

Artio Global Balanced (Cayman) Fund Ltd.

This fund is not available to US citizens and residents.

The final quarter of 2011 saw global 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 Standard and Poor's (S&P). Also during that month, Moody's Investor Services 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. S&P also downgraded some of the US's (and world's) leading financial institutions as part of an action involving 37 banks that was tied to the amount of reserve capital they had on hand. 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.

Meanwhile, bond markets were also questioning whether the European economy will experience a mild recession or something worse. In 2012 and 2013, the European banking sector will compete with government debt issuance for funds. European banks need to raise US\$1.255 trillion over this period while government debt issuance in core Europe (Germany, France, Italy, Ireland, Spain, Portugal and Greece) will need to raise US\$1.648 trillion. We believe that governments have little option but to pay whatever cost is necessary to fund expenditures. These costs are also rising as evidenced by higher yields; recently Italy's 10 year yields pierced through the all important 7% level and France's 10 year yields moved 25 basis points higher. However, banks must comply with Basel III (a global regulatory framework) in coming years and are preparing early by raising capital and de-levering. This means they will need to shrink their balance sheets by actions such as selling assets and letting investments mature. This should lead to a large credit contraction as banks remove credit from the system and do less private sector lending. While this goes on in the banking industry, European governments are expected to embark on austerity programs that will almost certainly cause a drag on growth.

During the quarter, it appears that the European Central Bank (ECB) has changed course and is becoming more aggressive. They eased rates by 25 basis points in both November and December, bringing the overnight rate down to 1%. We expect they will do more and in 2012, will see the overnight rate moving to a level of 0% to 0.25%. In addition, in late December the ECB decided to allow banks to repurchase collateral on their books down to as low as A-rated paper. This was a big first step and tells us that the ECB is moving in the direction that investors desperately want by injecting €489 billion into the system. Unfortunately, these banks turned around and deposited those same funds directly with the ECB because they are afraid to lend and need to increase liquidity. The ECB's primary mandate is "price stability" and they have been shielding their policy response behind this. We feel they will ultimately realize that deflation is a bigger threat than inflation and use this definition to begin a massive bond purchase program somewhere in the neighborhood of €1-3 trillion. This could accomplish two goals: helping bring down government bond rates and helping those same European banks improve their capital position by lowering bond yields as their holdings of government debt securities rise in value.

The US was one of the world's best performing equity markets during the quarter. Despite initially strong third quarter gross domestic product data being revised downward near the end of December (previously released in October), manufacturers are in the process of rebuilding their depleted inventories. That would indicate that the nation's recovery was just painfully slow and not stalled as many believe. While the US Federal Reserve Bank lowered its forecast for the country's growth during the period, they took no new stimulative measures but did indicate they were ready to offer more support if necessary. Good news continued in December as the US jobless claims fell to their lowest level since 2008.

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 forecast 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 equity 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 Global Balanced (Cayman) Fund Ltd. (Class I Shares) returned 3.55%, which was below the 4.55% return of its customized benchmark (55% MSCI ACWI and 45% Barclays Capital US Aggregate Bond Index). Equity holdings were the primary drag on results, largely in markets outside the US while positions in fixed income markets performed well. During the quarter, exposure to US equities was increased while emerging markets were decreased. Exposure to both investment grade and high yield bonds remained relatively flat.

Sector allocation decisions within the equity markets of the developed world (including Japan) had a positive impact, however, this was partially offset by stock selection in the same markets. Exposure to Japanese equities, including both an underweight stance as well as stock selection was a standout. However, emerging market equity positioning, in particular Indian investments, offset most of the positives and caused a large portion of the quarter's relative underperformance.

Within the equity markets of the developed world outside Japan, exposure to the consumer staples and technology sectors were notable due to stock selection, largely US-based companies. Within consumer staples, two strong performers include a pharmacy healthcare provider and a food and beverage company whose share prices both rose after issuing fiscal year 2012 guidance that was in line with analysts' estimates. The technology sector was dominated by an Internet search provider held in the portfolio to gain exposure to the increased corporate spending devoted to online advertising. We feel this particular company possesses an attractive valuation, strong balance sheet, multiple avenues for growth and a management team with a large equity stake in the business.

The industrials sector was the largest drag on developed market returns due to stock selection, particularly the airport industry as well as an overall underweight to the US portion of the market which performed better than other parts of the developed world. 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.

Materials stock selection was also detracted largely due to exposure to holdings in several Canadian and Australian metals and mining companies which posted returns below the benchmark, including one that trimmed its production guidance by 6 percent

for the current fiscal year. Despite these results, we continue to believe 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.

Finally, the energy sector was the developed world's best quarterly performer and our underweight versus the benchmark hurt relative results.

As mentioned above, Japan was one of the developed world's worst performing equity markets during the fourth quarter and results were positively impacted by our underweight. In addition, stock selection choices 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 market equities 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 good results. Chinese exposure had a negative impact mainly caused by shares of a travel service provider whose price fell after announcing that it expected fourth quarter revenue to be below analyst's expectations. 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. Lastly, Russian holdings, mainly those of a pharmaceutical company, dampened relative performance.

Tactically, the investment grade portion of the portfolio has favored the long end of the yield curve when adding to duration and believe that US investment grade corporate offer strong relative value.

With regard to equity markets, 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.

The Fund is an open-end exempted limited liability company incorporated in the Cayman Islands

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The Barclays Capital US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-Related, Corporate, and Securitized sectors. It includes securities that are of investment-grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$250 million.

The MSCI ACWI Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets.