QUARTERLY COMMENTARY

Ariel Small/Mid Cap Value

• Value • Global

Quarter Ended September 30, 2022

All major indices closed out the third quarter at a loss, marking the first time Wall Street posted three consecutive quarters of declines since the aftermath of the global financial crisis. Persistently high inflation, escalating geopolitical tensions in Russia/Ukraine, energy-price shocks and aggressive central-bank tightening have weighed on consumer and business confidence. Recession watch has taken hold as many investors fear a Fed-induced hard landing. While Wall Street sits on edge and markets remain erratic, we are actively leaning into the moment by judiciously acquiring the downtrodden shares of quality companies whose value we believe should be realized over the long term. Against this backdrop, the Ariel Small/Mid Cap Value Composite lost -7.16% gross of fees (-7.39% net of fees) in the quarter, underperforming the Russell 2500 Value Index's and the Russell 2500 Index, which returned -4.50% and -2.82%, respectively.

Regional banking services provider **BOK Financial Corporation (BOKF)** was the top contributor in the quarter, as reflation themes in the marketplace raised interest rate expectations, boosting positive net-interest-margin trends. Additionally, the company continued to report solid loan growth along with tight expense controls, providing a tailwind for shares. Looking ahead, we believe BOKF's strong underwriting standards, diversified business model (which includes banking and fee service businesses), and experienced management team continue to present a long-term opportunity.

Professional football club operator **Manchester United Plc. (MANU)** traded higher on headlines that the Glazer Family is open to a full or partial sale of their stake. This iconic football club sports a global following north of 1 billion fans and plays in the English Premier League (EPL), the most watched professional sports league in the world. We expect MANU to continue to leverage its global brand to drive a larger revenue base enabling the acquisition of top talent to field competitive teams. We also believe MANU's commercial opportunity for global partnerships, sponsorships and media rights remains robust. We view the near and long-term outlook for MANU to be attractive.

Global cruise vacation company **Royal Caribbean Cruises Ltd. (RCL)** also aided relative performance in the quarter. With the entire fleet returning to service in June, RCL delivered positive EBITDA and operating cash flow for the first time since the pandemic began. Forward booking commentary is also encouraging with both trends and pricing for 2023 ahead of 2019 levels. Though questions persist around the macro backdrop, RCL has an experienced executive management team with operational expertise at its helm, as well as a healthy liquidity position. Over the long term, we believe the headwinds travel and leisure are experiencing will soften and expect RCL's fundamentals will prove resilient in the face of adversity. At today's valuation, RCL is currently trading at a nearly -60% discount to our estimate of private market value.

By comparison, leading manufacturer and distributor of floorcovering products **Mohawk Industries Inc. (MHK)** was the greatest detractor from relative returns in the quarter. MHK has consistently demonstrated its ability to deliver sales growth and generate strong cash flow despite significant inflation, rising interest rates and geopolitical instability. However, this quarter was an inflection point as the slowing U.S. housing market began to change consumer discretionary spend. Higher natural gas prices and constrained supply in Europe presented another headwind. Given these factors, MHK guided to softening demand and increasing pressure on margins moving forward. Management initiated corrective actions across the enterprise including implementing further price increases, enhancing service levels and restructuring to reduce costs. In our view, MHK's track record of success managing through economic cycles and healthy balance sheet have the company well positioned to benefit from long-term growth in residential remodeling, new home construction and commercial projects. At current levels, MHK is trading at a -67% discount to our estimate of private market value.

Leading entertainment company **Paramount Global (PARA)** also traded lower on mixed earnings results. Strength in filmed entertainment and market share gains in streaming were partially offset by weakness in linear television. PARA's decision to suspend services in Russia also negatively impacted earnings growth. Nonetheless, the company continues to display strong business fundamentals. PARA's fresh array of global content is driving subscriber momentum worldwide across its direct-to-consumer platform with global subscriptions reaching nearly 64 million active users. Additionally, CBS was ranked the #1 network for the 20th consecutive quarter and Paramount Pictures opened five #1 films in a row, with Top Gun Maverick grossing over $1.3 billion to date. At today's valuation, we believe PARA's risk/reward is skewed sharply to the upside.

Entertainment holding company **Madison Square Garden Entertainment Corp. (MSGE)** weighed on relative results in the period. The company announced a potential spin-off of its live entertainment and MSG Networks businesses from TAO and MSG Sphere, its coming Las Vegas property. Management also noted a high single-digit increase in the capital budget for Sphere. In our view, this divestiture would address different investor bases as MSG Sphere and TAO Company represent higher growth initiatives, while the remaining assets are generally slower growth, albeit stable cash flow generators. At the consolidated level, we continue to have conviction in MSGE's improving long-term fundamental outlook. Management is projecting a record year in the booking business and sees momentum at TAO. We also expect shares to benefit from normalized 2022-23 NBA and NHL seasons, as well as a full-year of Online Sports Betting now live in New York. Looking ahead, we remain bullish on digital access to sports, as well as the opportunity at the Sphere. In our view, the underlying value of MSGE's physical assets coupled with our conviction around management's expertise make this an attractive opportunity.

We initiated two new positions in the quarter. We purchased locally headquartered alternative asset manager **GCM Grosvenor Inc. (GCMG)**. With its over 50-year history, GCM Grosvenor is a pioneer of fund-of-funds investing and provides clients with customized multi-manager portfolios or portfolios of direct investments and co-investments. The company differentiates itself by focusing on middle market and small and emerging investments where it believes it adds the most value for clients. Grosvenor's competitive advantages also include its long history and expertise in managing across multiple alternative classes, its leadership in ESG and impact investment strategies, its track record of solid performance, and operational scale. The company has the potential to increase its market share, especially through its ESG and Impact strategies, and improve on its economics as it expands globally and gains new business through its secondary, co-investments and direct investments platforms.

We also bought shares of former position **Generac Holdings, Inc. (GNRC)**, a leading global manufacturer of power generation equipment. The company has an unmatched distribution network and product portfolio and enjoys strong brand advantages. We believe this creates a wide moat for this niche business which commands a 75% market share in the North American residential market. Historically, growth has been limited due to a lack of awareness around the benefits of having a home standby generator, as well as its high price point. More recently, however, elevated power outage events, both weather-related and due to aging infrastructure, have tipped the scales of awareness in both the residential and commercial markets, which should result in a long-runway of market penetration-led growth, margin expansion and free cash flow generation. The stock was a pandemic darling but has since traded off substantially, giving us an opportunity to acquire shares in this unique, high quality business.

On the sell side, we exited our successful investment in leading electronic test and measurement business **Keysight Technologies, Inc. (KEYS)** on improved valuation to fund new investment opportunities.

Escalating geopolitical tensions, persistently high inflation, slowing economic growth and the potential for excessive Fed tightening continue to fuel recessionary fears. And yet, we view the probability of the most severe "hard landing," or deep recession, to be less likely. Unemployment remains near historic lows and balance sheets of U.S. financial institutions and households are generally in good shape. We continue to be cautiously optimistic these factors will protect against a severe downturn. Meanwhile, values are abundant when the investment environment feels the most uncomfortable. With 39 years of experience, we are trained and battle-tested for these moments. We believe bear markets and oversold stocks create ripe buying opportunities for long-term, patient investors. We are diligently evaluating the collapsing prices of stocks on our watchlist versus our expectations of what these companies and their underlying business fundamentals should be valued at over the long-term. In times like these, we believe the worst-case scenario gets priced in giving us a margin of safety[1] to buy and hold our favorite companies with confidence through the uncertainty until the market digests the volatility. Although our portfolios have sold off in recent months, in our view they are statistically cheap—trading at a significant discount to their private market values (PMV)[2]—or what some call intrinsic worth. In the past, portfolio dislocations of this magnitude have often served as a prelude to our most robust recoveries.

Investing in small and mid-cap companies is more risky and volatile than investing in large cap companies. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. The portfolio is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. Performance results are shown net of the highest management fee charged to any client in the Composite during the performance period. Net returns reflect performance returns after the deduction of advisory fees and transaction costs and assume the reinvestment of dividends and other earnings. For the period ended 9/30/22 the performance (net of fees) for the Ariel Small/Mid Cap Value Composite for the 1-, 5-, and 10-year periods was -26.03%, +4.02%, and +9.06%, respectively. For the period ended 9/30/22 the performance for the Russell 2500 Value Index and the Russell 2500 Index for the 1-, 5-, and 10-year periods was -15.35%, +3.78%, and +8.42%, and -21.11%, +5.45%, and +9.58%, respectively. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. A complete fee schedule is available upon request and may also be found in Ariel Investments LLC's Form ADV, Part 2. Returns are expressed in U.S. dollars. Current performance may be lower or higher than the performance data quoted. The Ariel Small/Mid Cap Value Composite differs from its primary benchmark in that it has fewer holdings and more concentration in fewer sectors.

The opinions expressed 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.

As of 9/30/22, BOK Financial Corporation constituted 3.69% of the Ariel Small/Mid Cap Value Composite (representative portfolio); Manchester United Plc 2.41%; Royal Caribbean Group 3.03%; Mohawk Industries, Inc. 3.35% Paramount Global 3.99%; Madison Square Garden Entertainment Corp. 4.36%; GCM Grosvenor Inc. 0.51%; Generac Holdings Inc. 1.22% and Keysight Technologies Inc. 0.00%. Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel Small/Mid Cap Value Composite.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with relatively lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is July 1, 1995. The Russell 2500™ Index

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[1]Attempting to purchase a stock with a margin of safety does not protect investors from the loss of their investment, volatility associated with stocks, declining fundamentals, external forces, or our incorrect assumptions.

[2]Discount to Private Market Value ("PMV") represents the percentage discount at which the portfolio traded as compared to the portfolio holdings' PMV as determined by Ariel Investments. References to PMV are for the time period: 12/31/07 – 09/30/22.

measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is June 1, 1990. Russell® is a trademark of London Stock Exchange Group, which is the source and owner of the Russell Indexes' trademarks, service marks and copyrights. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes or underlying data and no party may rely on any Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication.