



QUARTERLY COMMENTARY

Ariel International Developed Markets

• Value • Deep value • Global



Quarter Ended September 30, 2019

Mixed economic data, escalating trade tensions, political turmoil and rising concerns related to a broad slowdown in the global economy continue to weigh on sentiment across markets. It was a quarter that saw the Fed cut interest rates twice and one in which the yield curve inverted for the first time in over a decade, signaling to some that a recession is imminent. U.S. equity markets displayed a decidedly defensive posture, yet delivered a positive return, while international equities struggled as a strong U.S. dollar, uncertainties surrounding Brexit and cooling economic momentum pressured earnings growth abroad.

Against this backdrop, the portfolio delivered a positive absolute return and handily outperformed its benchmark. Notably, the outperformance came from delivering both better preservation of capital during August's pullback and a premium in September's recovery. Specifically, the Ariel International (DM) Composite appreciated +0.91% gross of fees (+0.71% net of fees) for the quarter ended September 30, 2019 while the MSCI EAFE Index fell -1.07%. Year-to-date, the portfolio gained +9.21% gross of fees (+8.56% net of fees) versus the benchmark's +12.80% rise.

As always, Ariel's contrarian approach to investing seeks to identify undervalued, out-of-favor, franchise-quality companies that are misunderstood and therefore mispriced by the market. The portfolio is overweight in Communication Services, Energy and Health Care while underweight sectors such as Industrials, Financials and Materials. The portfolio's outperformance during the third quarter is attributable to strength in our Financials and Health Care names. By comparison, stock selection within Consumer Discretionary along with an Energy overweight weighed on performance.

While the portfolio is underweight the Financial sector due to a negative view on banks, portfolio holding Deutsche Boerse was a top performer. Market volatility and more accommodative monetary policies have helped support robust trading volumes and business growth. Looking ahead, we believe Deutsche Boerse's fee-based business model continues to be a safe-haven amid growing corporate indebtedness and a weakening European

economy. These factors coupled with a growing appreciation for the franchise characteristics of the company's derivatives and clearing business have driven strong stock price performance.

Leading food retailer Ahold Delhaize's shares traded higher following the resolution of wage contract negotiations. The company continues to deliver strong online sales, particularly in the Netherlands. Management also recently reiterated that they expect their U.S. business to achieve online sales growth of at least 20% for full year 2019. With Ahold Delhaize exceeding the previously articulated revenue and cost synergies from its merger announcement, coupled with a stable outlook for its U.S. and European operations, the stock appears to be gaining investor attention.

In contrast, tire manufacturer Michelin detracted from performance in the quarter. Michelin and other tire companies have traditionally been highly correlated with the cyclical automotive supply chain. As concerns of a global economic slowdown have returned, this association has weighed on the stock price of the world's second largest tire manufacturer. In our view, Michelin continues to benefit from its significant exposure to the replacement market. Here, demand is linked to miles driven rather than new car sales and the segment is more profitable. At the moment, consensus appears to be more focused on concerns around the cyclical nature of new car volume and is failing to appreciate the price and mix dynamics of the replacement market. As a result, we find the longer term risk and reward characteristics of Michelin to be highly compelling and believe the market is underestimating the company's business stability in a future downturn.

China Mobile also detracted from performance for the quarter, as macro factors have impacted business trends and investor sentiment for the company along with a broad range of Chinese equities. While recognizing that such concerns could persist along with more industry-specific questions on the pace and magnitude of 5G capital spending, we continue to find China Mobile's dominant share of the Chinese wireless and wireline market to be compelling. Despite near term concerns, we believe China Mobile presents an attractive opportunity, especially when considered in conjunction with its free-cash generation that drives a dividend yield above 4%. In particular,

we are drawn to inherent stability of China Mobile's revenue, reinforcing our view of telecom as the new consumer staple. Lastly, the recent move by major Chinese telcos to co-build next generation networks and the removal of unlimited data plans suggests improved future capital and cost discipline.

Today, we remain concerned by the market's complacency toward risk and corporate indebtedness and prefer to own companies with net cash balance sheets. We remain confident in our contrarian approach to investing and the portfolio we own on your behalf.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. For the period ended 09/30/19, the performance (net of fees) for the Ariel International (DM) Composite for the 1-, 3-, and 5-year periods was -1.59%, +2.72%, and +2.97%, respectively. For the period ended 09/30/19 the performance for the MSCI EAFE Net Index for the 1-, 3-, and 5-year periods was -1.34%, +6.48%, and +3.27%, respectively. Performance of the Ariel International (DM) 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. 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. The Ariel International (DM) Composite differs from its benchmark, the MSCI EAFE Index, 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. and emerging markets.

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 09/30/19 Deutsche Boerse AG constituted 8.50% of the Ariel International (DM) Composite (representative portfolio); Michelin 4.22%; and China Mobile Ltd. 5.05%. The performance of any single portfolio holding is no

indication of the performance of other portfolio holdings of the Ariel International (DM) Composite.

Investors cannot invest directly in an index. The MSCI EAFE Index is an unmanaged, market-weighted index of companies in developed markets, excluding the U. S. and Canada. The MSCI Index net returns 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. Source: MSCI. 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 indices or financial products. This report is not approved or produced by MSCI.