

SHAREHOLDER LETTER

ARIEL FUND, ARIEL APPRECIATION FUND & ARIEL FOCUS FUND

September 30, 2008



Disclaimer: Performance data quoted is past performance and does not guarantee future results. The performance stated in this document assumes the reinvestment of dividends and capital gains. We caution shareholders that we can never predict or assure future returns on investments. The investment return and principal value of an investment with our Funds will fluctuate over time so that your shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted in this report. For the period ended September 30, 2008, the average annual total returns for the one-, five- and ten-year periods for Ariel Fund and Ariel Appreciation Fund were -26.55%, +3.04% and +7.83%; and -20.49%, +3.63% and +7.55%, respectively. For the period ended September 30, 2008, the average annual total returns of Ariel Focus Fund for the one-year and since inception (June 30, 2005) periods were -16.08% and +0.60%. As of September 30, 2007, Ariel Fund and Ariel Appreciation Fund had annual expense ratios of 1.03%* and 1.12%*, respectively. As of September 30, 2007, Ariel Focus Fund had an annual net expense ratio of 1.25% and a gross expense ratio of 1.63%*. The Fund's adviser, Ariel Investments, LLC is contractually obligated to waive fees or reimburse expenses in order to limit Ariel Focus Fund's total annual operating expenses to 1.25% of net assets through the end of the fiscal year ending September 30, 2009. After that date, there is no assurance such expenses will be limited. To access our performance data current to the most recent month-end, visit the "Performance Details" tab for Ariel Fund, Ariel Appreciation Fund and Ariel Focus Fund.

Dear Fellow Shareholders: In an increasingly eventful quarter ending September 30, 2008, the broad market as measured by the Standard & Poor's 500 Index declined -8.37% while the average US stock mutual fund tracked by Morningstar, Inc. dropped -10.22%. By comparison, our funds fared better. More specifically, the small-to-mid-sized issues comprising Ariel Fund declined -2.38% for the quarter, which was in between the Fund's benchmarks. The Russell 2500 Value Index lost -1.22% while the Russell 2500 Index dropped -6.72%. Meanwhile, the mid-cap holdings in Ariel Appreciation Fund fell -3.98%. This loss was well ahead of both the Russell Midcap Value Index which gave back -7.52% and the Russell Midcap Index which lost -12.91%. The concentrated Ariel Focus Fund notched another strong quarter relative to its benchmark; it fell -2.99% while the Russell 1000 Value Index skidded -6.11% and the Russell 1000 Index dropped -9.35%.

In our prior letters this year, we wrote at length about an ever growing commodity bubble. As we anticipated, that bubble has now burst. Unlike the first half of the year when our lack of ownership of the booming commodities hurt, this quarter our avoidance of these capricious issues helped as they dramatically fell from unsustainable highs. As *The Wall Street Journal* noted, "The commodity slide is broad. Crude oil is down nearly 35% over the last three months, while metals like silver and platinum are down 34% and 49% respectively . . . [T]he recent sharp reversal to steep losses from double digit gains within months underscores the volatility inherent in many of these investments."¹ Broadly speaking, we also avoided direct hits from the credit crisis that has ravaged Wall Street and left carnage everywhere.

¹ Anand, Shefali. "Sharp Declines in Commodities Hammer Funds." *The Wall Street Journal*. 9 Oct. 2008.

Crash Survival

Despite the volatility and reversal of fortunes that occurred during the quarter, September 30th seems like a lifetime ago when one considers the drama that has unfolded in the first days of October. Although we normally do not comment on periods past the quarter-end in these letters, the severity of recent market movements warrants our attention. As we all know, in just five days—October 6-10—the stock market crashed. The Dow fell -18%—the worst one-week return in its 133-year history. The S&P 500 fell by the same amount, but at least it has seen this kind of drop twice before—eight decades ago during the Great Depression. While not pretty, our returns topped the broad market as well as our benchmarks. More specifically, during this week Ariel Fund fell -16.08% versus -17.14% for the Russell 2500 Value and -16.68% for the Russell 2500. Ariel Appreciation Fund gave back -17.33% compared to -19.75% for the Russell Midcap Value and -18.62% for the Russell Midcap Index. Ariel Focus Fund returned -16.41% versus -19.74% for the Russell 1000 Value and -18.16% for the Russell 1000 Index.

As the market unraveled, so did market watchers, investors, regulators, government officials and global stock exchanges. The chorus of commentary ranges from bad to dreadful: “It Couldn’t Get Worse but It Did”² (*The New York Times*); “race to the bottom”³ (*Barron’s*); “a plague of biblical proportions in the capital markets”⁴ (*Fortune*); “investment ‘Ice Age’”³ (*Barron’s*). A panic has caused widespread capitulation. For example, some of the largest hedge fund managers have moved to cash; stock mutual fund investors have redeemed a record \$56 billion so far in October⁵; for one day, US treasuries had a negative yield—meaning, people were willing to *pay* the US government to hold their money for fear of traditional banks. These are rash moves when one considers the overwhelming evidence that market timing does not work. As the October 9th issue of *The New York Times* explained, “From 1963 to 2004, an index of American stocks with dividends reinvested, gained +10.84% annually . . . For people who missed the 90 biggest-gaining days . . . the annual return fell to just +3.2%. Less than 1% of the trading days accounted for 96% of the market gains.” With his brilliant wit, Warren Buffett says it even better: “if you wait for robins, spring will be over.” A point brought home by an 11% one-day rise of the Dow in the first trading session following the savage week.

On October 10th, *The New York Times* reminded investors that, “. . . while history may help us understand why financial panics take place, it doesn’t do anything to prevent them. 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 allows us to think this time is different, instead of understanding that it never is—these are basic aspects of human nature that cannot be changed through study alone.”

These words got us thinking about human nature and how people respond in times of crisis—which led us to recall an amazing book, *Deep Survival*, by Laurence Gonzales. In the book, Gonzales attempts to “illuminate the essence of the true survivor—the internal battles that are waged between fear and hope, reason and emotion, despair and correct action.” While his book focuses on survival when people are lost or harmed, the parallels with surviving a financial crisis are uncanny. Early in the book he states, “Only 10 to 20 percent of people can stay calm and think in the midst of a survival emergency.” Instead, most people, “. . . get rattled. They panic. They freeze.” That was the mood last week for most stock market investors. Heck, that was the mood of most people with a bank account.

² De Aenlle, Conrad. “It Couldn’t Get Worse, but It Did.” *The New York Times*. 12 Oct. 2008.

³ Abelson, Alan. “Shock and Awe.” *Barron’s*. 13 Oct. 2008.

⁴ Demos, Telis. “Bad Trip Bull.” *Fortune*. 13 Oct. 2008.

⁵ This redemption data covers the period of Oct. 1 through Oct. 15, 2008 and was reported in *USA Today*, Oct. 17, 2008 and TrimTabs Investment Research, Oct. 16, 2008.

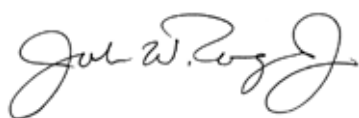
In the book, Gonzalez determines the common characteristics of survivors of all kinds—many specifically apply to investment success:

- For example, he notes that “psychologists who study survival say that people who are rule followers don’t do as well as those who are of independent mind and spirit.” As contrarian investors who lean against conventional wisdom when it becomes dull groupthink, we believe we naturally fit this bill. Sometimes that means we can be out of synch, but it has helped us dodge the dot-com and commodity bubbles.
- Unlike the “the Rambo types [who] are the first to go,” he explains that to survive, “you need humility.” He warns, “Don’t think just because you’re good at one thing, it makes you good at other things.” It is for precisely this reason that we limit our investments to our well defined circle of competence—areas in which we have deep knowledge and expertise—both of which enable us to make informed decisions during crunch time.
- According to Gonzalez, when you are fighting for your life, “. . . you must hold onto [your] plan with a gentle grip *and* be willing to let go.” He goes on to underscore the point very clearly in declaring, “Rigid people are very dangerous people.” For an investor, this is a key point and often manifests itself clearly when the thesis on a stock changes. Such was the case with our decision to sell our shares of the bond insurers in 2006 and 2007—after years of ownership and with an absence of looming danger signs—well before the fortunes of these companies turned quite bleak.
- He says survivors, “. . . see opportunities, even good, in their situation.” In the recent market collapse, most see red, we see green—the color of money. Lately, the huge market swings have enabled us to take advantage of severe price dislocations offering once-in-a-lifetime bargains. When there is blood in the streets, there is potential for considerable reward if you are willing to do a substantial amount of homework and take a long-term view.

Gonzalez’ concluding point left a deep and lasting impression on us. To sum up the survivor, he quotes the words of Irwin Edman who wrote the introduction to Marcus Aurelius’ Meditations: “Fortitude is necessary, and patience and courtesy and modesty and decorum, and a will, in what may for the moment seem to be the worst of worlds, to do one’s best.” We do not know how long the economic and market recoveries will take this time around, but we do believe the very worst is probably over and better days lie ahead. With our own innate survivor mentality, we plan to stay the course and do our best. Now more than ever is the time for patient investing.

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

Sincerely,



John W. Rogers, Jr.
Chairman and CEO



Mellody Hobson
President

The Funds invest primarily in small and mid-sized companies. Investing in small and midcap 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. Additionally, the Ariel Focus Fund is a non-diversified fund, which means its investments are concentrated in fewer names than diversified funds, such as Ariel Fund and Ariel Appreciation Fund. Ariel Focus Fund generally holds 20 stocks and therefore may be more volatile than a more diversified investment.

***The annual gross expense ratios for Ariel Fund, Ariel Appreciation Fund, and Ariel Focus Fund as of September 30, 2008 were 1.07%, 1.19%, and 1.61%, respectively.**

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 visit our website, arielinvestments.com. 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 values. As of September 30, 2008, this index had an average market capitalization of \$1.6 billion based on a dollar-weighting of all holdings. The Russell 2500 Index measures the performance of the 2500 smallest companies in the Russell 3000 Index. As of September 30, 2008, this index had an average market capitalization of \$1.7 billion based on a dollar-weighting of all holdings.

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. As of September 30, 2008, this index had an average market capitalization of \$5.3 billion based on a dollar-weighting of all holdings. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 31% of the total market capitalization of the Russell 1000 Index. As of September 30, 2008, this index had an average market capitalization of \$5.6 billion based on a dollar-weighting of all holdings.

The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. As of September 30, 2008, this index had an average market capitalization of \$36.9 billion based on a dollar-weighting of all holdings. The Russell 1000 Index measures the performance of the 1000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of September 30, 2008, this index had an average market capitalization of \$34.2 billion based on a dollar-weighting of all holdings.