



Wasatch Frontier Emerging Small Countries Fund (WAFMX/WIFMX)

Quarterly Comments from Lead Portfolio Manager Roger Edgley, CFA and
Portfolio Managers Jared Whatcott, CFA and Scott Thomas, CFA, CPA

Open to all investors

Average Annual Total Returns For Periods Ended December 31, 2018

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
Frontier Emerging Small Countries Fund—Investor	-5.18%	-18.49%	-4.35%	-4.80%	2.91%
Frontier Emerging Small Countries Fund—Institutional	-5.53%	-18.71%	-4.22%	-4.72%	2.97%
<i>The inception of the Fund's Institutional Class shares was 2/1/2016. The differences in performance relative to the Fund's Investor Class for the longer periods are not as significant as the differences in performance for the shorter periods because the performance of the Institutional Class for the longer periods includes performance of the Fund's Investor Class using the actual expenses of the Investor Class without any adjustments. When the Institutional Class has its own performance history for the longer periods, the performance of the Fund's Institutional Class will differ more significantly from, and be higher than, the performance of the Fund's Investor Class because the expenses of the Institutional Class are lower than those of the Investor Class.</i>					
MSCI Frontier Emerging Markets Index[†]	-3.99%	-14.60%	4.37%	-0.09%	2.65%
MSCI Frontier Markets Index[†]	-4.33%	-16.41%	4.21%	0.67%	5.15%

**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 show 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: Investor Class—Gross: 2.36%, Net: 2.18% / Institutional Class—Gross: 2.07%, Net: 1.98%***

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 of the Fund's Investor Class to 2.15% and of the Fund's Institutional Class to 1.95% through at least 1/31/2019.** 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.

Performance for the Institutional Class prior to 2/1/2016 is based on the performance of the Investor Class. Performance of the Fund's Institutional Class prior to 2/1/2016 uses the actual expenses of the Fund's Investor Class without any adjustments. For any such period of time, the performance of the Fund's Institutional Class would have been substantially similar to, yet higher than, the performance of the Fund's Investor Class, because the shares of both classes are invested in the same portfolio of securities, but the classes bear different expenses.

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.

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 the prospectus carefully before investing.

OVERVIEW

The past 12 months have been a turbulent time for frontier and emerging markets, with the benchmark MSCI Frontier Emerging Markets Index down -14.60% for the full year. The Wasatch Frontier Emerging Small Countries Fund—Investor Class declined -18.49% and underperformed its benchmark for the year ended December 31, 2018. Underperformance persisted in the fourth quarter, with the Fund posting a loss of -5.18% compared to a retreat of -3.99% for its benchmark.

The performance of the MSCI Frontier Emerging Markets Index over the past 12 months broadly mirrored that of the larger MSCI Emerging Markets Index, which was down -14.58% for the period. In 2018, a number of factors—including four interest-rate hikes by the U.S. Federal Reserve, a stronger U.S. dollar, a slowdown in China's economy, and

rising geopolitical concerns including U.S.-China trade relations and Brexit—weighed on the economies of both frontier- and emerging-market countries, and as a result, have increased the correlation between them.

DETAILS OF THE QUARTER

With frontier and emerging markets facing a difficult period during the fourth quarter of the year, our holdings were generally not spared.

The Mexican equity market was down sharply during the last quarter of the year, given a stronger U.S. dollar and increasing trade and political tensions. The Fund's holdings in Mexico declined over -23% for the quarter. **Grupo Aeroportuario del Sureste S.A.B. de C.V.**, (known as ASUR), operates airports throughout Mexico, including the Cancun airport. ASUR's stock was down over -26% for the quarter and was the Fund's largest detractor from performance. ASUR's stock and the stocks of other holders of government concessions in Mexico have come under pressure after a decision by newly elected president Andrés Manuel López Obrador to scrap a \$13 billion airport under construction on the outskirts of Mexico City. The move spooked investors and weighed on the peso, which slipped -4.3% against the dollar during the fourth quarter.

We think these worries are overblown and have found no evidence that Mr. Obrador plans to disrupt the existing concession system in Mexico. In what was widely viewed as a positive development, late in the quarter a majority of bondholders accepted Mexico's offer to buy back \$1.8 billion in debt used to fund the airport's construction. The peso rose on the news, and shares of ASUR trimmed earlier losses.

Another significant detractor from Mexico was **Unifin Financiera S.A.B. de C.V.**, a market-leading non-bank financial company in an underpenetrated leasing market.

The next-largest country detractor in the Fund was Brazil, where our holdings saw their stock prices decline. Despite being down over -9% in the fourth quarter, electrical power equipment manufacturer **Weg S.A.** is a company we have followed for many years, and

we remain confident that its international operations have the potential to continue to drive returns. Similarly, **Raia Drogasil S.A.** operates the leading chain of drug stores in Brazil. The company has struggled with sluggishness in same-store sales as accelerated store additions from other chains increased competitive intensity. Raia Drogasil has been using pricing in order to continue to gain market share. So while investors have been disappointed by the company's recent short-term results, we are optimistic that Raia Drogasil will see stronger market positioning over the coming quarters.

On a country basis, Vietnam was the Fund's third-largest detractor from absolute performance, but our stocks were down far less than their benchmark counterparts, which as a group fell over -11%. Within Vietnam, the largest detractor was **HDBank**. A slowdown in consumer finance has been taking a bit of a toll on the bank. The other notable detractor in Vietnam was **Phu Nhuan Jewelry JSC**, operator of a chain of jewelry shops. Phu Nhuan's stock was down roughly in line with the Vietnamese market.

While most of the frontier and small emerging markets in which the Fund was invested were broadly negative in the fourth quarter, there were some areas of positive return.

The Philippines was the Fund's top-contributing country for the quarter, with the bulk of the contribution coming from **Philippine Seven Corp.**, operator of 7-Eleven stores throughout the country. The most-recent financial report showed that the company had added 270 stores over the 12-month period and that same-store sales had increased. Philippine Seven also benefited from a law that was enacted at the beginning of 2018, which lowered the personal income tax, and an excise tax, which increased the cost of sugar-sweetened beverages, but did not significantly reduce their sales volume. During the quarter, we had several informative interactions with Philippine Seven management, including a meeting in Manila. The meetings helped confirm our confidence in the company's management quality, business model, and long-term opportunity. Philippine Seven remains one of the largest weights in the Fund and was the top contributor to performance for the quarter.

While historically we have not had many holdings in South Africa, during the fourth quarter we initiated a position in **Clicks Group Ltd.**, operator of the largest retail

pharmacy chain in the country. Though 2018 was considered by many to be one of the toughest consumer markets in South Africa since 2008-09, Clicks was able to continue increasing its market share. The company has a strong relationship with its customers, with 77% of sales originating from its 7.8 million ClubCard loyalty members. In 2018, Clicks increased its store count to 663 and we believe the company could add nearly one third more stores to its current base. Clicks was the second-best contributor to the Fund's performance in the fourth quarter.

Our only holding in Indonesia, **PT Bank Central Asia Tbk**, was the Fund's third-largest contributor. Indonesia's largest bank by market value, PT Bank offers both conventional and Shariah-compliant banking services. The company saw its stock price begin moving higher in late October after reporting a 9.9% increase in net profit for the nine months ended September. The stock received an additional boost as improved investor confidence in the Indonesian rupiah sent the currency 3.8% higher against the U.S. dollar during the fourth quarter. The company has been seeing signs of accelerating loan growth despite a sluggish domestic environment. *(Current and future holdings are subject to risk.)*

OUTLOOK

While frontier- and emerging-market investors know too well that political concerns can drive short-term equity returns, developed-market investors are now seeing similar dynamics affecting global markets more broadly. While the U.S. market has been grappling with political concerns surrounding global trade issues and domestic politics, the United Kingdom has found itself at a crossroads where the politics of a "deal" or "no-deal" Brexit has roiled its currency, the pound, as well as the U.K.'s equity markets. These political issues, as well as higher U.S. interest rates and slowing economic growth, could continue to present risks to global markets, including frontier and small emerging markets.

While there are certainly going to be periods of rough seas ahead, we believe our disciplined investment process will continue to lead us to companies that meet our

stringent quality standards and that have the potential to thrive over the long term. Our research-intensive approach gives us confidence that the Fund is built on a foundation of high-quality businesses. From our vantage point, corrections in frontier and small emerging markets can provide opportunities to buy the stocks of what we deem high-quality companies at even more attractive prices. And as a team, we will continue to work and travel to ensure that we continue to supply the Fund with what we see as the best companies across frontier and small emerging markets.

Thank you for the opportunity to manage your assets.

Sincerely,

Roger Edgley, Jared Whatcott and Scott Thomas

†The MSCI Frontier Emerging Markets and MSCI Frontier Markets indexes are free float-adjusted market capitalization indexes designed to measure equity market performance in the global frontier and emerging markets. You cannot invest in these or any indexes.

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

Brexit is an abbreviation for "British exit," which refers to the June 23, 2016 referendum whereby British citizens voted to exit the European Union. The referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades.

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

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. You cannot invest in this or any index.

Frontier Emerging Small Countries Fund Top 10 Holdings as of September 30, 2018	Percent of Net Assets
Security Name	
Aramex PJSC (United Arab Emirates)	6.7%
FPT Corp. (Vietnam)	5.5%
Philippine Seven Corp. (Philippines)	4.8%
ASA International Group plc (United Kingdom)	4.1%
National Bank of Kuwait SAK (Kuwait)	4.0%
Banco Davivienda S.A., 2.18% (Colombia)	3.5%
Credicorp Ltd. (Peru)	3.2%
Unifin Financiera S.A.B. de C.V. SOFOM ENR (Mexico)	3.2%
TCS Group Holding plc GDR (Russia)	3.0%
InRetail Peru Corp. (Peru)	2.8%
Total	40.7%

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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WAS004820 4/30/2019