



Wasatch Frontier Emerging Small Countries Fund (WAFMX)

Quarterly Comments from Lead Portfolio Manager Laura Geritz, CFA

*Open to existing shareholders.
Open to new shareholders investing directly with Wasatch Funds.*

Average Annual Total Returns For Periods Ended September 30, 2015

| | Quarter* | 1 Year | 3 Years | 5 Years | Since Inception** |
|---|----------|---------|---------|---------|-------------------|
| Frontier Emerging Small Countries Fund | -7.05% | -14.88% | 5.41% | N/A | 9.97% |
| MSCI Frontier Emerging Markets Index[†] | -12.97% | -24.82% | -0.26% | N/A | 2.19% |
| MSCI Frontier Markets Index[†] | -10.57% | -24.19% | 6.28% | N/A | 6.65% |

**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: 2.24%***

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 1/31/2016.** 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

The Wasatch Frontier Emerging Small Countries Fund declined -7.05% in the quarter ended September 30, 2015 and outperformed the MSCI Frontier Emerging Markets Index, which fell -12.97%.

Details of the Quarter

The third quarter of 2015 was the most challenging quarter thus far in the year for frontier markets. The tailspin in China's stock market and its currency devaluation forced the world to come to grips with China's economic slowdown and the possibility of slower global growth. While emerging markets were the most directly impacted over the quarter, as evidenced by the -17.90% loss of the MSCI Emerging Markets Index, frontier markets continued to show their relative resilience. Bangladesh and Ghana contributed to the Fund's performance this past quarter. Bangladesh was the largest contributor to the Fund's absolute and relative performance led by **Olympic Industries Ltd.**, a biscuit manufacturer, and **Square Pharmaceuticals Ltd.**, a manufacturer of generic pharmaceuticals.

Sector Review

Given the broader downturn in the market, all sectors detracted from the performance of the Fund and the benchmark in the third quarter. The largest negative for the Fund was the financials sector. Our financial stocks underperformed those in the Index, but the underperformance was somewhat mitigated by our lower average weighting of 10.4% compared to 52.8% for the benchmark. We have historically remained underweight in financials, whereas over half the benchmark is in financials.

Within financials, the following holdings weighed on performance: **Joint Stock Commercial Bank for Foreign Trade of Vietnam**, **Kenya Commercial Bank Ltd.**, and **Commercial**

International Bank S.A.E. (Egypt). The Joint Stock Commercial Bank for Foreign Trade of Vietnam was down during the quarter as the market realized profits after the 39% run-up since the second quarter when the Vietnamese government announced it would lift foreign ownership limits. As a country, we believe Vietnam has attractive macroeconomic characteristics for growth and the potential to benefit from a favorable environment, including the Trans-Pacific Partnership agreement. We believe this Vietnamese bank will continue to be a significant beneficiary.

Although the consumer-staples sector detracted from the Fund's absolute performance, the sector had a substantially positive effect on results relative to the Index due to the Fund's significantly overweight position and the outperformance of our holdings. Several of our breweries detracted from the Fund's performance, especially **East African Breweries Ltd.**, a Kenyan-based subsidiary of Diageo,^{††} which was impacted by regulatory pressure in Tanzania; **Societe Frigorifique & Brasserie de Tunis S.A.**, a Tunisian brewery; and **Lion Brewery Ceylon plc** (Sri Lanka), which also saw negative performance as investors took profits.

We consider East African Breweries to be one of the highest-quality sub-Saharan African companies. It is the dominant beer and spirits company in Kenya, and has significant market share in neighboring Tanzania and Uganda. The company's high barriers to entry in distribution and brand recognition pose a significant moat to competitors. The company has been one of the largest beneficiaries in East Africa as consumers in the region gravitate toward branded alcoholic beverages.

On the other hand, some of our brewery holdings added to the Fund's performance. **Phoenix Beverages Ltd.**, the dominant brewery and authorized bottler for Coca-Cola products on the island of Mauritius; **SABMiller plc**, the South Africa-based beverage group targeted for acquisition by Anheuser-Busch InBev;^{††} and **Murree Brewery Co. Ltd.**, Pakistan's only brewery, were among the contributors this past quarter.

Our exposure to the materials sector also hurt the Fund's absolute performance, although we outperformed the Index in this sector helped by an overweight position and the better overall performance of our materials stocks. Among the detractors in the sector were **Lafarge Cement Zambia plc**, Zambia's largest cement producer; **Akzo Nobel Pakistan Ltd.**, a paints and

specialty-chemicals manufacturer; and **Siam City Cement Public Co. Ltd.**, a Thailand-based cement producer.

Despite the turbulence this past quarter, we continue to hold Lafarge Cement Zambia as it is the leading supplier of building and construction materials in Zambia and, furthermore, has access to the Democratic Republic of the Congo where the company estimates it can cater to the building needs of 13 million people. Dangote Cement^{††} of Nigeria's recent entrance into the Zambian market has heated up competition and led to a correction in Lafarge Cement Zambia's stock. While we believe Lafarge Cement Zambia has significant durable advantages, we are closely monitoring the situation.

The Fund benefited from strong results in some of its materials holdings in Bangladesh including **Berger Paints Bangladesh Ltd.** and **Linde Bangladesh Ltd.**, a specialty-chemicals manufacturer. Berger Paints is the leading producer of paints in the country with a dominant market position, a strong distribution network, and an established and well-known brand that has been around since the nation's inception in 1970. Given these dynamics, we believe it is one of Bangladesh's best companies and, internally at Wasatch, we consider it to be one the "World's Best Growth Companies."[‡]

Country Review

Our holdings in Kenya, Pakistan and Kuwait were sources of weakness in the Fund this past quarter. Bangladesh and Ghana were large contributors to the Fund's absolute performance.

Following anemic performance the previous quarter, Kenya continued to be the largest source of weakness in the Fund. Although we trimmed our holdings in Kenya from over 9% to less than 7% during the quarter, they broadly followed the weakness of the Kenyan market. Our performance in Kenya was hurt most by East African Breweries, which is our largest Kenyan holding. The company continues to face regulatory pressure from authorities in neighboring Tanzania due to its virtual monopoly. **Safaricom Ltd.**, Kenya's largest wireless telecommunication services company, historically has been a source of outperformance for the Fund. For the third quarter, Safaricom's stock was down due to the possibility of a change in the regulatory regime. We've written about Safaricom in past letters and revisited management this past quarter in Kenya. While we have reduced our weight due to Safaricom's valuation^{‡‡} and the

regulatory pressure, our recent meeting reinforced that the company is one of, if not the most innovative companies in the world. The company has a deep bench of excellent management and its CFO, in particular, with his passion for creativity and ingenuity, reminded us of the reputation of the late Steve Jobs, founder of Apple.^{††}

Pakistan, the largest contributor to positive performance the previous quarter, detracted from the Fund's performance for the third quarter. Our holdings in AkzoNobel Pakistan, mentioned earlier, and **Kohat Cement Co. Ltd.** weighed the most on the Fund's results in Pakistan. However, not all was amiss. Our holdings in **Pakistan Tobacco Co. Ltd.**; Murree Brewery, mentioned earlier; and **GlaxoSmithKline Pakistan Ltd.** aided the Fund's performance. As the largest cigarette manufacturer in the country, Pakistan Tobacco has a dominant market share and we expect the company to continue to benefit from rising consumption in one of the largest cigarette-consuming markets in Asia. The company has consistently been highly profitable with an average three-year return-on-invested-capital in excess of 34%.

Bangladesh was the main source of strength for the Fund. The Fund was significantly overweight in Bangladesh compared to the benchmark and our holdings had a positive return, while the benchmark's holdings were down. Our performance in Bangladesh was largely due to our holdings in Olympic Industries and Square Pharmaceuticals (mentioned earlier), and **Marico Bangladesh Ltd.**, a fast-moving consumer-goods company. With its strong manufacturing and distribution capacity, and a brand with high consumer recognition, Olympic Industries is the dominant biscuit producer in the country. As biscuits continue to be one of the most consumed snack foods in Bangladesh, this should provide Olympic with ample room for growth.

Outlook

The third quarter brought further evidence of the low correlation[§] of frontier markets compared to emerging and global markets. The relatively low global economic integration and somewhat insular nature of frontier markets, by definition, make them more impervious to global downturns. The quarter's performance of global and emerging markets, to us, highlights the resilient nature of the durable growth companies we have been finding in frontier markets.

As the world adjusts to the new normal of China's slowing growth, various developed and emerging markets that relied on China will have to make major structural changes to their

economies. By comparison, many frontier markets have been relatively immune to this phenomenon. As Bangladesh demonstrated during the quarter, its companies and by extension its economy are largely driven by local demand. We are firmly committed to our approach of finding the World's Best Growth Companies, and we believe that the long-tail, durable growth we have been able to find in frontier markets is attractive.

Thank you for trusting us as stewards of your hard-earned capital.

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.*

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

CFA[®] is a trademark owned by CFA Institute.

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

^{††}*As of September 30, 2015, the Wasatch Frontier Emerging Small Countries Fund was not invested in Diageo plc, Anheuser-Busch InBev S.A./N.V., Dangote Cement plc or Apple, Inc.*

[‡]*World's Best Growth Companies are defined by Wasatch as companies that we believe possess an identifiable, sustainable competitive advantage, are well managed, underfollowed, undervalued and are producing above average earnings growth relative to their industry and country of origin.*

^{†††}*Valuation is the process of determining the current worth of an asset or company.*

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

| Frontier Emerging Small Countries Fund Top 10 Holdings as of June 30, 2015^{§§} Security Name | Percent of Net Assets |
|--|----------------------------------|
| East African Breweries Ltd. (Kenya) | 3.1% |
| Kuwait Foods Americana (Kuwait) | 2.7% |
| Square Pharmaceuticals Ltd. (Bangladesh) | 2.7% |
| Vietnam Dairy Products JSC (Vietnam) | 2.7% |
| Nestlé Nigeria plc (Nigeria) | 2.6% |
| Bank for Foreign Trade of Vietnam JSC (Vietnam) | 2.5% |
| Lucky Cement Ltd. (Pakistan) | 2.5% |
| Nigerian Breweries plc (Nigeria) | 2.5% |
| GrameenPhone Ltd. (Bangladesh) | 2.3% |
| Safaricom Ltd. (Kenya) | 2.3% |
| Total | 25.9% |

^{§§}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.

Wasatch Funds are distributed by ALPS Distributors, Inc.

WAS003853 1/30/2016