

## Artio International Equity Fund II

### Performance (%) as of 12/31/11

	Inception Date	1 Mo	3 Mo	YTD	1 Yr	3 Yr *	5 Yr *	Since Inception *	Gross Exp. Ratio †	Net Exp. Ratio †
Class A:										
JETAX	5/4/05	-4.06	1.27	-22.02	-22.02	1.51	-6.29	1.40	1.30	1.28 <sup>1</sup>
Class I:										
JETIX	5/4/05	-4.05	1.35	-21.84	-21.84	1.74	-6.05	1.68	1.06	1.04 <sup>1</sup>
MSCI ACWI (ex-US)	N/A	-1.12	3.72	-13.71	-13.71	10.70	-2.92	3.84	N/A	N/A

Class A = Retail Shares Class I = Institutional Shares

\* Annualized

† As stated in the prospectus dated 3/1/11

1. Reflects a voluntary expense reduction agreement that may be discontinued at any time. The Investment Adviser has also agreed to waive a portion of its management fees; this waiver may be discontinued at any time by the Fund's board. Additional expenses are net of reductions related to custody offset arrangements.

*The performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling 800 387 6977 or visiting [www.artiofunds.com](http://www.artiofunds.com).*

Investment performance reflects fee waivers. In the absence of such waivers, total return would be reduced.

The final quarter of 2011 saw international equity markets faced with continued volatility as the debt situation in Europe dominated news headlines and investor sentiment. After experiencing strong gains in October, markets fell into negative territory in both November and December, but managed to finish the quarter in positive territory. At the start of the period, many believed that Greece would default on its debt obligations. Despite efforts by European finance ministers and banks (who agreed to take a 50% loss on the face value of their Greek debt), markets failed to stabilize in large part due to the Greek prime minister's decision to hold a national referendum on the new aid package.

November brought worries that the problems caused by high debt and slow growth that began in peripheral countries such as Greece and Portugal would spread to the Continent's core. Italy, the euro zone's third-largest economy, saw bond yields hit record highs and the country's borrowing costs moved above the key financial and psychological barrier of 7 percent – levels that required those peripheral countries to seek bailout funds.

As December began, leaders of European Union nations worked overtime on a deal to save the euro. The treaty had multiple goals including a show of resolve to protect the larger economies of Italy and Spain, revise the economic governance of the euro zone and prevent further debt crises. While this was not the perfect solution it would have required stricter fiscal and financial discipline in future budgets. However, Britain refused to participate without additional language providing extra protection for its

financial sector and effectively caused the treaty's prospects to collapse. As these events unfolded, market volatility began to subside as the year came to a close. Also providing a degree of hope for investors were some encouraging signs out of the US suggesting that the world's largest economy is perhaps more resilient amid the current global crisis than originally thought.

During the quarter, efforts by emerging markets to help strengthen the euro came in the form of both rumor and public offer. Back in October, European hopes were buoyed after an apparent conversation between the French president and his Chinese counterpart; however, this did not result in any public offer of financial support. On the other hand, in December, Russia signaled its support for efforts to stabilize the euro with a pledge of up to US\$20 billion to bolster the International Monetary Fund (IMF) to help handle any future bailouts.

In an effort to ease pressures, European finance ministers increased the firepower of the bailout fund they established, the European Financial Stability Facility, by offering insurance certificates to those buying bonds of nations like Italy. The certificates are designed to make the bonds more attractive and will be tradable themselves. At the close of the year, they also worked to iron out details for drawing US\$261 billion in additional funding through the IMF to aid the debt crisis.

These continued troubles have caused a flurry of ratings downgrades. In October, Spain's credit rating was cut for the third time

in three years by the ratings agency Standard and Poor's. Also during that month, Moody's Investor Services, another ratings agency, downgraded twelve British financial institutions after the UK government stated public money would not be used to aid banks. In November, Moody's warned that multiple countries may default on their debt and thereby threaten the credit of all 17 countries and the euro currency. Then in December, Moody's downgraded the three largest banks in France citing the problems each has had recently in raising funds in the open market. Most suspect the French government would step in to support the three institutions if conditions worsened but there has also been recent speculation that France itself is in danger of losing its AAA rating.

Elsewhere in the world, the Japanese government announced plans early in October to temporarily hike taxes to help cover reconstruction costs of areas affected by the natural and nuclear disasters this year. While the Japanese Central Bank warned of the risks facing the global economy (but left their nation's monetary policy unchanged), the IMF forecasted that the Japanese economy will be the fastest growing among developed nations due to the large fiscal outlays for rebuilding. For the entire fourth quarter, Japan was one of the developed world's worst performers.

Also, in November the Chinese government unexpectedly reversed its year-long move toward tighter monetary policy and encouraged banks to resume lending. The shift came about after interest rates were raised three times this year in an aim to curb inflation. Now, weakening economic growth has moved to the forefront with some concerned that the European Union's debt crisis could lead to a sharp drop in Chinese exports and have an adverse impact on the economy. This latest move is intended to rekindle growth and a sluggish real estate market, however, in our view, China has ample latitude from both a monetary and fiscal perspective to deal with a slowing global economy.

In the fourth quarter, the Artio International Equity Fund II (Class A Shares) gained 1.27%, while the MSCI ACWI (ex-US) returned 3.72%. Amid the quarter's turmoil the sector allocation within developed markets was the largest contributor to relative performance followed by the allocation between emerging and developed markets. As emerging market returns fared worse than their developed counterparts, exposure to this part of the world, in particular India, detracted. Stock selection in developed market countries was also negative.

Within the developed world outside Japan, exposure to the consumer discretionary sector was notable due to the strong performance of several luxury goods holdings. As stated in previous commentaries, many of these positions are tied to our desire to capitalize on emerging market consumption growth. The number of new millionaires coming out of emerging markets is increasing

at a rapid rate and their subsequent demand for luxury goods, the status symbol of their new wealth, is also rising. As a reference point, we can look back to Japan in the 1990s when a similar boom took place and that nation consumed nearly 40% of the world's high-end goods.

Materials stock selection was also a positive contributor largely due to exposure to holdings in several metals and mining companies which posted returns in excess of the benchmark. For some time, we have held the belief that mining companies generally offer strong value. We view the supply/demand characteristics of several commodities and raw materials such as gold, iron ore, copper and coal as favorable and believe the sector's oligopolistic firms have pricing power and strong profitability potential.

Other developed market sectors where exposure proved advantageous were telecommunications (stock selection) and utilities, the benchmark's worst performer where we were substantially underweight.

The industrials sector was the primary drag on developed market returns due to stock selection, particularly the airport industry. One of the largest negative contributors was a European airport operator that experienced a sharp drop in share price during the quarter, in part due to a reported decrease in freight and mail volumes. Despite this fall, we continue to like the airport industry as passenger travel grows at rates faster than GDP (gross domestic product) driven in part by ticket prices offered by lower cost airlines. Additionally, income growth in emerging markets is expected to lead to increased expenditures on travel.

As mentioned above, Japan was one of the developed world's worst performers during the fourth quarter and results were positively impacted by our underweight. In addition, stock selection choices, mainly in the industrials sector, were strong. The Japanese companies we are investing in are more export focused and we tend to avoid those with a more domestic orientation. Fundamentally, we continue to have serious concerns about the high levels of government debt which stands at more than twice GDP and expect to remain underweight. Japanese banks, which hold the lion's share of this debt in the form of Japanese Government Bonds, could face daunting financial challenges if Japanese sovereign credit comes into question.

While emerging markets did detract from quarterly results, a significant amount of the underperformance can be isolated to India. In December, the country's benchmark stock index sank to a 25-month low after the central bank cautioned against risks to economic growth and added that the probability of inflation remains high. Portfolio holdings within the country were largely focused on the infrastructure industry and although the

demographics still bode well for such firms given the need for increased or improved services such as ports, roads and electricity, these companies did not escape the downturn.

Elsewhere, Taiwan was the emerging country to have the most meaningful positive impact on relative returns as the position in a semiconductor company posted positive results. China had a negative impact for the quarter. Despite shares of one of the country's largest Internet search engines rising after issuing revenue guidance above analyst's expectations, it was not sufficient to offset the exposure to a travel service provider that fell for the exact opposite reason, announcing that it expected fourth quarter revenue to be below analyst's expectations. Again, exposure within China is focused on companies that we feel are poised to benefit from an increase in domestic consumption as well as those that

may gain from consolidation. Russian holdings, mainly those of a pharmaceutical company, also dampened relative performance.

We continue to believe businesses in both the emerging and developed world that sell to the emerging market consumer are the most attractive from a strategic perspective. However, against a continued backdrop shaped by the sovereign debt crisis, we have become somewhat more defensive from a tactical perspective. We continue to hold investments within local emerging markets, but have increasingly been drawn to companies within the developed world, particularly global companies based in Europe offering exposure to emerging consumers with strong balance sheets, superior management, solid brands and brand awareness, sustainable cash flows and dividends.

**Investing internationally involves additional risks such as currency fluctuations, currency devaluations, price volatility, social and economic instability, differing securities regulation and accounting standards, limited publicly available information, changes in taxation, periods of illiquidity and other factors. These risks are greater in the emerging markets. Stocks of mid-capitalization companies are slightly less volatile than those of small-capitalization companies but both still involve substantial risk and they will be subject to more abrupt or erratic movements than large-capitalization companies. In order to achieve its investment goals and objectives, the Fund may invest in derivatives such as futures, options, and swaps to a very substantial extent. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments and are fully disclosed in the prospectus. As of 12/31/11, the Fund invested approximately 0.56% of its net assets in derivatives (excluding forward foreign exchange contracts).**

The MSCI ACWI (ex-US) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets excluding the US. It is not possible to invest directly in an index.

Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

The Artio International Equity Fund II holdings, sector allocations, and geographic allocations are subject to change and are not a

recommendation to buy or sell any security. **Current and future portfolio holdings are subject to risk.**

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*The Artio International Equity Fund II investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800 387 6977 or visiting the Fund's website at [www.artiofunds.com](http://www.artiofunds.com). Please read the prospectus carefully before investing.*

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