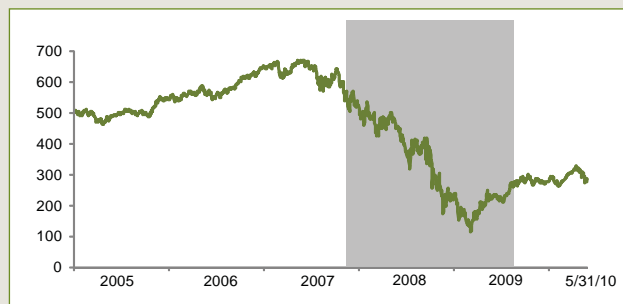


Financials in Recovery: Playing Cyclical Trends in Smallcap Financials

Economic Crisis Led Financials to Unprecedented Losses

In the last three years, the US financial sector has gone through a period of unprecedented distress with losses rivaling those last seen in the 1930s.

S&P 500 Financials Index and Recent Recession 2005 - 5/31/2010



Source: Standard & Poors. Gray shading represents recessionary period.

As early as June 2007, market pressures on the financial sector intensified leading to early signs of diminished liquidity in interbank funding. The credit crisis, which began in the subprime market, expanded rapidly. The subsequent fall of Bear Stearns and Lehman Brothers, as well as the massive government intervention necessary to stave off failure at other large companies and government sponsored enterprises, caused investors to pull money from the market. Panic spread. October 2008 ended as the most volatile month in Wall Street history with the S&P 500 Index down -16.80%, the second worst month of performance since 1972¹.

The US economy was in recession. Collapse in US financial markets quickly turned into a global financial panic with estimates of imbedded security and loan losses approaching \$2 trillion. With the financial system at the brink, the US government began its financial bailout plan, spending \$11.6 trillion to stabilize markets, secure banks, and revive the economy².

US stock prices hit bottom in early March 2009 from their rapid and steep descent over the prior year and a half. From its June 2007 high, the S&P Financials Index plummeted -82.50%³.

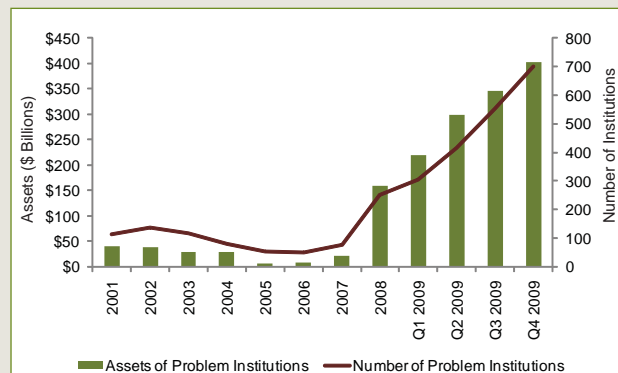
A turning point occurred with the creation of the Supervisory Capital Assessment Program (SCAP) which provided much needed clarity about capital shortfalls in the banking system and encouraged investors to gain confidence in government

intervention. In an abrupt shift, markets rallied. Conditions stabilized and even improved throughout 2009. While economic activity expanded, weakness in the labor market, modest income growth, lower housing values, and tight credit conditions persisted.

Recent results provide evidence the financial sector continues to benefit from economic recovery. Through May 31, 2010, the S&P 500 Financials Index was up 104.94% from its March 9, 2009 low⁴. Strong performance can be interpreted as a vote of confidence in economic recovery, government intervention and banks' aggressive capital raising efforts.

Although largely stable, financials are still a sector in transition. The list of problem institutions, plagued by their history of bad loans and troubled balance sheets, has increased dramatically through 2009 even as recovery gathered momentum.

FDIC-Insured "Problem" Institutions 2001 - 2009



Source: SNL Financial, FDIC.

Regulation and Reform: To What Result?

Lawmakers are currently advancing legislation to overhaul the regulation of US financial markets intended to reduce the chances of another crisis and bolster market confidence. Proposed reform bills have passed both the US Senate and House, however it remains unclear as to which provisions will be in the final legislation and when the law will be implemented.

Although this reform mainly targets larger size financial institutions and investment banks, smaller firms will also be impacted. We expect higher capital standards, higher standards for maintaining loans on balance sheets, and increased regulatory scrutiny and reporting requirements.

However, we believe we are at the beginning of a cyclical recovery period in which select smaller financial companies can benefit from continued economic recovery, tighter regulation and industry consolidation. Following are several investment themes in which we hold long-term conviction.

The Positive Side of Negative News: Regional Banks as Acquisition Targets

The problem bank list is growing. A total of 75 banks have already failed in 2010⁵. FDIC Chairman Sheila Bair has predicted that 2010 bank failures will surpass the 131 failures in 2009⁶. Of the nearly 700 banks currently on the FDIC watch list, history indicates approximately one quarter will fail⁷. Banks in peril are candidates for consolidation through the FDIC-assisted acquisition program.

Massive government intervention to support lending, followed by massive inflows from the private sector, has led to the over-capitalization of many mid- and large-size regional banks. Many of these are expected to purchase troubled banks through the FDIC-acquisition program. While mid- and large-cap banks look to FDIC-assisted transactions as a primary use of excess capital, we believe they will ultimately shift to purchasing small, healthy banks in the local market.

The primary appeal of buying a small regional or failed bank is that it allows the acquirer to increase their branch network and deposits without taking on significant credit risk. In FDIC-assisted deals, the government typically signs a loss sharing agreement with the acquirer, further minimizing the acquisition risks.

We expect these accretive acquisitions will add value over time, increasing the acquiring company's earnings per share (EPS) and book value per share (BV/S).

FDIC Problem Bank List is Growing: Bank Failures by Year 2008 - 2010

Year	Number of Failed Banks	Total Assets (\$ millions)	FDIC Insurance Fund's Estimated Loss (\$ millions)
1/1/10 - 5/31/10	75	\$66,077	\$16,874
2009	131	\$168,935	\$31,669
2008	25	\$372,254	\$17,873

Source: FDIC, TheStreet.com.

The Wealth Effect: Online Brokerage Companies

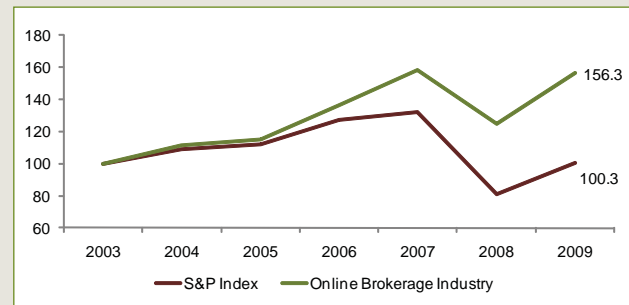
The online brokerage industry has been growing faster than the broad stock market. As of December 2009, as the market trended toward recovery, online brokers had grown their assets more than 50% versus the S&P 500 Index.

We see continued long-term potential for online brokerage firms in 2010 and beyond based on the growth of affluent investors who have the benefit of increased savings and income growth through capital appreciation, dividends and interest earned on investments. Additional growth may come from seasoned advisors who, we believe, are increasingly moving away from traditional, full-service firms in favor of higher payouts.

As the market environment improves and more technologically savvy investors look to increase returns, sophisticated trading strategies will become more prevalent. We see particular opportunity in online brokerage companies offering options trading and educational tools. As options expire, investors need to purchase new contracts to maintain their positions. Option traders tend to trade about three times as often as equity-only accounts⁸. Growth in options trading has increased dramatically over the past decade. Total monthly equity option trading volume has grown from approximately 60 million contracts in January 2000 to over 300 million contracts in April 2010⁹.

Short-term concerns weigh on the price of online brokerage firms including low interest rates and reduced trading volume. However, we see continued opportunity for select small online brokerage companies to gain market share through growth or consolidation.

Cumulative Asset Growth: S&P 500 Index vs. Online Brokerage Industry 2003 - 2009



Source: KBW Research. Online brokerage industry calculated using asset growth of three largest online brokerage firms.

Unbiased Advice: The Independent Advisor in Mergers & Acquisitions

Merger and acquisition (M&A) activity is highly dependent on global economic growth with activity cycles lasting on average seven years¹⁰. Many factors affect the cycle including the availability of inexpensive credit, valuations palatable to buyers and sellers, stock prices that reward management teams and investor expectations.

As credit markets have started to improve, we see the M&A cycle showing early signs of recovery. Looking ahead, merger and acquisition activity as a percent of GDP will likely be lower

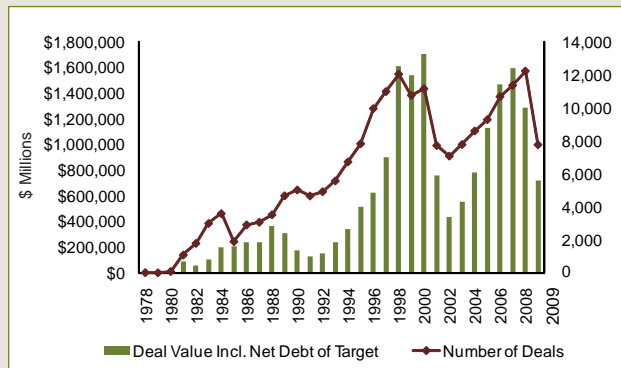
than average but much improved over 2008 figures. In North America alone, M&A deals have increased nearly 50% in quarter over quarter results, rising to \$269 billion in the fourth quarter 2009. Results for the first two months of 2010 set the stage for a more positive year ahead with \$141 billion in deals completed¹¹.

We see potential in independent M&A advisory businesses which we think stand to benefit from a more positive economic environment and increased regulatory oversight. Larger, full-service firms balance multiple business lines including banking, capital markets, asset management, private wealth as well as advisory businesses. Smaller, independent M&A advisory businesses are exclusively focused on advice. They boast less complex business models with clearer compensation structures. Transparency in the business model contributes to a level of assurance that other aspects of the business will not bias advice or create conflicts of interest, leading to greater comfort for clients. Independents have been gaining substantial market share over other providers. Year-to-date, independent advisors have had a role in 42% of deals versus 24% in 2009 and 19% in 2000¹².

We believe the current economic environment, increased regulation, and closer scrutiny on compensation will benefit independent M&A advisory businesses and result in their gaining ground over competitors.

Merger & Acquisition Activity

1978 - 2009



Source: Greenhill, Sandler O'Neill.

Economic Recovery Yields New Inflows: Asset Management

In 2007 and 2008, as global financial markets went into a freefall, US households, businesses, and institutional investors ran for safety pulling \$1.45 trillion from the markets and moving it into money market funds¹³.

US equity flows have since showed signs of recovery driven by growing investor confidence as economic recovery gained

traction. In 2008, net new cash flows to mutual funds fell by \$200 billion as redemptions exceeded inflows¹⁴. By 2009, net new cash flows increased to nearly \$400 billion as investors rushed back to a rallying market¹⁵. The trend has gained momentum. In the first two months of this year, mutual funds reported net inflows of \$29.5 billion and in March alone, inflows were \$52.9 billion¹⁶.

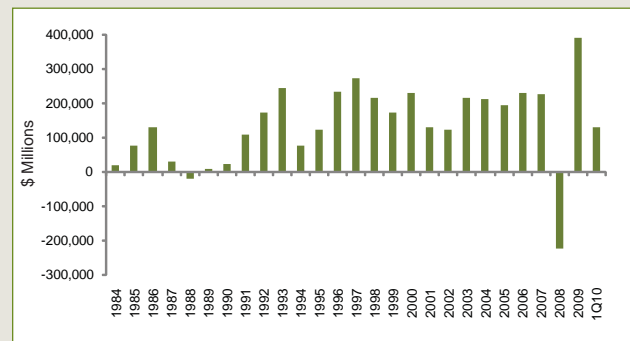
Positive performance plays an important role in investor psychology. By the second quarter of 2009, more than 72% of the companies in the S&P 500 Index beat analysts' earnings estimates, the greatest proportion since 1993¹⁷. This news resulted in investor inflows and helped asset management firms regain their footing. We believe this positive trend of solid performance and asset flows has the potential to continue with economic improvement.

In spite of the recent market gyrations, the US mutual fund market remains the world's largest with \$11.1 trillion in assets under management as of year-end 2009, or 48% of the \$23 trillion worldwide total¹⁸.

We have conviction in select smaller asset management firms that boast a diverse line-up of investment strategies with excellent long-term track records, add to their institutional sales teams to gain traction in a recovering environment, remain aligned with shareholder objectives, and cut costs when necessary.

Net New Cash Flow of Long-Term Mutual Funds

1984 - 1Q 2010



Source: ICI. Net new cash flow is the dollar value of new sales minus redemptions combined with net exchanges. Excludes fund of funds.

The financial sector is in a state of recovery, having survived the intense market swings and global panic which shook markets worldwide. In the current environment, where some negative news will almost certainly appear, stock selection will be critical. We have long-term conviction in select small-cap companies which, we believe, may benefit from cyclical recovery, increased oversight and consolidation.

Artio US Smallcap Fund (JSCAX/JSCIX)

The Artio US Smallcap Fund employs a core approach with an emphasis on intensive, bottom-up research by our team of five dedicated sector analysts. These analysts possess in-depth knowledge of the individual companies that make up the sectors and underlying industries they cover.

Our research process combines both qualitative and quantitative information. Our analysts' thorough understanding of each company's business model and environment, product positioning

and cycles, as well as our insistence on in-person visits with company management, gives us first-hand knowledge and understanding of how each company operates, along with the tactics and strategies undertaken by management teams to capitalize on market opportunities.

The Artio US Smallcap Fund is broadly diversified across a number of sectors including consumer discretionary, consumer staples, healthcare, technology, financials, industrials, energy, and materials.

1. The worst month of performance for the S&P 500 Index was in October 1987 which resulted in a -21.54% return. The second worst month of performance occurred in October 2008 in which the S&P 500 returned -16.80%. Callan. 2. Bloomberg.com, 9/15/09. 3. Through 3/9/09. Bloomberg. 4. Through 4/30/10. Bloomberg. 5, 6, 7. Time 4/9/10. 8. OptionsExpress. 9. The Options Clearing Corporation. 10. The last cycle from 2003 to 2007 was slightly shorter than usual, while the previous cycle from 1992 through 2000 was slightly longer than average. Greenhill. 11. Greenhill. 12. Greenhill, as of 3/3/2010. 13. Bloomberg.com, 10/15/09. 14, 15, 16. Investment Company Institute (ICI). 17. Bloomberg.com, 10/15/09. 18. Investment Company Institute (ICI).

Disclosures

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