Turtle thoughts

PORTFOLIO MANAGER LETTERS **FIRST QUARTER 2022**

- Value
- Global
- Deep value
- Focused value

"Our job is to focus on mining value from the uncertainty by looking past the near-term drama and instead, taking a long-term view."

John W. Rogers, Jr. and Mellody Hobson

"While markets may change from one period to the next, our investment process remains the same."

Rupal J. Bhansali

"Of all these themes, we have been the loudest and most consistent in forecasting higher inflation."

Charles K. Bobrinskoy

Value

Memorandum

To: Friends of Ariel Investments

From: John W. Rogers, Jr., Chairman, Co-CEO and Chief Investment Officer
Mellody Hobson, Co-CEO and President

Date: May 6, 2022

Re: Ariel Small, Small Concentrated, Small/Mid and Mid Cap Value 1Q22 Client Letter

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ARIEL SMALL CAP VALUE TAX-EXEMPT COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: September 30, 1983		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-3.58%**	**0.51%**	**14.57%**	**11.07%**	**11.47%**	**12.83%**
Net of Fees	**-3.82%**	**-0.49%**	**13.44%**	**9.97%**	**10.36%**	**11.71%**
Russell 2000® Value Index	-2.40%	3.32%	12.72%	8.57%	10.54%	10.68%
Russell 2000® Index	-7.53%	-5.79%	11.74%	9.75%	11.04%	9.39%
S&P 500® Index	-4.60%	15.65%	18.92%	15.99%	14.64%	11.57%

ARIEL SMALL CAP VALUE CONCENTRATED COMPOSITE PERFORMANCE			
			As of March 31, 2022
Inception date: April 30, 2020		Annualized	
	1Q22	1 Year	Since Inception
Gross of Fees	**-1.63%**	**1.13%**	**34.98%**
Net of Fees	**-1.88%**	**0.13%**	**33.64%**
Russell 2000® Value Index	-2.40%	3.32%	36.38%
Russell 2000® Index	-7.53%	-5.79%	28.38%
S&P 500® Index	-4.60%	15.65%	27.90%

ARIEL SMALL/MID CAP VALUE COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2000		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-6.86%**	**4.72%**	**14.78%**	**11.02%**	**13.23%**	**10.06%**
Net of Fees	**-7.09%**	**3.68%**	**13.64%**	**9.93%**	**12.11%**	**8.97%**
Russell 2500® Value Index	-1.50%	7.73%	12.97%	9.19%	11.04%	9.57%
Russell 2500® Index	-5.82%	0.34%	13.79%	11.57%	12.09%	9.42%
S&P 500® Index	-4.60%	15.65%	18.92%	15.99%	14.64%	8.05%

ARIEL MID CAP VALUE COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: March 31, 1990		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-4.45%**	**4.68%**	**13.11%**	**9.47%**	**11.74%**	**11.71%**
Net of Fees	**-4.69%**	**3.64%**	**11.99%**	**8.39%**	**10.63%**	**10.61%**
Russell Midcap® Value Index	-1.82%	11.45%	13.68%	10.00%	12.02%	11.61%
Russell Midcap® Index	-5.68%	6.92%	14.89%	12.62%	12.86%	11.72%
S&P 500® Index	-4.60%	15.65%	18.92%	15.99%	14.64%	10.70%

After posting barnburner gains last year, the stock market has retreated in 2022—with negative index returns masking intensifying volatility. For the quarter, strength amongst our consumer names was not enough to overcome poorer performing economically and interest rate sensitive areas. Although our portfolios trailed their primary value indices during the three-month period, they managed to outpace their core benchmarks and the broad market. The exception was our Small/Mid Cap Value Composite which underperformed its primary and secondary benchmarks as well as the S&P 500—as the lagging Financial and Industrial sectors took a bigger bite out of returns.

This year's trading feels somewhat reminiscent of 2008, when the intra-day swings stunned and often defied logic. There are days when a plummeting market completely reverses itself before the close. Other times, an uneventful day goes bad at the bell. Since we are disciplined, patient investors (not day traders), we do not sit glued to a screen tracking minute-by-minute stock prices. And yet, we cannot help but to acknowledge that these days, a few minutes at the "water cooler" can mean the difference between portfolio-wide gains or losses.

Against this jumpy backdrop, we seek to use the volatility to our advantage. Yes, there is no denying that the world is unstable as the pandemic lingers, inflation swells, war in Ukraine rages and China's lockdown expands. The supply chain bottleneck that was expected to resolve itself remains entangled. US consumers are buying, but their confidence is falling. Many expect their willingness to absorb escalating prices to wane as well. With these challenging and well-telegraphed conditions increasingly priced in, our job is to focus on mining value from the uncertainty by looking past the near-term drama and instead, taking a long-term view.

For the Record

As 2022 takes shape, we are clear-eyed and unemotional. Our views on some of the big issues of the day—including inflation and the future of growth stocks, as well as some of our highest conviction names, are playing out as we anticipated.

On inflation— Given the amount of stimulus that poured into global economies, inflation was to be expected. The looming questions were: "how much" and "how long?" As *The New York Times* noted, "While central bankers were hesitant to react to rapid inflation last year, hoping it would prove 'transitory' and fade quickly, those expectations have been dashed."[1] In our third quarter 2021 letter we wrote, ". . . some see growing inflation as 'transitory,' we do not completely agree. While we expect supply chain disruptions and shortages will soon pass, once large numbers of people receive wages to induce them to return to work, there is no cutting pay. We expect wage inflation to stick."[2]

Now a "hawkish" Fed has declared its intentions to attempt to slow escalating inflation with a heavier hand. By rapidly raising interest rates and suspending its bond buying program, "Fed officials are making money more expensive to borrow and spend in a bid to slow shopping and business investment, hoping that weaker demand will help tame prices, which are now climbing at the fastest pace in four decades."[3]

While there is much market handwringing over the Fed's intensifying policy efforts, we too remain skeptical

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[1] Smialek, Jeanna. "'Many' at the Fed Supported Big Increase in Rates." *The New York Times*. April 28, 2022. Pg. B1.
[2] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. September 30, 2021.
[3] Smialek, Jeanna. "'Many' at the Fed Supported Big Increase in Rates." *The New York Times*. April 7, 2022. Pg. B1.

that inflation can be so easily tamed. As we wrote in our December 31, 2021 letter, ". . . we are observant students of history and do not believe rising inflation is easily subdued with quick fixes. Nor do we think the Fed has practiced many 'perfect landings' when it comes to managing money supply. If the Fed sets rates too low, inflation can continue to run away. If rates are too high, it could trigger a recession. Like Goldilocks, 'just right' can be a temperamental temperature." To this point, one economist recently quipped, "It's like trying to land during an earthquake."[4] This difficulty has led a growing number of market watchers to begin considering recession scenarios.

While we are not ones to speculate on economic outcomes, we do recognize today's US executives have little-to-no experience with 40-year inflation. And managing inflation is not a one quarter company fix. Much of the price escalations are completely out of a CEO's control (i.e. chip shortages, COVID-induced labor shortages, product availability). Inflation can cause margin slippage as prices react slower than changing costs. Although we seek to dampen negative inflationary effects by investing in companies whose strong brands and franchises command pricing power, simply matching price to cost increases is exceedingly difficult in the short run. This is true of even the best run franchises with superior pricing power in the long run. Share price reactions have been brutal despite the widespread awareness of the challenge at hand. This unique environment requires sturdy patience.

On growth stocks—In that same year-end letter, we reminded our investors that, ". . . there are consequences to Fed actions."[5] We doubled down on our view that, "When it comes to stocks—particularly growth stocks selling at high multiples—inflation acts as gravity. As interest rates are likely hiked to dampen inflation, a dollar earned today becomes more valuable than a dollar earned in the future. This is the exact opposite of the most recent low interest rate, growth stock heyday where the value of a dollar is not different than one earned in the future."[6] Our expectations of growth's comeuppance and value's resurrection are playing out in real-time. Look no further than the tech-laden Nasdaq—which is having its worst start to any year in its 51-year history.

We hold no ill will against growth stocks. In fact, our view has been that "some of today's growth stocks are great businesses—but they are priced for near-perfection and an assumption that the current environment will last forever."[7] As the great Artist Formerly Known as Prince once sang, "Forever is a mighty long time." All of a sudden, the road is becoming littered with wreckage. When the stock formerly known as Facebook and now called **Meta Platforms, Inc. (FB)** plummeted -26% in a single day in February, its market capitalization fell $251 billion in what has been called the "biggest wipeout in history."[8] Other high-flyers like **PayPal Holdings Inc. (PYPL)** nosedived -25% after announcing disappointing earnings—losing $50 billion in market value in hours. Then debt-laden **Netflix Inc. (NFLX)** fell -35% in one session and is now pondering the advertising-based business model it once shunned. Inevitably, stocks trade on fundamentals. The math is the math.

On orphaned value stocks—While losing money is never pleasant and we try to avoid it as best we can, we also know our weakest holdings and/or sectors are often the source of future gains. Last year, as large cap

[4] Casselman, Ben. "Economy is Booming, but Some Worry a Bust is Coming." *The New York Times*. April 7, 2022. Pg. B7.
[5] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. December 31, 2021.
[6] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. September 30, 2021.
[7] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. December 31, 2021.
[8] Adinarayan, Thyagaraju and Barnert, Jan-Patrick. "Meta Erases $251 Billion in Value, Biggest Wipeout in History." *Bloomberg Radio*. February 3, 2022.

growth stocks continued to trounce value shares, we underscored our core belief that, "pessimism yields value and optimism is pricey."[9] Throughout the long run of recent growth stock domination, we have consistently spotlighted misunderstood values that we felt held great promise. Much like the recent pandemic shock, our sharpened focus on balance sheet strength following the 2008 financial crisis has largely taken financial stability and leverage concerns off the table—allowing us to focus on fundamental company developments without the added stress and volatility of weak balance sheets.

In September, we highlighted Nielsen Holdings plc (NLSN) after the stock shed -22% during the quarter. We laid out our investment thesis for the business and explained why "unrealized upside embedded in our portfolios was boosted as the stock was oversold."[10] While acknowledging the company's checkered past, we stayed focused on the uniqueness of its franchise as the "*only* independent provider of unbiased comprehensive [television] viewership data."[11] We also expressed our enthusiasm for the new management team's plan to "create the only true cross platform media measurement solution."[12] Jumping to the present, the stock was a top performer during the quarter as its shares climbed +40% on news of its takeover by a private equity consortium in an all-cash transaction valued at approximately $16 billion including debt—effectively demonstrating that value can realized in public as well as private markets. As we write, another portfolio favorite, Mattel, Inc. (MAT), is making headlines as a potential private equity target. Last quarter, broadcast, digital media and marketing services company, TEGNA, Inc. (TGNA), was purchased by a strategic buyer. In all instances, we are pleased and not surprised.

On memes—Despite the fact that the high-flying meme stocks continue to defy gravity, we remain skeptical of their long-term prospects. Our view has been that "meme stocks are akin to a market virus—infectious, contagious and dangerous . . . lacking in fundamentals and inflated by whims."[13] Thus far, these issues continue to attract retail interest—crowdfunded by a pile-on effect that is likely to crumble under its own weight. Even as these names charge on, we continue to believe a day of reckoning will come.

Portfolio Comings and Goings

In periods of market stress, we are less likely to immediately add brand new positions because we start first with the names we know the best, have the highest conviction, and have vetted value and quality already: our existing portfolio holdings. In that vein, we have been actively repositioning our portfolios to the new dynamic.

While we did not initiate any new positions in our small cap value portfolios during the quarter, we successfully exited broadcast, digital media and marketing services company, TEGNA, Inc., upon the announcement of its acquisition by Standard General. This name was also eliminated from our small concentrated and small/mid cap portfolios. In small cap, we sold sand supplier, U.S. Silica Holdings, Inc. (SLCA), on valuation and longer-term concerns regarding its balance sheet strength.

Meanwhile, we added two new stocks to our small cap value concentrated portfolios: leading supplier of automatic-dimming mirrors for the automotive industry, Gentex Corporation (GNTX), and Norwegian Cruise

[9] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. June 30, 2021.
[10] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. September 30, 2021.
[11] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. September 30, 2021.
[12] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. September 30, 2021.
[13] Ariel Investments Small, Small/Mid and Mid Cap Portfolio Manager Letter. December 31, 2021.

Line Holdings Ltd. (NCLH).

In our small/mid cap value portfolios, we bought shares of the leading supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)**. We also sold out of America's largest ski resort operator, **Vail Resorts, Inc. (MTN)**, as it surpassed our private market value estimate.

We did not initiate or exit any holdings in our mid cap value portfolios during the period.

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 portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their performance may suffer if these sectors underperform the overall stock market. A concentrated portfolio may be subject to greater volatility than a more diversified portfolio. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of each Composite has been reduced by the amount of the highest fee charged to any client in each Composite during the performance period. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fee information 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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Ariel's small, small concentrated, small/mid and mid cap portfolios differ from their primary benchmarks with 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 3/31/22, the Ariel Small Cap Value Composite (representative portfolio) held the following positions referenced: Mattel, Inc. 4.87%; Resideo Technologies, Inc. 3.16%; Nielsen Holdings plc 2.98%; Norwegian Cruise Line Holdings Ltd. 2.68% and Gentex Corporation 2.52%. As of 3/31/22, the Ariel Small Cap Value Concentrated (representative portfolio) held the following positions referenced: Mattel, Inc. 6.28%; Resideo Technologies, Inc. 4.06%; Norwegian Cruise Line Holdings Ltd. 3.67%; Nielsen Holdings plc 3.25% and Gentex Corporation 2.74%. As of 3/31/22, the Ariel Small/Mid Cap Value Composite (representative portfolio) held the following positions referenced: Mattel, Inc. 4.14%; Gentex Corporation 2.74%; Resideo Technologies, Inc. 1.72% and Nielsen Holdings plc 1.22%. As of 3/31/22, the Ariel Mid Cap Value Composite (representative portfolio) held the following positions referenced: Mattel, Inc. 4.01%; Gentex Corporation 1.68%; Nielsen Holdings plc 1.52% and Vail Resort 0.98%. 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 Composites. Portfolio holdings mentioned do not represent all holdings purchased or sold for the Composites.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 2000® Value Index measures the performance of the small-cap value segment (companies with lower price-to-book ratios and lower forecasted growth values) of the U.S. equity universe. The Russell 2000® Index (a subset of the smallest 2000 companies of the Russell 3000® Index) measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment (companies with lower price-to-book ratios and lower forecasted growth values) of the U.S. equity universe. The Russell 2500™ Index (a subset of the smallest 2500 companies of the Russell 3000® Index) measures the performance of the small to mid-cap segment of the U.S. equity universe. The Russell Midcap® Value Index measures the performance of the mid-cap value segment (companies with lower price-to-book ratios and lower forecasted growth values) of the U.S. equity universe. The Russell Midcap® Index measures the performance of the mid-cap segment (a subset of the smallest securities Russell 1000® Index) of the U.S. equity universe. Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. 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. The S&P 500® Index is the most widely accepted barometer of large cap U.S. equities. It includes 500 leading companies.

Global

Memorandum

To: Friends of Ariel Investments

From: Rupal J. Bhansali, Chief Investment Officer, Global Equities

Date: April 28, 2022

Re: Ariel International and Ariel Global 1Q22 Client Letter

ARIEL INTERNATIONAL (DM) COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-1.22%**	**3.51%**	**6.31%**	**5.21%**	**6.22%**	**6.84%**
Net of Fees	**-1.42%**	**2.69%**	**5.47%**	**4.38%**	**5.35%**	**5.97%**
MSCI EAFE Index	-5.91%	1.16%	7.78%	6.72%	6.27%	7.19%
MSCI EAFE Value Index	0.33%	3.55%	5.23%	4.18%	4.87%	5.70%

ARIEL INTERNATIONAL (DM/EM) COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**1.53%**	**5.64%**	**7.32%**	**6.26%**	**6.75%**	**7.39%**
Net of Fees	**1.33%**	**4.80%**	**6.47%**	**5.41%**	**5.86%**	**6.49%**
MSCI ACWI ex-US	-5.44%	-1.48%	7.51%	6.76%	5.55%	6.52%
MSCI ACWI ex-US Value Index	0.13%	3.31%	5.44%	4.67%	4.24%	5.17%

ARIEL GLOBAL COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**0.98%**	**9.55%**	**10.21%**	**9.02%**	**9.56%**	**10.20%**
Net of Fees	**0.78%**	**8.68%**	**9.34%**	**8.16%**	**8.65%**	**9.28%**
MSCI ACWI Index	-5.36%	7.28%	13.75%	11.64%	10.00%	10.95%
MSCI ACWI Value Index	-0.95%	8.83%	9.02%	7.46%	7.64%	8.50%

ARIEL GLOBAL CONCENTRATED COMPOSITE PERFORMANCE			
			As of March 31, 2022
Inception date: December 31, 2019		Annualized	
	1Q22	1 Year	Since Inception
Gross of Fees	**0.26%**	**6.91%**	**7.92%**
Net of Fees	**0.06%**	**6.06%**	**7.06%**
MSCI ACWI Index	-5.36%	7.28%	12.54%
MSCI ACWI Value Index	-0.95%	8.83%	7.68%

Beware of the 4Ls

The MSCI ACWI Index started 2022 in the red delivering its worst quarter of performance in two years. As the global economy seeks to place the pandemic in its rear-view mirror, Russia's invasion of Ukraine introduced new shocks as markets were digesting the impacts of soaring inflation, a hawkish pivot by the Fed and concerns over the outlook for China. Ripple effects from higher energy prices have extended to other goods and services, increasing cost pressures and further disrupting already rattled supply chains. However, as conditions deteriorated, our global portfolios began to outperform. Although we lagged the dramatic rally in cyclicals that began in late 2020 and persisted throughout 2021, our risk-aware portfolio positioning better protected capital during the recent downturn. While our low portfolio turnover illustrates the merits of our patient approach, we credit our relative outperformance to our avoidance of the 4Ls: Lofty Valuations, Loss Making Companies, Leveraged Balance Sheets and Liquidity Risk.

Lofty Valuations

As we discussed in prior quarterly letters, the global economy's rebound from the March 2020 low through last December was undeniable. With unprecedented fiscal support and interest rates at all-time lows, the MSCI ACWI and S&P 500 indexes surged to new highs in record time and corporate profits shined, propelling equity valuations past historic peaks. We discussed the high relative valuations of cyclicals versus defensives, the outperformance of growth relative to value, as well as how US stock returns versus the rest of the world have continued to widen over the last decade. By contrast, since our investment approach focuses on seeking a margin of safety[1] as evaluated by discount to intrinsic worth, our global portfolios are currently overweight defensive sectors, such as Health Care and Communications relative to cyclicals, with greater international exposure. Our research also revealed favorable entry points within developing economies, where deeply discounted valuations in certain sectors, such as financials, continue to present compelling investment opportunities when weighing the risk and reward.

Loss Making Companies

At the core of every stock thesis is our differentiated process that considers the upside and downside potential for a name. As we scour the globe for high-quality companies with sustainable business models with stable or improving returns on invested capital, we discovered a growing percentage of unprofitable companies, particularly within the technology sector and amongst new issues (IPOs). Interestingly, money-losing tech stocks have been a positive contributor to overall returns across the Growth and Tech indices until this quarter.[2] Meanwhile, in recent years roughly 80% of IPOs lacked profitability, a level not seen since the peak of the Dot Com Bubble two decades ago.[3] Our concentrated portfolios avoid the risks associated with such businesses and instead are comprised of diversified holdings across profitable, well-established franchises with strong competitive positions and durable cost advantages.

Leveraged Balance Sheets

Central banks in the world's largest economies helped mitigate the economic fallout of both the coronavirus pandemic and the 2008 Financial Crisis through fiscal stimulus and monetary relief packages. The unconventional expansion in money supply, which began as quantitative easing, resulted in record low interest rates. These actions drove investment in riskier assets with higher yields, including stocks, junk bonds, real estate and commodities, as easy

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[1] Attempting to purchase with a margin of safety on price cannot protect investors from the volatility associated with stocks, incorrect assumptions or estimations on our part, declining fundamentals or external forces."

[2] "Tech stocks: Challenged, but not all created equal." *Principal Global*. 14 Jan 2022. https://www.principalglobal.com/knowledge/insights/tech-stocks-challenged-not-all-created-equal

[3] BofA Research Investment Committee [@Isabelnet_SA]. "More and more unprofitable companies are going public." Twitter, 11 February 2021, 6:15 AM, https://twitter.com/isabelnet_sa/status/1359868723327344643?lang=es.

money policies distorted the hurdle rate companies and investors use to determine whether an investment is worth the risk/return. Lower capital costs also provided an incentive for corporations to access debt markets to fund acquisitions and/or repurchase shares already selling at inflated prices. Meanwhile, investment grade (IG) markets quadrupled in size since 2007, with approximately 50% of the Bloomberg US Corporate Bond Index consisting of BBB rated debt—the last rung of high-grade issues.[4] Taking this one step further, today, the BBB segment of the corporate bond market stands at 5x the size of the BB tranche.[5] This raises questions about the junk bond market's ability to absorb additional supply without a collapse in pricing if there are large scale downgrades from BBB into high yield.

With inflation rising at its fastest pace in 40 years, corporate earnings growth has begun to face headwinds as pricing pressures climb across supply side factors, including production costs and operating expenditures. To prevent the economy from overheating, policymakers have begun to raise rates. This upward movement will further impact corporate profits, as greater debt servicing costs weigh on the bottom-line. Taken together, we believe these factors are an increasing source of vulnerability for market multiples within the context of various valuation methods. Consequently, our bottom-up fundamental research is laser-focused on the growth and return prospect of a business, as well as the fortitude and resilience of its balance sheet.

Liquidity Risk

While analyzing whether a company has cash flow to fund its liabilities is one way we assess liquidity, evaluating how easily shares can be bought or sold in the market is another area we closely consider. Index funds have experienced massive inflows in recent years, highlighting a shift towards a growing number of price agnostic market participants. Passive strategies buy stocks in the same proportion as the indexes they track with no regard for stock price or fundamental security analysis. Research has shown "as bull markets run, cap weighted indexes tend to become more concentrated in a handful of sectors and stocks. These same sectors and stocks tend to account for a disproportionate amount of the markets gains."[6]

However, during bear markets, flows tend to reverse, at least cyclically for risk assets. We saw a version of this play out in March 2020 when the stock market see-sawed from bull-to-bear status in just 20 days—"the fastest 20% drop in history."[7] Volatility reigned and liquidity for many of the large capitalization companies within the index dried up as markets went risk-off. Stock prices fell fast to bridge the large bid/ask spread between active fundamental investors on the buy-side and passive ones on the sell-side. As the correction unfolded, many passive strategies realized larger losses due to their greater concentration of equities held within the indexes.

This phenomenon could play out again, particularly since growth and cyclical valuations are trading at or near historic peaks. We believe the high active share of our portfolios helps side-step large bid/ask liquidity risk.

Actively Aware

While markets may change from one period to the next, our investment process remains the same. Risk management is embedded in every step—regardless of the market backdrop. Although uncertainty is high and volatility is likely to remain elevated, we believe our global portfolios will drive strong longer-term performance, as they are heavily weighted towards undervalued, higher dividend yielding and better quality defensive holdings.

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[4] 2022 Morgan Stanley Credit Strategy Chartbook. Morgan Stanley. 1 April 2022.
[5] 2022 Deutsche Bank U.S. Credit Strategy. Deutsche Bank Research. 8 April 2022.
[6] Johnson, Ben. "Is market-cap indexing a form of momentum investing." TEBI. 24 February 2020. https://www.evidenceinvestor.com/is-market-cap-indexing-a-form-of-momentum-investing/
[7] Winck, Ben. "The Dow plunged into a bear market in just 20 days – the fastest 20% drop in history." *BusinessInsider*. March 12, 2020.

As Ben Graham once said, "in the short run, the market is a voting machine but in the long run, it is a weighing machine."

As always, we appreciate the opportunity to serve you and welcome any questions or comments you may have.

Investments in foreign securities may underperform and may be more volatile than comparable US stocks because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, and foreign currencies and taxes. The use of currency derivatives, exchange-traded funds (ETFs) and other hedges may increase investment losses and expenses and create more volatility. Investments in emerging markets present additional risks, such as difficulties in selling on a timely basis and at an acceptable price. The intrinsic value of the stocks in which the portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their 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 net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of each Composite has been reduced by the amount of the highest fee charged to any client in each Composite during the performance period. 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 International (DM) Composite differs from its benchmark, the MSCI EAFE Index, because: (i) the Composite has fewer holdings than the benchmark, (ii) the Composite will invest in Canada, and (iii) the Composite will at times invest a portion of its assets in the U.S. and emerging markets. The Ariel International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex-US, because: (i) the Composite has fewer holdings than the benchmark and (ii) the Composite will at times invest a portion of its assets in the U.S. The Ariel Global Composite differs from its benchmark, the MSCI ACWI (All Country World Index), because the Composite has fewer holdings than the benchmark. The Ariel Global Concentrated Composite differs from its benchmark, the MSCI ACWI (All Country World Index), because the Composite has dramatically fewer holdings than the benchmark.

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Investors cannot invest directly in an index. The MSCI EAFE Index is an unmanaged, market-weighted index of companies in developed markets, excluding the United States and Canada. The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI ACWI (All Country World Index) ex-US is an unmanaged, market-weighted index of global developed and emerging markets, excluding the United States. The MSCI ACWI ex-US Value Index captures large and mid cap securities exhibiting overall value style characteristics across 22 Developed and 25 Emerging Markets countries. The MSCI ACWI (All Country World Index) is an unmanaged, market-weighted index of global developed and emerging markets. The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 25 Emerging Markets (EM) countries. All MSCI Index returns are net, which reflect the reinvestment of income and other earnings, including the dividends net of the maximum withholding tax applicable to non-resident institutional investors that do not benefit from double taxation treaties. MSCI uses the maximum tax rate applicable to institutional investors, as determined by the companies' country of incorporation. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indexes or financial products. This report is not approved or produced by MSCI. (Source: MSCI.)

Focused Value

Memorandum

To: Friends of Ariel Investments

From: Charlie Bobrinskoy, Vice Chairman and Portfolio Manager

Date: April 28, 2022

Re: Ariel Focused Value 1Q22 Client Letter

ARIEL FOCUSED VALUE COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: March 31, 2005		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	4.19%	8.39%	15.10%	10.44%	10.98%	8.12%
Net of Fees	4.02%	7.69%	14.35%	9.72%	10.20%	7.23%
Russell 1000® Value Index	-0.74%	11.67%	13.02%	10.29%	11.70%	8.24%
S&P 500® Index	-4.60%	15.65%	18.92%	15.99%	14.64%	10.44%

Sticking with Our Four Themes

Despite a tough environment, the Ariel Focused Value Composite enjoyed strong first quarter 2022 performance gaining +4.19% gross of fees (4.02% net of fees) compared to a loss of -0.74% for the Russell 1000 Value Index and a loss of -4.60% for the S&P 500. Last quarter, we outlined four themes for this year's economy and equity markets that are playing out with positive implications for many of our largest holdings.

As a reminder, we believe equity markets will be dominated by 1) high and persistent inflation, 2) rising interest rates, 3) a strong reopening economy and 4) outperformance of value over growth stocks. These factors are related and reinforcing. A strong economy will augment inflation. Higher inflation should drive higher interest rates. Higher rates should be relatively good for value versus growth.

Inflation

Of all these themes, we have been the loudest and most consistent in forecasting higher inflation. Manufacturing supply-chain disruptions, dramatic increases in the money supply, trillion-dollar deficit spending (from both political parties), an accommodative Federal Reserve (still), and a historically tight labor market all push up prices.

Economists from different "schools" of economic theory often disagree. Today, all can point to their own favorite cause to explain rising inflation. Monetarists (whom we currently find particularly persuasive) believe inflation comes from excessive increases in the money supply and point to a 40% increase in M2 (a measure of the money supply that includes cash, bank deposits and certain money market accounts). Meanwhile, Keynesian economists have taught generations of students that fiscal policy in the form of deficit spending will drive inflation as labor markets approach full employment. With trillion-dollar federal deficits and a 3.6% unemployment rate, they believe higher inflation is inevitable. Finally, Supply Side economists say constraints in manufacturing capacity from supply-chain disruptions overseas and labor shortages at home have "too much money chasing too few goods." Remarkably, different schools of economic thought all come to the same conclusion today: prices are going up.

Interest Rates

Higher inflation should lead to higher interest rates. Presumably, lenders will insist loans carry interest rates high enough to offset the loss of purchasing power. Normally fixed income markets would add a "time value of money" premium to the expected inflation rate to produce higher nominal rates. We say "should" because until recently, higher rates had not materialized. Interest rates remained stubbornly and surprisingly low, with the 10-Year Treasury ending 2021 at 1.52%, well below historical averages and below visible inflation. Lately, there has been a marked reversal as rates have moved substantively higher. As we go to print, the 10-year Treasury sits at 2.83%, which has driven the Barclays Fixed Income Aggregate Index down -7.88% this year. At long last, the Federal Reserve has acknowledged high and non-transitory inflation. While the increases in the federal funds rate are getting most of the attention, we would emphasize the end of its bond-buying program of $120 billion a month, which ballooned its balance sheet to $9 trillion. Ever since the Great Financial Crisis, bond investors have been able to buy long-term bonds at surprisingly low interest rates, confident the Fed would keep prices high (and yields low) through aggressive open market purchases. "Don't fight the Fed" meant don't be a seller of bonds when the Fed was a buyer. Now the situation has flipped with bond investors seeking to exit through the same narrow door ahead of $9 trillion of "Quantitative Tightening." In February, *Barron's* ran an article with the subtitle: "Why Warren Buffett Hates Bonds." We agree with Warren.

Value Over Growth

Higher inflation and interest rates are directly impacting stock valuations. Until this year, low interest rates have fueled the outperformance of growth stocks over the value stocks we prefer. Our holdings earn a higher percentage of their current stock price in nearer term cash flows. Growth stocks, by definition, are priced to value earnings and cash flow often in the distant future. The weighted average years into the future of a company's cash flows is called its expected "duration." Just as rising interest rates hit long-term bonds harder than short-term bonds, increases in discount rates hit long-duration growth stocks harder than short-duration value stocks. Currently, our two largest holdings are **APA Corporation (APA)** and **The Mosaic Company (MOS)** trading at forward p/e multiples of 6.3x and 7.6x, respectively. In simple terms, both will earn more than half their current valuation in the next four years (if earnings stay flat). As a result, increases in interest rates and discount rates will have comparatively little impact on their valuations, just as an increase in rates has little impact on a short-term bond.

By contrast, many growth stocks are popular technology companies trading at 30 to 45 times next year's earnings. They are being valued on cash flows projected in the distant future. The Nasdaq Composite is trading at 27 times forward earnings. Rising interest rates disproportionately impact these companies whose earnings are far away, just as an increase in rates hits the price of long-term bonds harder than short-term bonds.

Now that rates are moving up, value is outperforming. The growth stock heavy Nasdaq Composite has fallen -9.10% this year. While the Russell 1000 Value is down -0.74%, the Russell 1000 Growth Index has dropped -9.04%. With our portfolio trading at only ten times forward earnings at the end of the first quarter, Ariel Focused Value could be well positioned for a period of value outperformance.

Consumer Demand

Although we are increasingly confident higher inflation and higher rates will drive outperformance, recent events have made us more cautious around the final theme, a strong economy based on pent-up consumer demand. While predicting future recessions is notoriously difficult, we cannot deny a change in certain inputs that are likely to reduce growth. Dramatically higher energy and food prices negatively impact consumer confidence. Higher interest rates push mortgage rates up and tend to reduce demand for housing. Europe represents approximately 20% of the global economy and will feel the impact of the Russian invasion of Ukraine through higher energy prices. Renewed COVID lockdowns in parts of China will delay supply chain normalization, keeping US manufacturing levels below what we would otherwise have expected. Perhaps most important, US consumers have previously expressed confidence based on strong personal balance sheets, a robust job market and federal stimulus checks. With inflation outpacing wage increases, spending could slow. Although we remain optimistic about the long-term outlook for the US economy and are investing accordingly, the next 18 months could be bumpy.

Contributors and Detractors

It is a rare but happy occurrence when our largest holdings contribute most to positive performance. Such was the case in the first quarter. Our second largest position, Mosaic, surged +69.61% during the period. The company owns and operates fertilizer mines in Florida and Saskatchewan, Canada with obvious advantages in supplying the wheat fields of Kansas and the cornfields of Iowa. This geographic proximity was less important during the past decade as record low shipping rates (coming at least in part from record low energy costs) brought competition from Moroccan phosphates and Belarus potash. Since fertilizer increases crop yields on a cost-efficient basis, it is a critical farming ingredient in the long term as improved diets around the world drive demand for food from finite arable land. We did not expect the dramatic acceleration in our thesis as the war simultaneously cut off major exports of grain from Russia and Ukraine while sanctions suppressed fertilizer shipments from Belarus. Mosaic was performing extremely well before the war. We expect concerns around reliance on Russian suppliers to accelerate growth trends for the foreseeable future.

APA Corp., the parent company of Apache Inc., was our largest position at the start of the year and was the second biggest performance contributor, jumping +54.32% in the quarter. Like Mosaic, APA had already benefited from the rising commodity prices prior to the Ukraine invasion. Those inflationary pressures were exacerbated with the sanctions against Russian oil. Poor performance of oil and gas exploration and production companies over the last decade have simultaneously reduced capital expenditures in the industry as well as caused significant selling of US energy stocks. We believe an insufficient amount of capital has been invested to meet the global energy demand for petroleum products for at least the next five years. In our view, the current share price of APA represents less than the value of the company's proven reserves with only an option value assigned to its exploratory wells off the coast of Suriname. If these Suriname properties prove productive, our investment in APA will be worth significantly more than today.

Meanwhile, our largest detractor was flooring manufacturer **Mohawk Industries, Inc. (MHK)** which declined -31.83% in the quarter. Mohawk faced the triple headwinds of higher petroleum input cost, concerns about declining housing activity and modest Russian operations. Additionally, **Lazard Ltd. (LAZ)** fell -19.97% during the period on expectations of lower M&A activity.

Investing in equity stocks is risky and subject to the volatility of the markets. 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. A focused portfolio may be subject to greater volatility than a more diversified investment.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of the Ariel Focused Value Composite has been reduced by the amount of the highest fee charged to any client in the Composite during the performance period. 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 Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated in fewer sectors.

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As of 3/31/22, the Ariel Focused Value Composite (representative portfolio) held the following positions referenced: APA Corporation 7.54%; The Mosaic Co. 6.83%; Mohawk Industries, Inc. 3.15% and Lazard Ltd. 2.97%. The portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of Ariel Focused Value Composite.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 1000® Value Index measures the performance of the large-cap value segment (companies with lower price-to-book ratios and lower expected growth values) of the U.S. equity universe. Frank Russell Company ("Russell") is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company. 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. The S&P 500® Index is the most widely accepted barometer of large cap U.S. equities. It includes 500 leading companies.

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Slow and steady wins the race.

10% PCW