Memorandum

To: Clients and Friends of Ariel Investments

From: Charlie Bobrinskoy, Vice Chairman and Portfolio Manager

Date: July 29, 2022

Re: Ariel Focus Fund 2Q22 Client Letter

ARIEL FOCUS FUND PERFORMANCE INVESTOR CLASS | ARFFX							
							As of June 30, 2022
Inception date: June 30, 2005		Annualized					
	2Q22	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Ariel Focus Fund	**-15.74%**	**-12.40%**	**-12.39%**	**6.76%**	**5.95%**	**8.93%**	**5.80%**
Russell 1000® Value Index	-12.21%	-12.86%	-6.82%	6.87%	7.17%	10.50%	7.31%
S&P 500® Index	-16.10%	-19.96%	-10.62%	10.60%	11.31%	12.96%	9.22%

Three Out of Four Themes Look Good; One is Shaky

Ariel Focus Fund declined -15.74% in the second quarter, trailing the Russell 1000 Value Index which fell -12.21%, and ahead of the broad market as measured by the S&P 500, which dropped -16.10%. Year-to-date, Ariel Focus Fund has outperformed both indices returning -12.40% versus -12.86% for the Russell 1000 Value and -19.96% for the S&P 500.

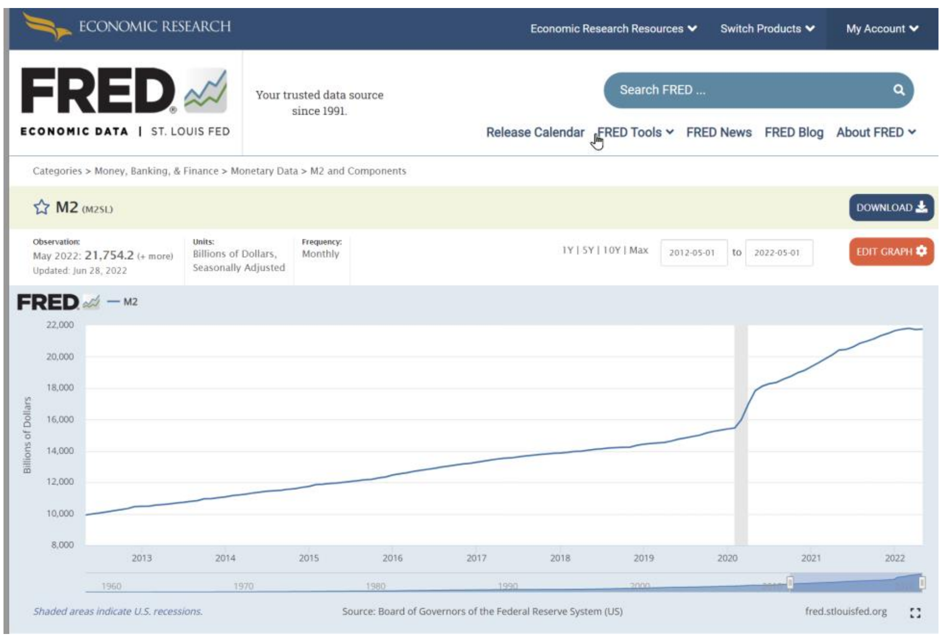
At Ariel, we believe our goal of long-term capital appreciation is achieved on a stock-by-stock basis. We work to buy quality companies with sustainable competitive advantages, trading below intrinsic value due to short-term challenges. Often, these challenges are company specific. Currently, however, macro factors are creating many of our best opportunities. In previous letters, we have outlined four macro themes that are producing value "clusters." These four themes are: 1) high and persistent inflation; 2) higher interest rates; 3) value outperformance over growth, and 4) robust labor markets and post Covid pent-up demand leading to a strong domestic economy. Three of these four themes remain in place. The last has become (pardon us for using a technical term) "wobbly."

In our view, it is simply not possible to understand current conditions in global capital markets without understanding the underlying causes and likely path of inflation. Investors do not invest to receive future pieces of green paper with pictures of George Washington or Ben Franklin. They invest to receive the purchasing power of those pieces of paper which is directly and inversely correlated with future inflation rates.

Ariel founder, John W. Rogers, Jr., and I grew up in the shadow of The University of Chicago where we were heavily influenced by "The Chicago School of Economics" led by Milton Friedman. Friedman taught that inflation is "always and everywhere a monetary phenomenon." Large increases in money supply will inevitably lead to inflation, albeit after a lag. Just as a company's 2 for 1 stock split with a doubling of its shares outstanding will lead to a halving of the value of each share; so too a dramatic increase in the number of dollars in circulation will lead to a commensurate decline in the value (the "purchasing power") of each dollar. Milton Friedman acknowledged this relationship is not as linear as the impact of a stock split. Real growth in the economy or increased saving rates by individuals will produce inflation rates below the rate of money supply growth. Nevertheless, Friedman and his monetarist allies argued that substantial increases in the money supply ALWAYS leads to inflation.

In response to the Coronavirus outbreak in 2020 and the subsequent decline in global economic activity, the U.S. Treasury and the Federal Reserve joined forces to increase the money supply. This was followed by the inflation Friedman predicted. In February of 2020, the money supply as measured by M2[1] stood at $15.5 trillion (see Figure 1). By March of 2022, the money supply had surged +41% to $21.8 trillion. How could the money supply increase so much so quickly? In simple terms, the U.S. government under Republican and Democratic administrations ran multi-trillion-dollar deficits from stimulus programs while the Federal Reserve turned these deficits into money through quantitative easing ("QE"). Under QE, the Federal Reserve purchased bonds issued by the Treasury to finance deficits for cash. Total assets of the Federal Reserve grew from $4.2 trillion in March of 2020 to $9.0 trillion in March of 2022.

Figure 1: Forty-One Percent Increase in the Money Supply (M2) In Response to Covid



We expected this explosion in the money supply to drive up inflation, and unfortunately it has. We say "unfortunately" for two reasons. First, inflation hits the poor and those living on a fixed income, such as retirees, the hardest. Second, inflation drives up interest rates, and higher interest rates drag down the value of most financial assets.

[1] A measure of the money supply that includes cash, bank deposits and certain money market accounts.

On July 13, 2022, the Bureau of Labor Statistics announced an inflation rate of 9.1%, the highest in 40 years.

Our view of inflation has been a primary driver of our portfolio construction. Our two largest positions are **APA Corporation (APA)** and **The Mosaic Company (MOS)**. APA Corp. is an energy exploration and development company whose oil and gas assets could appreciate in an inflationary environment. Likewise, Mosaic's phosphate and potash fertilizer mines could also offer a good inflation hedge. Both companies were contrarian picks at the beginning of this year. APA began 2022 trading at only 5 times forward earnings, with Mosaic trading at 6 times. Despite strong performance year-to-date, (APA returned +30.69% while Mosaic increased +20.77%), both remain out of favor in our opinion. Both APA and Mosaic trade at less than 4 times earnings as we go to print which suggests the market does not believe this inflationary environment will last. We shall see.

Our second macro theme is higher interest rates. Inflation causes interest rates to rise because, once again, investors buy bonds to receive purchasing power in the future, not nominal dollars and cents. In March of 2020, the yield on the 10-Year U.S. Treasury bond reached a remarkable +0.54%, as investors rushed to safety amid fears of a shut-down in the U.S. economy. By the beginning of 2022, the 10-Year rate had increased, but to a still historically low +1.51%. We predicted interest rates would revert higher to normal levels with investors demanding a real return (positive after inflation) on their loans to the government. Rates have indeed moved higher with the 10-year effectively doubling to +3% today.

We believed higher interest rates would lead to higher discount rates in calculating the present value of future earnings. In practice, this led us to avoid growth and technology companies, whose shares often trade at large multiples of current earnings in the hope of cash flows in some distant future. An increase in discount rates would be harder on the present value of those distant earnings and less impactful on our value shares near-term earnings. Both our themes of higher rates and value outperformance over growth have played out well this year. Value stocks have comfortably outperformed growth stocks with the Russell 1000 Value Index shedding -12.86% while the Russell 1000 Growth Index is down a more severe -28.07% through the second quarter.

As always, we remain focused on low PE companies. Ariel Focus Fund ended the second quarter trading at 8.6 times forward earnings compared to 12.7 times for the Russell 1000 Value Index and 16.2 times for the S&P 500. We believe value stocks can continue to outperform growth stocks as interest rates rise and believe Ariel Focus Fund is well positioned for such an environment.

This leaves us with our fourth theme for 2022 where our confidence has waned. In previous letters, we stressed our outlook for: a growing U.S. economy aided by strong labor markets, solid individual and corporate balance sheets as well as pent-up demand for consumer spending after two years of Covid lockdowns. Our economic view ran contrary to more pessimistic analysts who pointed to high energy costs, the Ukraine war and an inverted U.S. Treasury curve as signs of a looming recession. This pessimism gave us an opportunity to purchase or add to positions in companies that might face recessionary headwinds. The stock prices of these consumer cyclicals traded well below our calculation of intrinsic worth. Examples of these economically sensitive companies include **BorgWarner Inc. (BWA)**, **Resideo Technologies, Inc. (REZI)** and **Madison Square Garden Entertainment Corp. (MSGE)**.

Recently, the Federal Reserve has come around to our view of the danger of inflation. Unfortunately, the Fed has rejected our hypothesis of excess money supply growth as the cause, pointing instead to "an overheated economy." How Chairman Powell can characterize negative first quarter GDP growth as "overheated" is beyond us, but he does. His solution is to raise interest rates quickly to "tamp down excess demand." We still believe there is a possibility of a relatively soft landing for the economy and an even greater chance the Fed will turn policy quickly if June does indeed prove to show peak inflation.

In the meantime, the increased risk of a Fed-induced recession sent our economically sensitive consumer discretionary stocks lower in the second quarter, penalizing our performance. Madison Square Garden Entertainment dropped

-36.84%, BorgWarner fell -13.85% and Resideo Technologies, the spin-off of **Honeywell (HON)'s** residential thermostat business, gave back -18.51%. All three were pressured by fears of a consumer-led recession.

At Ariel, two numbers enable us to assess the attractiveness of our portfolio at any given time. The first is the traditional Price/Earnings ratio, particularly as measured against earnings over the next twelve months. There is a great deal of academic literature showing future returns on equities are correlated with P/E ratios - with low P/Es serving as a good predictor of possible future high returns. As mentioned earlier, Ariel Focus Fund ended the second quarter trading at 8.6 times forward earnings.

We also pay close attention to private market value ("PMV") calculations. We compare the current stock price for each of our portfolio companies with our calculation of the PMV for each, then average these discounts on a weighted basis for the portfolio. We initiate new positions when a company trades at a 40% discount to PMV and sell when that discount narrows to 0. Historically, Ariel's portfolios have averaged a discount to PMV of approximately 20%. At the end of the second quarter, Ariel Focus Fund traded at a discount to PMV of -36.57%.

A combination of low PEs and high discount to PMV make us optimistic about our longer-term returns. That said, the rising probability of a near-term recession would be challenging both on an absolute and relative basis.

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 companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a nondiversified fund and therefore may be subject to greater volatility than a more diversified portfolio. The Fund is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

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 6/30/22, Ariel Focus Fund held the following positions referenced: APA Corporation 6.3%; The Mosaic Company 5.6%; BorgWarner Inc. 5.1%; Resideo Technologies, Inc. 4.1% and Madison Square Garden Entertainment 3.2%. 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 Focus Fund.

For the year ended September 30, 2020, Ariel Focus Fund's Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.25%. Per the Fund's Annual Report for the year ended September 30, 2021, Ariel Focus Fund's Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.20%. Effective February 1, 2014, Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees or reimburse expenses (the "Expense Cap") in order to limit Ariel Focus Fund's total annual operating expenses to 1.00% of net assets for the Investor Class through the end of the fiscal year ending September 30, 2023. The Expense Cap prior to February 1, 2014 was 1.25% for the Investor Class.

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 of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. The inception date of this benchmark is January 1, 1987. 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. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

The S&P 500® Index is widely regarded as the best gauge of large cap U.S. equities. It includes 500 leading companies and covers approximately 80% of available U.S. market capitalization.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary 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 or summary prospectus carefully before investing. Distributed by Ariel Distributors, LLC, a wholly owned subsidiary of Ariel Investments, LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.