

The WASATCH ADVISOR

SUMMER 2012

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For the Period Ended
June 30, 2012



Message to Shareholders

Samuel S. Stewart, Jr., PhD, CFA
President, Wasatch Funds
July, 2012

A Trendless Stock Market

The less glamorous but larger problem at hand is **how the world will cope** with the debt overhang-induced lethargic growth ahead

Economy

A common theme affecting economies around the world is that the bill for our debt binge is finally coming due. While the European drama has captured the attention of headline writers, the less glamorous but larger problem at hand is how the world will cope with the lethargic growth we face due to the debt overhang. My conclusion is that there are no quick solutions. We are in for a long slog.

The U.S. economy continues to move ahead with a sluggish but positive growth rate as reflected in last quarter's 2.2% GDP growth. The largest part of the U.S. economy – consumer spending – also continues to grow at an even greater rate than personal income. The result is a decrease in the national savings rate, which only serves to increase the debt overhang. Stubbornly high unemployment prevents many families from dealing with their debt load.

The second quarter's generally negative stock market performance was not surprising given the sharp run up in stock prices that we saw in the two prior quarters. Despite a big positive day on the last day of the quarter, the S&P 500 ended the period down 2.75%. The loose correlation I pointed out between worrisome economic headlines and negative stock performance certainly came back into play, as Greece's elections and on-going negotiations with the rest of the European Union (EU) returned to the front pages. But the news isn't all bad and I do think

Europe's problems are solvable, though they will take time to resolve. Indeed, on June 29th, European leaders reached an agreement that alleviated some of the concerns surrounding the debt crisis, which helped the euro to appreciate and drove up stock prices globally.

There continue to be some decent background elements to the global economy, including longer-term trends like favorable demographics and higher GDP growth in emerging economies and excess liquidity supplied by the world's central banks. I anticipate that central bank actions around the world will continue in an attempt to prop up business conditions and stock markets (though these actions are certainly at the expense of conservative savers who are seeing record low interest rates on bank deposits).

With continued sub-par economic growth and job creation, the U.S. Federal Reserve has certainly not seen any need to tap on the brakes. Long-term interest rates hit record lows during the quarter with the 10-year U.S. Treasury bond yielding just 1.67% as of June 29, 2012. All of this boils down to what looks to be an extended weak uptrend for the U.S. and most of the global economy.

Markets

Economic uncertainties and sluggish global growth point to a trendless stock market environment for some time to come. A trendless market is a stock picker's market. I believe quality

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Introducing the Wasatch Frontier Emerging Small Countries Fund



Managed by
Laura Geritz

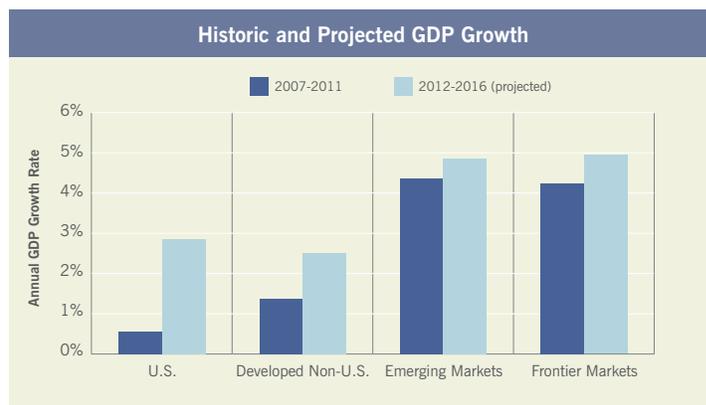
Wasatch Frontier Emerging Small Countries Fund (WAFMX)

Seeks growth opportunities in the next generation of emerging markets

The Wasatch Frontier Emerging Small Countries Fund, launched January 31st, 2012, and managed by Laura Geritz, invests in companies that are tied economically to frontier and small emerging market countries. The Fund seeks to identify and take advantage of the best opportunities in these growing economies. It is one of the few no-load mutual funds that invests in companies in these newer emerging markets.

“Locally driven economies in Asia, Africa and Latin America offer a new landscape for U.S. investors. The Fund may invest in companies of any size, although we expect a significant portion of the Fund’s assets will be invested in smaller companies with market capitalizations under US \$3 billion,” explained Laura.

As of June 30th, 2012, the Fund holds 92 names with the top 10 investments comprising about 31% of total assets. Improved investor access to these frontier and smaller emerging countries has given Wasatch a universe of nearly 6,000 companies from which to choose. “We currently invest in almost 30 smaller stock markets around the world and are always looking for new investments,” says Laura. “I recently travelled with our research team to visit companies in Sri Lanka, Laos, Myanmar, Bangladesh, and



Source: International Monetary Fund, World Economic Outlook Database, September 2011.

Thailand – there are amazing companies with impressive management teams, earnings, and growth rates.”

Laura, who also co-manages the Wasatch Emerging Markets Small Cap Fund, employs the same investment discipline common to that of other Wasatch growth funds. “We look to invest in high quality companies with sustainable long term growth prospects, strong financials, significant competitive advantages and proven management teams,” says Laura. “We use the same “bottom-up” team oriented research process employed by Wasatch for over 35 years to analyze the investment potential of individual companies.”

“Frontier and emerging economies,” says Laura, “have outpaced the developed world for a number of years and have considerable room for growth. These countries have a young population, growing middle class and improved financing resources.” In fact, Laura adds, “I believe they are poised to outperform developed nations for many years to come.”

Because of their low level of integration with more developed world markets, frontier and small emerging markets offer significant potential portfolio diversification benefits. Frontier markets remain largely local in character, driven mostly by each country’s own economic and political development. Additionally, primary drivers of growth differ significantly from country to country – a factor that results in lower correlation between the countries themselves.

Laura Geritz joined Wasatch in 2006 and has 13 years of

Wasatch Frontier Emerging Small Countries Fund

H I G H L I G H T S

- Seeks growth opportunities in budding, locally-driven economies
- May invest in companies of any size, although a significant portion of the Fund may likely be invested in small caps
- Investments based on Wasatch “bottom up” team oriented fundamental research
- Analysts travel extensively outside the U.S. to visit companies and meet with senior management
- \$2,000 minimum investment (lower with Automatic Investment Plan)
- Purchase directly from Wasatch at www.wasatchfunds.com
- Also available with no transaction fee from Schwab, Fidelity, and other fund supermarkets. *Alps Distributors Inc. (ADI) is not affiliated Schwab or Fidelity.*

industry experience. She graduated from the University of Kansas with a Masters in East Asian Languages and Cultures and holds the Chartered Financial Analyst (CFA) designation.

The Wasatch Frontier Emerging Small Countries Fund joins Wasatch's lineup of six other international and global funds.

Wasatch Director of International Research, Roger Edgley, and the entire Wasatch International Team spend a significant amount of time traveling outside of the U.S. to visit companies

TOP 10 HOLDINGS

As of 03/31/12

Name	% of Net Assets
Unilever Nigeria plc (Nigeria)	3.08%
East African Breweries Ltd. (Kenya)	2.76%
Ecopetrol S.A. (Colombia)	2.67%
NagaCorp Ltd. (Cambodia)	2.52%
Nestle Nigeria plc (Nigeria)	2.48%
Nigerian Breweries plc (Nigeria)	2.23%
CP ALL Public Co. Ltd. (Thailand)	2.21%
Unilever Pakistan Ltd. (Pakistan)	2.21%
MTN Group Ltd. (South Africa)	2.10%
Chevron Lubricants Lanka plc (Sri Lanka)	2.07%

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companies with defensible business models purchased at reasonable valuations will outperform.

The question many investors are asking is what happens if Greece exits the EU. First off, in the same way bankers have had the habit of employing a "pretend and extend" approach to addressing bad loans, I think politicians will be even less inclined to take dramatic steps to force this outcome in Europe. Still investors should be prepared for the possibility that Greece may default on its debt and/or exit the EU and its currency.

Being prepared during uncertain times doesn't necessarily mean putting all of your cash under your mattress, but saving a little dry powder for market pullbacks and future opportunities is often a good idea.

Wasatch

I believe a stock picker's market plays to Wasatch's strengths. Classic Wasatch investing is about trying to find high-quality growth companies with defensible and sustainable business models capable of producing earnings growth in almost any market environment. This is an investment process we have honed now for more than 35 years and we remain dedicated to long-term investing with this approach, even in the face of so much general economic uncertainty.

Many have commented on the highly publicized Facebook (FB) initial public offering (IPO) that occurred this quarter and – while bigger than most companies we research –

and meet with senior management. "It takes a lot of field work to analyze this unique universe and the majority of companies are under-covered by research analysts," says Roger. "Wasatch is dedicated to performing the necessary due diligence with a boots-on-the-ground approach."

Investors may now purchase shares in the Wasatch Frontier Emerging Small Countries Fund (WAFMX), with no transaction fees, directly from Wasatch or through Schwab, Fidelity, and other fund supermarkets. A white paper titled Frontier Markets and Emerging Small Countries: Elements of an Emerging Asset Class can be accessed on www.wasatchfunds.com under the Literature and Forms Tab.

The Wasatch Frontier Emerging Small Countries Fund's investment objective is long-term growth of capital. Fund holdings are subject to change at any time. References to individual companies should not be construed as recommendations to buy or sell shares in those companies.

RISKS

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, WAFMX 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.

Facebook doesn't appear to have the characteristics of a company we would invest in. Our analysts look for companies with sustained revenue and earnings growth, strong financials, a sustainable competitive advantage, a proven management team and reasonable valuation. While we do carefully and selectively invest in some IPOs, Facebook was not one we at Wasatch would have participated in.

Because finding the "World's Best Growth Companies" is what we seek to excel in at Wasatch, you might want to see firsthand how far some of our managers and analysts go in their search and take a look at a short video of the Wasatch Research Team on a recent eight-country tour of Southeast and South Asia. Visit our website for the link, or go directly to our YouTube channel www.youtube.com/wasatchfundstv.

With sincere thanks for your continued investment,
Sam Stewart

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. There is no assurance that the process discussed will consistently lead to successful investing. 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.

GDP or gross domestic product 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.

The S&P 500 Index includes 500 of the United States' largest stocks from a broad variety of industries. The Index is unmanaged but is a commonly used measure of common stock total return performance. You cannot invest in this or any index.

An initial public offering (IPO) is a company's first sale of stock to the public.

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.

Investing in IPOs



With
JB Taylor

We did not invest in Facebook and in general, IPOs are not an important piece of Wasatch's investment strategy.

Facebook's recent "coming out party" created a buzz we have not seen in the Initial Public Offering (IPO) market for years. More than a few friends and family members asked me, "Did you get any Facebook IPO shares?" The prospect of owning a revolutionary company is exciting and with the social network's access to over 900 million active users, it's easy to see why so many investors were interested. The answer is we did not invest in Facebook and in general, IPOs are not an important piece of Wasatch's investment strategy.

First, it's important to understand that the IPO path is the farthest thing from a sure road to riches. As of July 9th, 2012, there have been 186 IPOs listed on U.S. stock exchanges over the last 18 months. Of those, 47% have underperformed the Russell 2000 Index since their public offering. Over 30% are down 20% or more and there are 17 companies with stock prices already down more than 50%. So in most respects, the IPO market is no different than the broader market; it's a large mixed bag of winners and losers.

It's not surprising that IPOs rarely come at a discount. When companies come public, their primary goal is to raise money for corporate use. If a company's IPO price is higher, their cost of capital is cheaper. Hot IPOs like Facebook are usually either priced for perfection or the supply is limited to the extent that the real price, the one an investor has to pay once the stock begins trading, is too high to afford market-beating returns. In fact, of the "hot IPOs" listed over the last 18 months, the average return since the first day of trading has been -12%. Occasionally, a first day run-up can be substantial, but it's often in a position that is too small to make a difference for Wasatch's

shareholders. Wasatch will leave the day trading to others. We are investors for the long haul.

More important to Wasatch is that IPOs can be difficult to research. Before we decide to invest in a company, we seek to gain a comprehensive understanding of its business model and a high conviction in its management team. Companies making an initial public offering often have limited operating histories. Our opportunities to meet with management are also typically limited to a 45-minute roadshow presentation, which doesn't allow for the in-depth exploration we are accustomed to with our own research visits. Rather than jumping on the stock of an untested company, we prefer to follow and monitor it before making an investment decision. We believe in buying companies after our extensive due diligence makes us comfortable, not simply because there is a new "FOR SALE" sign.

While it's rare that we invest, we do continue to monitor the IPO market for a number of reasons. First, as growth investors, it's important to stay aware of all the new companies coming to market. Second, our over 35 years of experience has shown us that the best opportunities to invest in IPOs often come 6 to 18 months after a company goes public and it experiences a misstep. A company may hit a bump in the road and not live up to the original hype at the time of the IPO, or it simply falls out of favor, causing the stock to fall to attractive levels. We call these "orphaned IPOs," because the trading-oriented "first day investors" have long since abandoned the company. A recent example would be Wesco Aircraft Holdings (WAIR). This industry-leading distributor of parts and supplies to the aerospace industry had the unfortunate

luck of going public right before last summer's stock market swoon. Our Small Cap Value Fund initiated a position with shares that were 28% below the IPO price. More recently, several funds have been buying a consumer technology company priced 43% below its first day trading price.

At Wasatch, we are long-term investors. Wasatch will occasionally participate in an IPO, but only if we feel the stock is reasonably priced and our fundamental research indicates that the company has the potential to be a solid long-term investment. Despite all the excitement, with Facebook, market participants had to relearn the risks of IPO investing. Many investors who bought shares on the first day have seen their investment shrink by 25%. We'll stay focused on the substance, not the hype.

ⁱThe investment bankers also collect more fees.

ⁱⁱHot IPO: A hot IPO is a newly issued stock that is in great public demand. Hot issue stocks usually shoot up in price at their initial offering since there is more demand than there are shares available. Usually defined as one where the first trade was 30% or more above the offering price.

ⁱⁱⁱInvestment banks tend to favor their larger, trading oriented clients when placing the shares of hot IPOs. Wasatch's long-term, low turnover approach puts us down in the Wall Street pecking order.

^{iv}Portfolio holdings are subject to change at any time. References to individual companies should not be construed as recommendations to buy or sell shares in those companies. As of 6/30/12 the Wasatch Small Cap Value Fund held a 1.17% position in Wesco Aircraft Holdings Inc.

^vFacebook priced at \$38, opened for trading on May 18th, 2012 at \$42, and traded as high as \$45. As of June 30th, 2012, FB trades at approximately \$32.

The investment objective of the Wasatch Small Cap Value Fund is long-term growth of capital.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. You cannot invest in this or any index.

Past performance is not indicative of future results.

Fund Performance

Average Annual Total Returns
for the Period Ended June 30, 2012

FUND NAME	TICKER	INCEPTION DATE	MORNINGSTAR CATEGORY	1 YEAR AVERAGE	5 YEAR AVERAGE	10 YEAR AVERAGE	SINCE INCEPTION
Core Growth	WGROX	12/6/1986	Small Growth	3.60%	1.61%	5.82%	11.79%
Emerging India	WAINX	4/26/2011	India Equity	-15.15%	N/A	N/A	-10.42%
Emerging Markets Small Cap	WAEMX	10/1/2007	Diversified EM	-3.86%	N/A	N/A	4.91%
Frontier Emerging Small Countries	WAFMX	1/31/2012	Diversified EM	N/A	N/A	N/A	4.00%*
Global Opportunities	WAGOX	11/17/2008	World Stock	-4.24%	N/A	N/A	25.91%
Heritage Growth	WAHGX	6/18/2004	Mid-Cap Growth	-1.05%	2.14%	N/A	5.16%
International Growth	WAIGX	6/28/2002	Frn Sm-Mid Grwth	-4.37%	-1.00%	10.87%	10.86%
International Opportunities	WAIQX	1/27/2005	Frn Sm-Mid Grwth	-5.89%	-2.96%	N/A	7.65%
Large Cap Value	FMIEX	9/25/1996	Large Value	-3.94%	-0.79%	6.70%	8.73%
Long/Short	FMLSX	8/1/2003	Long-Short	-1.66%	2.77%	N/A	5.52%
Micro Cap	WMICX	6/19/1995	Small Growth	0.00%	-1.84%	7.34%	16.53%
Micro Cap Value	WAMVX	7/28/2003	Small Growth	-3.96%	0.53%	N/A	10.09%
Small Cap Growth	WAAEX	12/6/1986	Small Growth	3.08%	4.77%	8.13%	12.01%
Small Cap Value	WMCVX	12/17/1997	Small Growth	-5.68%	-2.55%	5.63%	10.95%
Strategic Income	WASIX	2/1/2006	Mid-Cap Blend	1.12%	0.86%	N/A	3.93%
Ultra Growth	WAMCX	8/16/1992	Small Growth	-3.47%	1.12%	5.84%	9.48%
World Innovators	WAGTX	12/19/2000	World Stock	5.24%	2.37%	9.64%	6.54%
BOND FUND NAME	TICKER	INCEPTION DATE	MORNINGSTAR CATEGORY	1 YEAR AVERAGE	5 YEAR AVERAGE	10 YEAR AVERAGE	SINCE INCEPTION
1st Source Income	FMEQX	9/24/1996	Short-Term Bond	3.32%	4.72%	3.90%	4.80%
Hoisington U.S. Treasury	WHOSX	12/6/1986	Long Govt.	46.03%	14.49%	10.34%	8.87%
INDEX NAME				1 YEAR AVERAGE	5 YEAR AVERAGE	10 YEAR AVERAGE	
S&P 500 Index				5.45%	0.22%	5.33%	

The Total Annual Fund Operating Expenses for the Core Growth, Frontier Emerging Small Countries, Emerging India, Emerging Markets Small Cap, Global Opportunities, Heritage Growth, International Growth, International Opportunities, Large Cap Value, Long/Short, Micro Cap, Micro Cap Value, Small Cap Growth, Small Cap Value, Strategic Income, Ultra Growth, World Innovators, Wasatch-1st Source Income, and Wasatch-Hoisington U.S. Treasury are 1.31%, 3.65%, 4.85%, 2.19%, 1.79%, 1.04%, 1.57%, 2.55%, 1.11%, 1.63%, 2.16%, 2.37%, 1.24%, 1.32%, 1.76%, 1.43%, 1.97%, 0.72%, and 0.76% respectively. Total Annual Fund Operating Expenses include direct expenses paid to the Advisor as well as indirect expenses incurred by the Fund as a result of its investments in other investment companies (each an "Acquired Fund"), before any expense reimbursements by the Advisor. See prospectus for expenses net of reimbursements.

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.

Wasatch Funds will deduct a 2.00% redemption proceeds fee on all Fund shares held 60 days or less, except for the Wasatch Frontier Emerging Small Countries Fund that will deduct a 2.00% redemption fee on Fund shares held 90 days or less. Performance data does not reflect the deduction of other nonrecurring 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 micro, small and mid 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 currency fluctuations and political uncertainties, which are described in more detail in the prospectus. FMLSX makes short sales of securities which involve the risk that losses may exceed the original amount invested. Investing in fixed income securities, you are subject, but not limited to, the same interest rate, inflation and credit risk associated with the underlying fixed income securities owned by the Fund. Return of principal is not guaranteed. Being non-diversified, some Wasatch equity funds 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 or call 800.551.1700. Please read it carefully before investing.

The S&P 500 Index includes 500 of the United States' largest stocks from a broad variety of industries. The Index is unmanaged but is a commonly used measure of common stock total return performance. You cannot invest directly in any index. The S&P 500 Index is shown as a general representation of equity markets. It is not the primary benchmark for most of the Wasatch funds, and therefore is not the most appropriate performance comparison for each individual fund.

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*Not annualized. The fund is less than one year old.



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How to Invest www.WasatchFunds.com

Open a New Account

Visit our website to download account applications, request the forms via U.S. Mail, or open an account online. You can also contact a Shareholder Services Representative at 800.551.1700 to request the necessary forms or to open an account via wire.

Invest Automatically

Money from your bank account can be automatically invested in your Wasatch Funds account. Visit our website or contact a Shareholder Services Representative at 800.551.1700 to establish an Automatic Investment Plan (AIP) with Wasatch Funds.

Add to an Existing Account

Add to your existing account online or by contacting a Shareholder Services Representative at 800.551.1700.

Contact Wasatch

Shareholder Services

800.551.1700

Monday - Friday, 7:00 a.m. - 7:00 p.m. Central Time (CT)

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