



QUARTERLY COMMENTARY

Ariel International Fund

• Value • Deep value • Global



Investments in foreign securities may underperform and may be more volatile than comparable U.S. 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 and exchange-traded funds (ETFs) 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 Fund invests may never be recognized by the broader market.

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. The investment return and principal value of an investment will fluctuate so that an investor's 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. Performance data current to the most recent month-end for Ariel International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2019, the average annual total returns of Ariel International Fund for the 1-year, 5-year and since-inception periods were -4.67%, +2.09% and +5.67%, respectively. Ariel International Fund has an inception date of December 30, 2011, and does not have performance for the 10-year period. For the year ended September 30, 2018, Ariel International Fund's Investor Class had an annual net expense ratio of 1.13% and an annual gross expense ratio of 1.31%. Effective November 29, 2016, Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees or reimburse expenses (the "Expense Cap") in order to limit Ariel International Fund's total annual operating expenses to 1.13% of net assets for the Investor Class through the end of the fiscal year ending September 30, 2020.

Quarter Ended March 31, 2019

Global capital markets swiftly reversed course during the first quarter of 2019, marking a dramatic pivot from the prior quarter's double digit correction. Recent more dovish policies from both the U.S. Federal Reserve and the European Central Bank suggest the global economy is slowing. More specifically, the European Central Bank resumed its low cost loan program and the U.S. Federal Reserve announced it will stop reducing the bond portfolio accumulated during many years of quantitative easing. These actions gave investors the impetus to return to the very "risk-on" assets they had so recently abandoned.

Understandably, our risk-aware portfolio trailed its benchmark during this feverish period. Specifically, Ariel International Fund appreciated +7.13% for the quarter ended March 31, 2019 while the MSCI EAFE Index rose +9.98% and the MSCI ACWI ex-US Index rose +10.31%.

With such a prolonged bull market, we believe the market to be richly valued and remain wary of the amount of leverage on corporate balance sheets. In many cases,

stocks are pricing in all of the upside and none of the risk. That said, we are continuing to find attractive investment opportunities in Telecom, Health Care and Information Technology.

On an aggregate basis, our holdings within Consumer Discretionary and Energy were the strongest contributors to performance in the quarter. By comparison, our allocation to and stock selection within Communication Services detracted, as did stock selection within Information Technology.

From a bottom-up perspective, Philip Morris International was the top contributor for the quarter. Its share price rebounded as investors realized concerns related to competition and regulation were premature—if not unwarranted—as the company reaffirmed its medium-term earnings guidance. We regard Philip Morris as a responsible participant with progressive policies on reducing tobacco consumption and converting adult smokers to less harmful, next generation products such as IQOS. Additionally, the company's scale and

strong balance sheet allows it to invest in product development.

French tire manufacturer Michelin was another significant contributor for the quarter as its stock price recovered handily, outpacing the broad market. Our research shows the company is less dependent upon cyclical factors such as new car sales or macro-economic growth. Instead, we believe the company will benefit from secular growth such as an increase in miles driven, as tires are a consumable good. Additionally, the company is well-positioned from the continuing demand from SUVs and industrial customers which shifts its product mix towards larger, more profitable tires.

Telefonica Deutschland, the dominant telecom provider in Germany, was the largest detractor for the period on concerns related to a potential new entrant in the local market. A mobile operator, 1&1Drillisch, is exploring a switch from being a "virtual operator," one that rents network capacity, to building out its own cellular network. We believe this competitive threat is misunderstood as it would take the company many years to develop a network across Germany. In our view, the market structure, and Telefonica Deutschland's strong competitive position, is unlikely to change in the foreseeable future.

Gemalto's stock price was flat in a bull market, causing the position to detract from performance. Its shares were delisted after last year's announced acquisition by Thales was completed.

In summary, the early 2019 rally exemplifies a classic risk-on market; one in which stocks and bonds of lower quality or lower rated businesses outperform their higher quality counterparts. As always, we remain focused on investing in sound and sustainable bottom-up opportunities while minimizing risk. Overall, we are pleased with portfolio positioning and see significant unrealized appreciation potential across current investment holdings.

This commentary candidly discusses a number of individual companies. These opinions 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 3/31/19, Gemalto N.V. constituted 4.80% of the Ariel International Fund; Compagnie Générale des Établissements Michelin 4.50%; Philip Morris International, Inc. 3.70%; and Telefonica Deutschland Holding 2.80%. 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 International Fund.

Investors cannot invest directly in an index. MSCI EAFE Index is an unmanaged, market-weighted index of companies in developed markets, excluding the U.S. and Canada. The MSCI ACWI (All Country World Index) ex-USA Index is an unmanaged, market-weighted index of global developed and emerging markets, excluding the United States. 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.

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