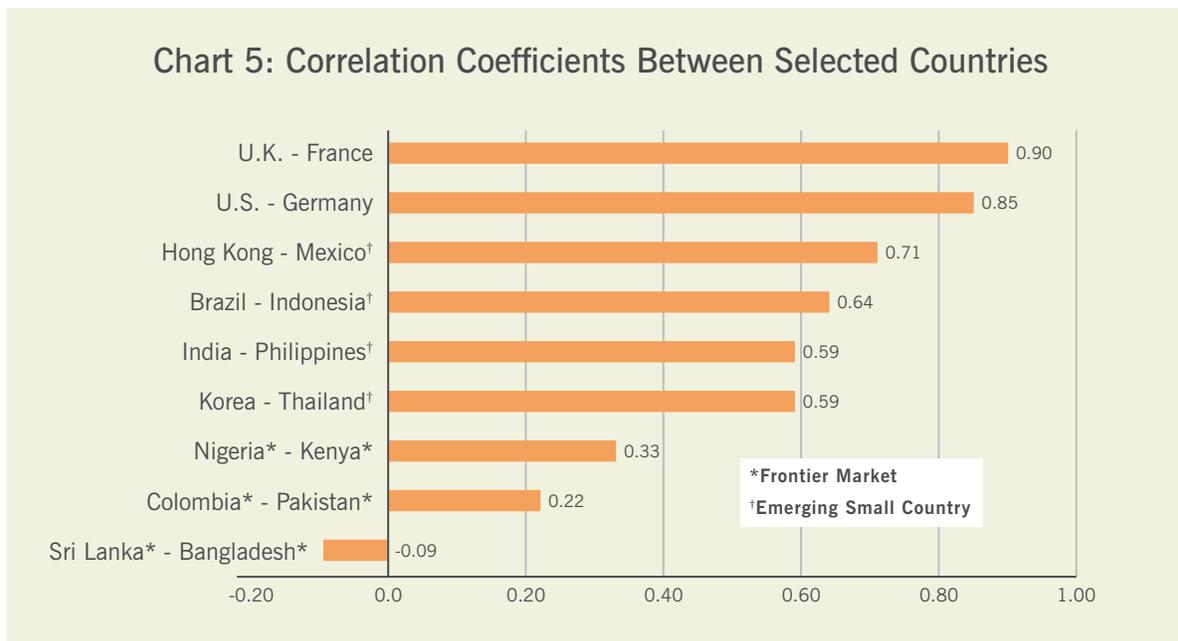


Source: FactSet, as of December 31, 2012. Current and future holdings are subject to risk and may change at any time.

## 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 5 compares the correlation coefficients ( $\rho$ ) between selected pairs of countries. Of the pairings shown, the United Kingdom (U.K.) and France ( $\rho = 0.90$ ) are the most highly correlated. Next is U.S.-Germany at 0.85, a number that indicates about 72% ( $0.85^2$ ) 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: 0.33 for Nigeria-Kenya, 0.22 for Colombia-Pakistan and -0.09 for Sri Lanka-Bangladesh.



Source: Bloomberg. Chart 5 reports correlation coefficients ( $\rho$ ) for the three-year period ended December 31, 2012.

The message of Chart 5 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 2, 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, as in Table 1, 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 (13.53% and 14.16% 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 2: Risk-Return Characteristics**  
 Frontier Markets and Comparative Indices  
 as of December 31, 2012

	Average Annual Total Returns			Annualized Standard Deviations	
	1 Year	3 Years	5 Years	3 Years	5 Years
MSCI Frontier Markets Index	8.85%	3.06%	-10.94%	13.53%	23.41%
MSCI Frontier Emerging Markets Index	20.87%	8.63%	-6.54%	14.16%	23.99%
MSCI Emerging Markets Index	18.22%	4.66%	-0.92%	21.80%	29.04%
MSCI EAFE Index	17.32%	3.56%	-3.69%	19.65%	23.47%
S&P 500 Index	16.00%	10.87%	1.66%	15.30%	19.04%

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.

Low-to-moderate correlation between countries has interesting implications for actively managed emerging-markets portfolios. One of them is that through careful portfolio construction, reasonable diversification can be achieved with fewer stocks. This important result suggests a third targeting strategy: a concentrated portfolio of select companies.

### THE GRADUATION EFFECT

Ideally, companies in the Wasatch Emerging Markets Small Cap Fund will develop into larger companies—and thus outgrow the Fund’s 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 (WAESX)** 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

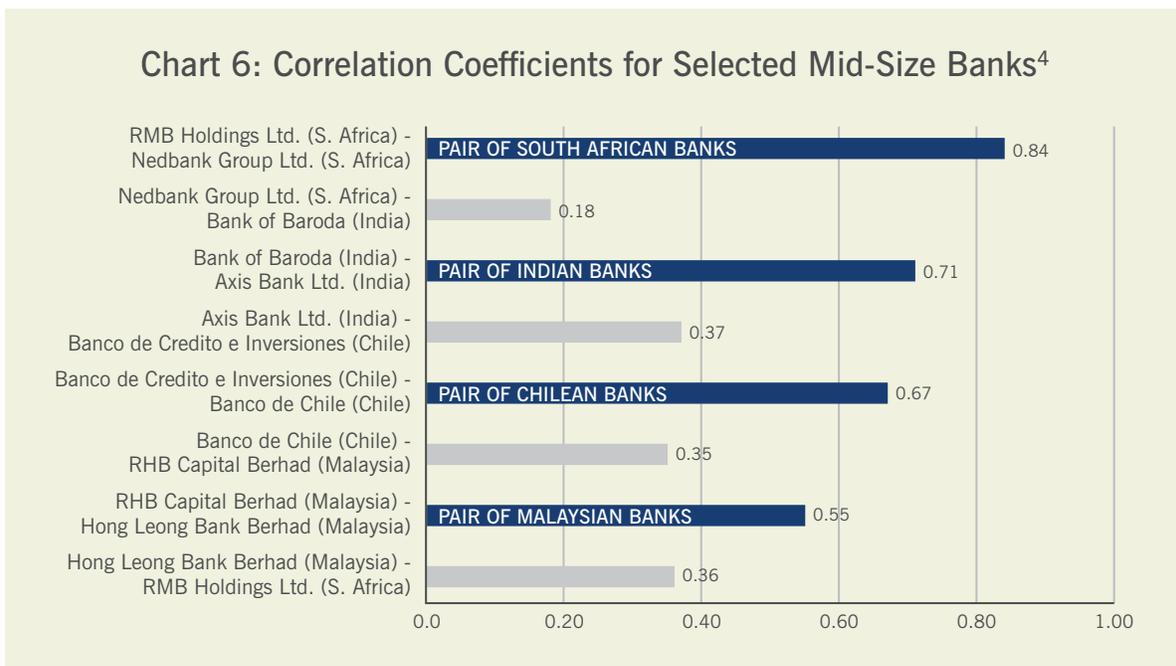
Emerging Markets Select is a new strategy developed by Wasatch for today’s emerging markets. Important aspects include its 30- to 50-stock portfolio, a typical allocation to mid-cap stocks, broad country diversification and flexibility to invest in companies of all sizes.

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.<sup>3</sup> The effects can be seen in Chart 6, which plots correlation coefficients for mid-size banks in four emerging markets.

The four blue bars in Chart 6 represent four countries—South Africa, India, Chile and Malaysia. Each blue bar plots the correlation coefficient ( $\rho$ ) for a pair of mid-size banks located in the represented country. The gray bars in between the blue bars plot correlations between the previous bank listed (located in the country represented by the blue bar above the gray bar), and the following bank listed (located in the country represented by the blue bar below the gray bar).



Source: Bloomberg. Chart 6 reports correlation coefficients ( $\rho$ ) for the three-year period ended December 31, 2012. 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 blue bar from the top represents India and shows a correlation coefficient of 0.71 for Bank of Baroda and Axis Bank Ltd. That means about 50% ( $0.71^2$ ) 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 gray 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 0.18<sup>2</sup>, 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 gray bar below the blue India bar denotes a correlation of 0.37 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 13.7% ( $0.37^2$ ) 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 6 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: STRATEGIES, CONSUMERISM, COUNTRIES AND CURRENCIES

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

Behavioral changes resulting from urbanization and a growing middle class is an investment theme shared by all three 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 funds with risk benefits not available to index funds that are heavily weighted in larger exporting countries tied to the developed world. Finally, the funds do not hedge their currency exposures, which offers investors another source of diversification and return.

## BY THE NUMBERS

### Wasatch International Research

**22%** The portion of the Wasatch Frontier Emerging Small Countries Fund with no analyst coverage.

**50** The number of Indian companies Wasatch visited in February 2012. (Five had no analyst coverage.)

**27** The number of countries Wasatch's international team visited in the past 12 months.

**19** The number of companies Wasatch visited in Indonesia. (Four had no analyst coverage.)

**13** The number of weeks portfolio manager Laura Geritz spent on the road in 2012.

**488** The number of companies Wasatch's international team visited in the past 12 months.

Sources: Wasatch Advisors and FactSet.

## THE WASATCH ADVANTAGE

We believe Wasatch is uniquely positioned to exploit new 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 12 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.

Roger Edgley, CFA, Director of International Research, Laura Geritz, CFA, Lead Portfolio Manager of the Frontier Emerging Small Countries Fund, and Ajay Krishnan, CFA, Lead Portfolio Manager of the Emerging Markets Select Fund, have visited companies in emerging and frontier markets around the world. As of December 31, 2012, they managed US\$4.0 billion in international mandates at Wasatch. Countries visited for company research meetings have included Vietnam, Ghana, Indonesia, Turkey, South Africa, Nigeria and Cambodia, among many others. The team believes fundamental, on-the-ground research is the only way to discern the right investments in these markets.

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 three 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.

Roger Edgley, who has more than 20 years of experience in international investing, has led the Wasatch international equity team for 10 years. A native of the United Kingdom, Roger has lived in Asia, Europe and the U.S. He is the Director of International Research at Wasatch and a member of Wasatch Advisors' Board of Directors. In addition to co-managing several of Wasatch's international and emerging-markets funds, Roger is also the Lead Portfolio Manager of the Wasatch International Growth Fund.



Roger Edgley, CFA  
 Director of International Research  
 Lead Portfolio Manager

Laura Geritz, Lead Portfolio Manager of the Wasatch Frontier Emerging Small Countries Fund, joined the Wasatch international team in 2006 with a strong background in international and small-cap investing. Laura co-manages the Wasatch Emerging Markets Small Cap and International Opportunities Funds with Roger Edgley.



Laura Geritz, CFA  
 Lead Portfolio Manager

Ajay Krishnan, Lead Portfolio Manager of the Wasatch Emerging Markets Select Fund, joined Wasatch as a research analyst in 1994. He is also a Portfolio Manager of the Wasatch Emerging India, Global Opportunities and Ultra Growth Funds. Ajay is a native of Mumbai, India and speaks Hindi and Malayalam.



Ajay Krishnan, CFA  
 Lead Portfolio Manager

Wasatch's research team consists of 16 portfolio managers and 13 securities analysts, which includes three portfolio managers and six 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](http://www.WasatchFunds.com)), had \$13.4 billion in assets under management as of December 31, 2012.

## Wasatch Contacts

Individual Investors: 800.551.1700 • Financial Advisors: 800.381.1065  
 Institutional Investors: 801.983.4119 • Retirement Plan Solutions: 801.983.4177

## 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 Fund and the Wasatch Emerging Markets Select Fund 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](http://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 Small Cap, Wasatch Frontier Emerging Small Countries, and Wasatch Emerging Markets Select 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.

**Net Margin**, also known as the profit margin, is a measure of a company’s profitability and an indicator of a company’s pricing policies and its ability to control costs. It is calculated by dividing revenue into the company’s net profit after taxes.

**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* and *Emerging Markets Small Cap* indices are free float-adjusted market capitalization indices 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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## FOOTNOTES

<sup>1</sup>Huang, Wei, Eun, Cheol S. and Lai, Sandy, *International Diversification with Large- and Small-Cap Stocks*. Journal of Financial and Quantitative Analysis (JFQA), Forthcoming. Available at SSRN: <http://ssrn.com/abstract=932961>

<sup>2</sup>Speidell, 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.

<sup>3</sup>De 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>

<sup>4</sup>As of December 31, 2012, 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 December 31, 2012, the Wasatch Emerging Markets Select Fund had 1.90% of net assets in Axis Bank Ltd. and 1.82% of net assets in Banco de Chile, but did not hold any of the other companies.