PORTFOLIO MANAGER LETTER
ARIEL FUND & ARIEL APPRECIATION FUND

December 31, 2009

ARIEL INVESTMENTS

Dear Fellow Shareholder: For the three months ended December 31, 2009, the smaller companies comprising Ariel Fund gained +7.79%, surpassing the +4.65% rise of the Russell 2500 Value Index as well as the +5.08% gain of the Russell 2500 Index. Meanwhile, Ariel Appreciation Fund's mid-sized holdings also racked up another good quarter, surging +10.36% versus +5.21% for the Russell Midcap Value Index and +5.92% for the Russell Midcap Index. The broad market as measured by the S&P 500 Index gained +6.04% for the period. These strong returns put the finishing touches on a remarkable year—which was certainly reaffirming after the brutal market conditions of 2008. As was noted in the January 10, 2010 issue of *The New York Times*, "The rally that brought the stock market back from the brink in 2009 was one of the biggest ever—and maybe one of the most surprising." While we could not have predicted our 2009 gains would represent the very best performance year in Ariel's 27-year history, in the depths of the crisis, we did anticipate a major reversal. In fact, we said so exactly a year ago when we wrote, "Ultimately, when the market recognizes that our survivors will do just that, we believe [our] stocks will shoot the lights out." That is precisely what happened. For the twelve-month period, Ariel Fund rose +63.42% versus +27.68% for the Russell 2500 Value Index and +34.39% for the Russell 2500 Index. Similarly, Ariel Appreciation Fund gained +62.96% versus +34.21% for the Russell Midcap Value Index, +40.48% for the Russell Midcap Index and +26.46% for the S&P 500 Index. According to mutual fund tracker Lipper, Inc.,[1] our one-year gain ranks Ariel Fund 13th out of 369 funds in its Mid-Cap Core equity universe, which is in the top 4% of that category. Ariel Appreciation Fund ranks 9th out of 795 funds in the Multi-Cap Core category, which is in the top 2% of the group.

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[1]Lipper, Inc. is a nationally recognized organization that reports performance and calculates rankings for mutual funds based on total returns. The rankings quoted reflect the 1-year rankings as of December 31, 2009 of Ariel Fund and Ariel Appreciation Fund within their respective fund categories. Lipper classifies Ariel Fund as a Mid-Cap Core Fund and Ariel Appreciation Fund as a Multi-Cap Core Fund. For the period ended December 31, 2009, the rankings of Ariel Fund and Ariel Appreciation Fund for the one-, five- and ten-year periods were 13 out of 369; 219 out of 241 and 17 out of 114 funds among Mid-Cap Core Funds, and 9 out of 795; 162 out of 519 and 10 out of 223 funds within the Multi-Cap Core Funds, respectively.

No New Normal

Last April, as the financial crisis was just beginning to abate, The Wall Street Journal perfectly summed up a basic tenet of behavioral psychology—the fact that " . . . people tend to rely too heavily on what has happened in the recent past when it comes to predicting the future."[2] With this in mind, it is not surprising that in response to the financial crisis all the buzz is about a "new normal" that will lead everyday Americans to radically change their behavior and ultimately stifle economic growth. Of course, the idea of a new normal is deeply rooted in the difficulties of the last decade where we lived through two bear markets; two recessions; two wars; the bursting of the Internet, oil and housing bubbles; the biggest Ponzi scheme ever; some high-profile bankruptcies; not to mention a couple of really devastating natural disasters and the worst decade for stocks "in nearly 200 years of recorded stock market history"—including the Depression years of the 1930s.[3]

Proponents of the "new normal" say skyrocketing personal savings (for those who are employed) will cause personal spending to plummet. Since the American consumer represents two-thirds of our country's Gross Domestic Product (GDP), a "saver nation" would therefore cause the U.S. economy to struggle and wither—making the lackluster first decade of the new millennium a mere precursor to a prolonged stock market and economic slump. And, of course, in this doomsday forecast America's troubles drag down the global economy, which basically nets out to a different and more difficult world.

Given our contrarian tendencies, it may not be surprising that we have a different outlook. To us, the concept of a "new normal" is another take on the often stated, "this time is different" rationalization. As *The New York Times* brilliantly explained, "The impulses that make us want to forgo the slow and steady for instant riches, that cause us to go along with the crowd instead of bucking it, that allow us to think that this time it's different, instead of understanding that it never is—these are such basic aspects of human nature that they cannot be changed . . ."[4] Instead of succumbing to what that *Times* article dubbed a "thought virus," we have a completely different outlook for the decade ahead. In short, there is nothing new about the normal we are anticipating. By contrast, we believe this time is not different and the recovery will play out in much the same way as it has in times past. This means people will save a rational amount—somewhere closer to historic norms in the mid-to-high single-digits as opposed to the anemic near-zero savings rates that were an anomaly in the 2000s. They will spend, but not like the high-octane spending that took place in the peak consumption years of the last decade. To us, normal will be a resumption of reasonable borrowing and lending (the kind with documentation!). Normal will mean economic growth will head back to its +3.5% long-term trend line which has already begun. We expect to see job growth at some point very late in the recovery—which is when it normally happens. And unlike those who are concerned the U.S. economy will be impaled by the sharply rising growth of the emerging economies, we see the growth of China and India as a key ingredient of a bigger world pie. To this last point, when the $520 billion U.S. economy represented 39% of the global GDP in 1960, the World Bank estimates the entire world economy was $1.3 trillion. These days, some are concerned the U.S. had shrunk to represent just 23% of the global GDP by 2008. Given the fact that the world economy had grown to $60.6 trillion in that year, our $14.2 trillion slice seems like a healthy serving to us.

Optimistic and Opportunistic

We are quite enthusiastic about the outlook for the stock market. Again as contrarians, our optimism is partially rooted in the market's dismal performance in the decade we just left behind where the S&P 500 Index averaged a -0.95% annual return.[5] The mere fact that USA Today said that "Just about anything beat the average stock fund the past 10 years: gold bullion . . . government bond funds . . . Treasury bills . . ."

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[2] *The Wall Street Journal*, April 5, 2009.
[3] *The Wall Street Journal*, December 20, 2009.
[4] *The New York Times*, October 11, 2008.
[5] For the trailing 10-year period ending December 31, 2009.

emboldens us to believe stock performance will revert to the mean (which Ibbotson Associates pegs at a +6.4% average annual return after inflation from 1926 to 2008).[6] We take additional comfort in knowing the first decade of the new millennium ended with a rush to bonds and international stocks with U.S. stocks largely ignored. Over the next 12 months we believe U.S. stocks will continue the upward trajectory that began last March. After severe cost-cutting, U.S. corporations have never been leaner and therefore will not have to reach peak earnings to see a return to peak profits. We also believe their curtailed spending means there is pent-up demand—inventories are low and will need to be replenished at some point in the near future. Last but not least, we believe the piles of cash now held by private equity firms will ultimately boost takeover activity amongst financial buyers. On the same point, we believe mergers and acquisitions will heat up as strategic buyers attempt to juice their growth rates through combinations and consolidations. Both scenarios bode especially well for smaller companies whose niche businesses are easily digested—companies like those in Ariel Fund and Ariel Appreciation Fund.

Beyond 2010 and into this decade, we think investing great Warren Buffett was spot-on in his Berkshire Hathaway 2008 annual letter when he said, "Though the path has not been smooth, our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so. America's best days lie ahead." In the context of this like-minded perspective, we will view the inevitable bumps in the road as opportunities to accumulate knowledge, buy bargains and build wealth.

Portfolio Comings and Goings

During the quarter, we snapped up a number of bargains in Ariel Fund. First, we purchased shares of credit analysis provider Fair Isaac Corp. (FICO)—drawn to its strong franchise, motivated management team and solid growth prospects. We also added global security provider Brink's Co. (BCO). Since selling its global freight business and spinning off its home security business, the company now provides a focused cash delivery service. Additionally, we initiated a position in an old favorite, McCormick & Co., Inc. (MKC) whose spice products have a stable and predictable demand base and offer consistent top-line growth. Lastly, we purchased rating agency Dun & Bradstreet Corp. (DNB) which is also held in Ariel Appreciation Fund. While its business fundamentals are intact, its lagging stock price has caused its market capitalization to fall within Ariel Fund's range. Conversely, we exited our position in IMS Health, Inc. (RX) on the good news of its sale to a private equity consortium.

Meanwhile, Ariel Appreciation Fund purchased heart device maker St. Jude Medical, Inc. (STJ) as the stock traded down on the uncertainty surrounding health care reform. We also initiated a position in carpet manufacturer Mohawk Industries, Inc. (MHK) which is held in Ariel Fund. We are confident that as the market recovery broadens and strengthens, demand for Mohawk's products will rise, largely because many businesses and consumers have delayed much-needed flooring upgrades. Lastly, as in Ariel Fund, we also added McCormick and exited IMS Health in Ariel Appreciation Fund.

As always, we appreciate the opportunity to serve you and welcome any questions or comments you might have. You can also contact us directly at email@arielinvestments.com.

Sincerely,

John W. Rogers, Jr.
Chairman and CEO

Mellody Hobson
President

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[6] *USA Today*, January 5, 2010.

The Funds invest primarily in small and mid-sized companies. Investing in small and mid cap stocks is riskier and more volatile than investing in large cap stocks, in part because smaller companies may not have the scale, depth of resources and other assets of larger firms.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus which contains this and other information about the Funds offered by Ariel Investment Trust, call us at 800-292-7435 or click here. Please read the prospectus carefully before investing. Distributed by Ariel Distributors, LLC.

The Russell 2500™ Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth value. The Russell 2500™ Index measures the performance of the 2500 smallest companies in the Russell 3000 Index. Click here for the standardized performance current to the most recent quarter and month end periods for the Russell 2500 Value Index and the Russell 2500 Index.

The Russell Midcap® Value Index measures the performance of those Russell Midcap companies that are members of the Russell 1000 Value Index and that have lower price-to-book ratios and lower forecasted growth values. The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000 Index. Click here for the standardized performance current to the most recent quarter and month end periods for the Russell Midcap Value Index and the Russell Midcap Index.

The Standard & Poor's 500 Index is a broad market weighted index dominated by blue-chip stocks.

This commentary candidly discusses a number of individual companies and sectors. These opinions are current as of the date of this commentary but are subject to change. The information provided in this commentary does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security.

Portfolio holdings are subject to change. The performance of any single portfolio holding or sector is no indication of the performance of other portfolio holdings or sectors of the Funds. Click on the following links for information about portfolio holdings for: Ariel Fund and Ariel Appreciation Fund.