WASATCH FUNDS
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Wasatch International Growth Fund (WAIGX)

Quarterly Comments from Lead Portfolio Manager Roger Edgley, CFA

Open to all investors

Average Annual Total Returns
For Periods Ended December 31, 2013

	Quarter*	1 Year	3 Years	5 Years	10 Years
International Growth Fund	3.52%	26.42%	13.96%	26.68%	11.78%
MSCI AC World Ex-U.S.A. Small Cap Index**	4.63%	19.73%	4.97%	18.73%	10.09%
MSCI World Ex-U.S.A. Small Cap Index†	5.51%	25.55%	7.49%	18.45%	9.24%

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

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: 1.57%**

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 1.75% 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 foreign securities, especially in emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. 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.

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

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Overview

The year 2013 was strong for developed markets—from Japan to Europe. Equities in emerging markets had poor performance in 2013, posting their worst year relative to developed markets since the Asian financial crisis, which began in 1997 and went through 1998. For 2013, the Wasatch International Growth Fund gained 26.42%, compared to a return of 19.73% for its benchmark, the MSCI All Country World Ex-U.S.A. Index. In the fourth quarter, the Fund gained 3.52% and underperformed the Index, which returned 4.63%.

Details of the Quarter

Our holdings in Japan had a poorer quarter (-6.2% versus the Index at -0.27%), but had been very strong for the year and we had taken our Japan weight up at the beginning of 2013. Japan will continue to be—as the largest country in our Index—a key determinant of performance. We continue to have a positive view on the Japanese names we own. The Japanese government's reform agenda is a positive and investment flows into Japan have been significant. If Japanese investors show more belief in their domestic market, then a multi-year bull market[††] is very possible. Some of the basis for this would be dividend yields[†††] being higher than government bonds, along with dividend growth. The Japanese names we own are of comparable quality to the Fund's other holdings, which is why we continue to like quality growth names in Japan. Even if a country's macroeconomic environment supports its markets, an investor still has to be able to find attractive investments.

In the quarter, countries where we had strong performance and larger weights included China—which rose 26.8%, Germany—up 19.6%, and Hong Kong—up 14.1%. The United Kingdom (U.K.) also contributed significantly—up 9%. The U.K. is our second largest country weight at over 15%. Overall, Europe had a strong year in 2013 and we expect to see continued strength in Europe, as there is more evidence of recovery, both in domestic markets and export markets. The periphery of Europe saw strong performance with markets like Spain, Italy and Greece up sharply in 2013.

In terms of top contributors in the quarter, a number of them were Internet-related names including **SouFun Holdings Ltd.**, **GMO Payment Gateway, Inc.** (Japan) and **Infomart Corp.** (Japan). SouFun is an Internet company in China (the stock is listed in the U.S.), with a strong position in the property listing market, serving real estate agents (similar to an MLS in the U.S.). The business is highly cash generative, has a strong balance sheet, and continues to show growth

as we get a continued shift to online property searches. Two instrument companies, **Oxford Instruments plc** (U.K.) and **LPKF Laser & Electronics AG** (Germany) also had robust performance. Both of these companies are sensitive to corporate investment spending globally.

For 2014, we see more of the same with benign interest rates and continued indications of recovery in the developed economies. However, economic recovery has been soft and dispersed, not broad-based, and that is probably true across Europe. Sentiment toward European and Japanese equities has clearly become more positive, and we expect to see continued flows into these areas. Although emerging market equities are weak and valuations[‡] are generally attractive, we expect to maintain or increase our weights in both Europe and Japan. In the case of Japan, the market's overall very low valuation should be supportive.

One slightly worrying feature of the present situation is the low volatility. Rates in the U.S., Europe and Japan are at historical lows. Volatility for the VIX,[‡‡] at 13%, looks historically extreme. The VDAX Index, which measures the volatility of the German DAX Index,[‡‡‡] is also low at 14%.

Our approach to investing in emerging markets for the Fund will be selective. The performance of emerging markets has clearly diverged from that of developed markets. The performance gap is the largest relative gap since the Asian Financial crisis and it is reasonable to expect that the gap may continue for a while. Emerging markets seem to be narrowing, meaning that investors are starting to differentiate more between countries and considering emerging markets less as one asset class. As such, we expect to see continued divergence between regions and countries, say between North Asia and Latin America and so on, or between countries that are strong exporters (e.g., China and Korea) and those that require foreign financing (e.g., Indonesia). The emerging markets universe is expanding strongly in the range of companies it contains—both small and large. We see continued scope for our quality-focused approach to find strong names that represent the potential for sound earnings growth.[§] The valuation disparity between emerging markets and the developed world has widened. We see the present period as a time to find solid and attractive long-term investments.

The international small cap universe is a very diverse opportunity set with varying valuations across countries, which continues to offer possibilities for us as active investors. Both European and Japanese small cap indices continue to be at a significant valuation discount relative to the U.S. market and that itself is some reason for optimism. As of December 31, 2013, the MSCI Japan Small Cap Index[§§] had a price-to-book ratio[§§§] of 1.03 times, and the MSCI Europe Small

Cap Index[#] had a price-to-book ratio of 1.6 times. This shows that both of these small cap markets are substantially less expensive than the U.S. small cap market as measured by the Russell 2000 Index,[##] which had a price-to-book ratio of 1.9 times as of December 31, 2013.

We thank investors for all the support we have been shown.

Sincerely,

Roger Edgley

[**]The MSCI AC World Ex-U.S.A. 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 World Ex-U.S.A. Small Cap Index is a free float-adjusted market capitalization weighted index designed to measure the equity market performance of developed markets, excluding the United States.

You cannot invest in these or any indices.

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The Wasatch International Growth Fund's investment objective is long-term growth of capital.

[††]A bull market is defined as a prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as the result of an economic recovery, an economic boom, or investor psychology.

[†††]Dividend yield is a company's annual dividend payments divided by its market capitalization, or the dividend per share divided by the price per share. For example, a company whose stock sells for $30 per share that pays an annual dividend of $3 per share has a dividend yield of 10%.

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

[‡‡]VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectations of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 Index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

[‡‡‡]The Deutsche Aktien Xchange (DAX) is Germany's benchmark stock market index. It is a total return index of the 30 largest German blue-chip companies traded on the Frankfurt Stock Exchange.

[§]*Earnings growth is a measure of growth in a company's net income over a specific period, often one year.*

[§§]*The MSCI Japan Small Cap Index is designed to measure the performance of the small cap segment of the Japanese market. With 877 constituents, the index represents approximately 14% of the free float-adjusted market capitalization of the Japan equity universe.*

[§§§]*The price-to-book ratio is used to compare a company's book value to its current market price.*

[#]*The MSCI Europe Small Cap Index captures the representation of small market capitalization companies across the 15 developed market countries in Europe. With 887 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in the European equity universe.*

[##]*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.*

International Growth Fund Top 10 Holdings as of September 30, 2013[###] **Security Name**	**Percent of Net Assets**
Wirecard AG (Germany)	2.8%
Start Today Co. Ltd. (Japan)	2.8%
Kakaku.com, Inc. (Japan)	2.7%
Pigeon Corp. (Japan)	2.7%
Abcam plc (United Kingdom)	2.6%
Calbee, Inc. (Japan)	2.5%
Cosmos Pharmaceutical Corp. (Japan)	2.4%
Rotork plc (United Kingdom)	2.3%
Rightmove plc (United Kingdom)	2.1%
M3, Inc. (Japan)	2.1%
Total	25.0%

[###]*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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