QUARTERLY COMMENTARY

Ariel Global (NZD)

• Value • Global

Quarter Ended 31 March 2021

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. 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. The Ariel Global Composite traded down +0.60% gross of fees (-0.80% net of fees) in the quarter, outperforming the MSCI ACWI Index returns of -6.84%.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchise-quality companies that are misunderstood and mispriced. The Ariel Global strategy continues to be significantly overweight defensive sectors such as Health Care, Communication Services, and Consumer Staples, as well as meaningfully underweight Industrials and Information Technology. Our lack of exposure to Energy and Materials was the greatest detractor from performance in the quarter. By contrast, stock selection within Financials and Communication Services was the largest source of positive attribution.

Peruvian banking franchise, **Credicorp, Ltd.** was a top contributor during the quarter. Successful execution across the company's digital initiatives propelled growth across its lines of business. By educating the unbanked and prospecting through a centralized data analytics platform Credicorp continues to build higher customer satisfaction, strengthen its competitive moat and expand its client base. The company also views venture capital and the underdeveloped fintech market in Peru as an opportunity to boost growth and enhance shareholder value. We believe the company has a long runway to increase consumer penetration, particularly as the middle class grows and a greater portion of the economy becomes fully banked.

Brazilian insurance company, **BB Seguridade Participacoes (BBS)** also increased in the period as stronger than expected performance across the company's insurance and brokerage businesses drove top and bottom-line growth. Management also provided a favorable 2022 outlook and announced plans to return more capital to shareholders. By all indications, BBS is in the early innings of a long-term growth story driven by the wealth and savings of a burgeoning middle class. The company has high and sustainable returns on equity due to its best-in-class distribution network, the low-risk nature of its insurance products and the capital-light insurance brokerage business. With shares offering an attractive dividend yield and no debt, we believe the company is well-positioned to continue benefitting from growing insurance penetration rates in Brazil.

In addition, Telecommunication service provider, **China Mobile Ltd.** jumped in the period following the announcement of its first share repurchase program of up to 1.5 billion shares. Notably, this return of capital to shareholders is in addition to the already high 7% dividend yield. China Mobile continues to garner nearly 60% revenue share of the Chinese telecom market and about 80% of mainland industry profits. Looking ahead, we see great opportunity for China Mobile to grow free cash flow with incrementally less capital spending. However, we will fully comply with the Executive Order while seeking to maximize value prior to the divestiture requirement of 3 June 2022.

Alternatively, biopharmaceutical company, **Gilead Sciences, Inc.** traded lower in the period on mixed quarterly earnings results and a conservative 2022 outlook. Solid demand for Gilead's core virology franchise continues to drive favorable pricing dynamics, however weak clinical trial data and bearish messaging for a new indication of an existing Gilead oncology drug drove a sell-off in shares. Nonetheless, we believe the company is building an attractive pipeline of hematology and oncology assets in addition to its sustainable HIV franchise. At current levels, we view the risk/reward skewed sharply to the upside.

Shares of French multinational tire manufacturer, **Michelin SCA** came under pressure following Russia's invasion of Ukraine. The military conflict and related political fallout had an impact on a small number of distribution and supply chain relationships. Michelin announced it would expand its raw material relationships with alternate suppliers, in the place of the formerly sourced some synthetic rubber and carbon black from Russia. As 1Q22 ended, supply chain disruptions turned out to be less impactful than feared. Pricing actions made to offset rising raw materials costs also proved successful. These statements suggest recent share price weakness has been driven more by sentiment rather than a material deterioration in business fundamentals.

Lastly, China's internet search and online community leader, **Baidu, Inc.** declined in the quarter. Unfavorable investor sentiment for Chinese equities driven by problems in the real estate sector, tight credit, the country's zero-tolerance COVID-19 policy and increasing regulation of technology firms continued to weigh on shares. We view sluggish revenue growth and margin expansion in both the core ad and cloud businesses to be short-term noise within the context of our long-term investment horizon. Baidu remains committed to sustainable, profitable growth as management works to improve overall operational efficiency, executing on its strategic commitments around technological innovation and the transition to a green economy. Accordingly, we remain focused on Baidu's opportunity in internet search, online advertising, cloud, artificial intelligence, online video and autonomous driving.

We purchased three new positions in the quarter. We added the France based banking and financial services company, **BNP Paribas SA.** Although we have not added many European banks in recent years due to their risk, valuation and return profiles, we have long regarded BNP as best-in-class with a well- capitalized balance sheet along with industry leading underwriting and credit discipline. Growing geopolitical concerns have weighed on its shares, creating an opportunity to initiate a position at a significant discount relative to our intrinsic value assessment for this leading European banking franchise.

We purchased shares of United Kingdom based merchant banking company Close Brothers Group PLC. The company operates three main segments: banking, securities, and asset management. We initiated a position in the company when shares corrected following a decline in transaction volumes at its securities trading business, Winterflood. While earnings growth will likely experience pressure in the near term, Close Brothers Group PLC's financial position is underscored by strong risk-adjusted margin and low leverage.

We also added Canada based **Element Fleet Management** which provides vehicle leasing and fleet management solutions to companies. Element Fleet also combines strong funding sources with technology solutions to reduce total cost of ownership for their customers. Uncertainty surrounding supply chain disruptions and near-term weakness in auto originations provided an attractive entry point in the business with leading market positions in North America, Australia, and New Zealand.

By comparison, we successfully exited multinational pharmaceuticals company **Novo Nordisk** on price appreciation in the period.

Geopolitical instability, surging inflation, tighter monetary policy, a sharp run up in commodity prices as well as supply chain constraints present risks on a go forward basis. It is in times like these where an active investment manager has the opportunity to prove its merit. This is when we rely on the Ariel playbook and execute. Knowing today's decisions will drive years of future returns, we remain laser-focused on identifying differentiated companies with durable cost advantages, sustainable business models and robust balance sheets. In the emerging world order, we believe our undervalued, higher dividend yielding and higher quality defensive holdings are poised to outperform.

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, 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 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 net of transaction costs and reflect the reinvestment of dividends and other earnings.

For the period ended 31/3/2022, the performance (net of fees) of the Ariel Global Composite for the 1-, 3-, and 5-year periods were +9.43%, +8.63%, and +8.27%, respectively. For the period ended 31/3/22 the performance for the MSCI ACWI Index for the 1-, 3-, and 5-year periods were +8.02%, +13.01%, and +11.75%. Performance of the Ariel Global 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 New Zealand dollars. Current performance may be lower or higher than the performance data quoted. 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 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 31/3/2022 Credicorp, Ltd. constituted 4.18% of the Ariel Global Composite (representative portfolio); BB Seguridade Participacoes 2.19%; China Mobile Ltd. 2.61%; Gilead Sciences, Inc. 5.03%; Michelin SCA 3.09%; Baidu, Inc. 5.25%; BNP Paribas SA. 0.78%; Close Brothers Group PLC. 0.10%; Element Fleet Management 0.05% and Novo Nordisk 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 Global Composite.

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Glossary:

Free Cash Flow - the amount by which a business's operating cash flow exceeds its working capital needs and expenditures on fixed assets.

Intrinsic Value - the perceived measure of an asset's worth. Three different types of valuation work encompass our calculation – a discounted cash flow analysis, a change-of-control-based estimate and a full trading value.

Margin - gauges the degree to which a company makes money. It represents what percentage of sales has turned into profits. **Margin expansion** is the increase in rate of the profit.

Investors cannot invest directly in an index. The MSCI ACWI (All Country World Index) is an unmanaged, market weighted index of global developed and emerging markets. 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.