WASATCH FUNDS
Deeper, Disciplined Investing™

Wasatch Frontier Emerging Small Countries Fund (WAFMX)

Quarterly Comments from Lead Portfolio Manager Laura Geritz, CFA

Open to all investors

Average Annual Total Returns
For Periods Ended December 31, 2013

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Frontier Emerging Small Countries Fund	4.89%	18.00%	N/A	N/A	26.08%
MSCI Frontier Emerging Markets Index†	1.55%	4.28%	N/A	N/A	10.13%
MSCI Frontier Markets Index†	6.55%	25.89%	N/A	N/A	17.75%

**Returns less than one year are not annualized.*

***Average annual total returns since the Frontier Emerging Small Countries Fund's inception on 1/31/2012.*

Data shows past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent month-end performance data available, please visit www.WasatchFunds.com. The Advisor may absorb certain Fund expenses, without which total return would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. **Total Expense Ratio: Gross: 3.64% /** Net: 2.25%

Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. **The Advisor has contractually agreed to limit certain expenses to 2.25% through at least 1/31/2014.** See the prospectus for additional information regarding Fund expenses.

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

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. Investing in foreign securities, especially in frontier and emerging markets, entails special risks, such as unstable currencies, highly volatile securities markets and political and social instability, which are described in more detail in the prospectus. Being non-diversified, the Fund can invest a larger portion of its assets in the stocks of a limited number of companies than a diversified

fund. Non-diversification increases the risk of loss to the Fund if the values of these securities decline.

This must be accompanied or preceded by a prospectus. Click here for a prospectus. Please read it carefully before investing.

Overview

During the last quarter of the year, the Wasatch Frontier Emerging Small Countries Fund delivered a gain of 4.89% and outperformed its core Index, the MSCI Frontier Emerging Markets Index, which returned 1.55%. On the year, the Fund rose 18.00% versus the Index, which was up only 4.28%. The Index was held down by the performance of its emerging markets components. Both Colombia and the Philippines hold large positions in the Index, and these emerging markets performed poorly last year. Our secondary Index, the MSCI Frontier Markets Index, which is composed solely of frontier countries like Kuwait, Qatar, Nigeria, the United Arab Emirates, Pakistan, Kenya, and Argentina, had a blistering year. The MSCI Frontier Markets Index capped off the year with a fourth quarter return of 6.55%. Markets like Argentina, where there are vast pockets of value driven by the political events of previous years, climbed significantly in 2013. The Fund is not structured to keep up in this kind of environment—we focus on high-quality growth. If you strip out country allocation and look purely at stock-picking versus the MSCI Frontier Markets Index, we had a very good stock-picking year even against this harder bogey. If you look at our year versus our core Index, the MSCI Frontier Emerging Markets Index, we had a great allocation year—we are overweight in frontier markets and underweight in emerging markets—and our stock selection was also quite good.

Details of the Quarter

Albert Pike stated, "What we have done for ourselves alone dies with us; what we have done for others and the world remains and is immortal." I ended my year of travel across the world in South Africa as both a tourist and a research analyst, venturing into the country with both colleagues and friends. As investors in the emerging and frontier world, it is hard not to get swept up in negative media headlines—they sell papers, and South Africa tends to be a perpetual target of negative media, partially due to what I see as huge internal positives. The country has both freedom of the press and a democracy, which gives its citizens the right to be heard. It is a nation of civil liberties. It is a beacon of hope for much of Africa.

As has been the case in the U.S.A., those rights have not come easily. The U.S.A. had a revolutionary war and a civil war. It had a manufacturing revolution that wasn't without controversy, as fictionalized in great works like Upton Sinclair's *The Jungle*. These conflicts weren't all that different from the changes that are occurring in the markets of Pakistan and Bangladesh today. Some countries will industrialize. Some will become democracies. Some will develop freedom of the press. The difference today is that all nations have to contend with the negativity that is the result of instant media gratification. Imagine if the economic and development course of the U.S.A. would have traveled at light speed across the pages of Twitter versus being tracked slowly through the pages of great critical novels like Sinclair's. Would our development cycle have been more punctuated and less full of bloodshed? I think these topics are particularly salient as South Africa lost one of its great and influential leaders, Nelson Mandela, in the past quarter. He, along with many others, sacrificed much to lay the foundations for a great nation, and one that still holds much hope and promise not only for its own citizens but also for an entire continent.

Unlike last quarter, Africa again became a positive contributor to Fund performance. Our biggest contribution in the region came from Nigeria, where the Fund benefited from good stock picking and an overweight position. **Nestlé Nigeria plc** was our top contributor in the quarter, delivering a return of over 28%, while **Safaricom Ltd.** (Kenya), with its vast M-PESA (M stands for mobile, pesa is the Swahili word for money) network, was also a leading contributor. M-PESA's core service is money transfer. However, over the years it has evolved into a payment platform. A staggering 43% of Kenya's gross domestic product (GDP)[††] flows through M-PESA's network.

Egypt, another media punching bag, set the backdrop for another great performer in the quarter. **Juhayna Food Industries**, a leading dairy company in Egypt, led the charge in North Africa with a return of over 51%. The country, itself, defied the headlines and gained over 19% on the quarter, as measured by the MSCI Frontier Emerging Markets Index.

We missed Argentina, which continued to rally in the quarter with a return of approximately 24%. YPF, Argentina's biggest energy company, surged during the quarter and was the benchmark's best performing stock. The stock, which was expropriated from Spain's Repsol in 2012, is benefiting from a new CEO and the hopes that he can turn the company around, reviving Argentina's energy industry. However, the turn around will be heavily reliant on the willingness of the government, led by President Cristina Kirchner, to reverse the policies that caused a

decade of falling oil and gas production in the country. YPF's main holder is the government, and as such, the fundamental fortunes of the company rely heavily on the government's actions. The stock chart gives the world's scariest roller coaster a run for its money, but it's the governance of the company that has kept us from making an investment.

On a sector basis, we did okay on allocation. We did well again on stock picking, surpassing the Index performance. Our overweight position in consumer staples hurt this quarter. Our allocation to the sector hindered performance relative to our core Index but our consumer staples stocks outperformed those in the Index. An exception was East African Breweries, a long-time Kenyan heavyweight, which struggled in the quarter. Earnings weren't great for the year, and we knew they wouldn't be, as the company faced higher short-term costs, largely from past expansion. However, our investment in this company is about long-term growth. The long-term thesis is simple. East Africa and Kenya have a fantastic macro backdrop for beer and spirits consumption driven by a large population, low and rising GDP per capita, and low consumption per capita. In addition, the company has a very long history, commanding market share, which will likely lead to pricing power over time, and a great, broad portfolio of brands with a distribution advantage. Kenya consumes only 12 liters of beer per capita versus South Africa at 71 liters per capita and has roughly the same population at about 43 million in Kenya compared to over 51 million in South Africa. With the population of Kenya growing more quickly than that of South Africa and an economy on the rise, the potential for growth in consumption is enormous. Our long-term optimism for this company remains strong.

In summary, our country allocation and stock selection versus our core Index was very good, and our stock-picking on a sector basis was also very good on the quarter. We expect that we'll underperform our secondary Index, the MSCI Frontier Markets Index, in a risk-on[‡] environment—a value bounce—like we saw in 2013 due to our focus on quality growth. We missed the bounce in Argentina led by YPF, and we are okay with this, as it doesn't fit our process.

Outlook

Winston Churchill stated, "The farther backward you can look, the farther forward you are likely to see." This is true for countries on the development curve, and it is critically important to take the lessons of the past and apply them for the future of our investments. The passing of Nelson Mandela in the quarter reminds us of the sacrifices individuals make to enhance freedom and the lives of others. There are many of these admirable people in the world.

There are largely forgotten heroes in these struggles too. Lewis Nkosi, a pivotal South African author, remained in exile from his country for 30 years, so that he could advance his career as a journalist and author and the causes of his fellow South Africans. He left South Africa for the U.S. to attend Harvard on a fellowship and was given an exit permit with the knowledge that he would remain away from his homeland indefinitely. In his debut novel, *Mating Birds*, he penned a Macmillan/Pen prize-winning book about a "crime" of passion that transcended the color lines, and of course, was banned in South Africa. The microcosm of the protagonist is an allegory for the injustices committed under the apartheid system. The narrator recounts his tale of passion from prison in a country where the idea of a fair trial for a black man under apartheid is lunacy. Justice was merely a ritual to reinforce the absurd laws of the colonial nation. The real crime was the system of oppression, and it is to people like Nkosi, who passed away in his homeland in 2010, and to Nelson Mandela, that the world owes a debt of gratitude for making South Africa a much better place today.

Not only are there the monsters mentioned in our last quarterly report, but there are also heroes like Malala Yousafzai, the activist who was shot by the Taliban for trying to secure the right to education for women in Pakistan. Fortunately, the media also does a great job of delivering messages like Malala's and serving as an agent of positive change too. So it is to these people, who I look to as beacons of hope for investing in the frontier. I also thank journalists for their sacrifice and courage to point them out. Countries can improve over time, and they will.

We continue to find companies that we consider to be high quality in frontier and emerging small countries at reasonable valuations.[‡‡] As Wasatch Advisors' Chairman of the Board Sam Stewart points out in his recent letter to shareholders, reasonable valuations are not as easy to come by in the U.S. after stocks' tremendous run in 2013. Hence, I continue to look at the frontier world with optimism, and thank the world's heroes, both sung and unsung, for making places like South Africa a gateway for our investment in the continent.

Thank you for the opportunity to invest your assets.

Sincerely,

Laura Geritz

[†]*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. You cannot invest in these or any indices.*

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The Wasatch Frontier Emerging Small Countries Fund's investment objective is long-term growth of capital.

[††]*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.*

[‡]*"Risk-on" is when investors are seeking the potentially higher returns of riskier assets and put money back in the market willing to risk the money, thus risk on.*

[‡‡]*Valuation is the process of determining the current worth of an asset or company.*

Frontier Emerging Small Countries Fund Top 10 Holdings as of September 30, 2013[§] **Security Name**	**Percent of Net Assets**
Viet Nam Dairy Products JSC (Vietnam)	4.3%
East African Breweries Ltd. (Kenya)	3.8%
Nestlé Nigeria plc (Nigeria)	3.5%
Safaricom Ltd. (Kenya)	3.2%
Nigerian Breweries plc (Nigeria)	3.0%
Brasseries Maroc (Morocco)	2.7%
Zenith Bank plc (Nigeria)	2.2%
Kuwait Foods Americana (Kuwait)	2.1%
Commercial Bank of Ceylon plc (Sri Lanka)	1.9%
Lucky Cement Ltd. (Pakistan)	1.8%
Total	28.4%

[§]*Portfolio holdings are subject to change at any time. References to specific securities should not be construed as recommendations by the Fund or its Advisor. Current and future holdings are subject to risk.*

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