QUARTERLY COMMENTARY

Ariel Global (USD)

• Value • Deep value • Global

Quarter Ended December 31, 2019

U.S. stocks closed 2019 with their best annual performance in six years and international equities rallied higher, as an improving global economic outlook, easing trade tensions and accommodative central bank policies indicated to investors that the bull market still has room to run. While growth trounced value for most of the year, interesting shifts occurred in the fourth quarter. Small cap issues outperformed their large cap brethren and investors increased their appetite for risk, favoring emerging markets over U.S. equities.

For the quarter, the portfolio delivered a positive absolute return but trailed its benchmark as our underexposure to momentum-driven US equities weighed on performance. For the quarter, the Ariel Global Composite returned +6.72% gross of fees (+6.50% net of fees), lagging the MSCI ACWI Index, which advanced +8.95%. Year-to-date, the Composite gained +18.02% gross of fees (+17.08% net of fees) versus the benchmark's +26.60%.

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 continues to be overweight Communication Services and Health Care, and underweight the Industrials and Financials sectors. The portfolio's underperformance during the fourth quarter is attributable to weakness in Information Technology and Health Care holdings. By comparison, Energy and Consumer Staples contributed positively to performance.

China's internet search and online community leader, Baidu Inc., scored the top spot during the quarter. Baidu's strong price action reflected recent management commentary that suggests short-term revenue and user growth pressures are easing. Ad pricing has improved broadly, as have trends in specific verticals like Health Care. Daily average users of the mobile app are growing by 25% and gaining share. In addition, Baidu continues to make incremental investments in its video streaming platform with the goal of expanding its licensing, merchandising and games footprint. Looking ahead, we expect revenues to increase and profit margins to expand, driving long-term value creation.

Enterprise software provider Microsoft Corporation continued its march higher through the fourth quarter. Microsoft remains our largest position, as we continue to believe the company is in the early stages of driving value creation with Azure and its hybrid cloud computing model. In addition, we are constructive on the company's opportunity to leverage its cloud platform and console franchise to potentially become a powerhouse in online gaming in the years ahead.

The preferred global energy services supplier, Schlumberger N.V., also performed well, largely due to higher crude oil prices. Given the company's leverage to exploration and production activity, sustainably higher commodity prices ultimately develop into a strong backlog. Schlumberger's track record of best-in-class execution, from the initial stages of upstream operations through production and processing, provides us confidence in its ability to navigate cycles and create value over the long term.

By comparison, telecom equipment vendor Nokia Corporations' shares declined in the period, as management revised its outlook on already lowered expectations and suspended the dividend. Further delays in the rollout of 5G until the second half of 2020, resulting in incremental costs with negative impact on near-term margins, disappointed investors. Our research suggests the company will likely meet newly revised guidance for the second half of this year. We also expect Nokia will retain market share, since customer switching costs are high. We believe margins will rebound once volume economics on new products ramp up.

China Mobile also detracted from relative performance in the quarter. After macro and policy factors impacted Chinese equities for most of 2019, China Mobile stabilized in 4Q19. Incremental positive data points regarding growth in mobile, 4G, and broadband contributed to what we believe is an inflection point in both fundamentals and sentiment. In addition, we continue to find China Mobile's dominant share of over 60% of the Chinese wireless market and its growing share of the wireline market compelling. Improved operating metrics, along with strong free cash flow generation, $47 billion in net cash on the balance sheet, dominant market share and a 4% dividend yield are key drivers of our thesis.

Shares of Japanese auto manufacturer Subaru Corporation also declined in the period on concerns related to the company's emissions costs and the global auto cycle. We believe consensus fails to appreciate the longer term product-driven market share opportunity, which is underscored by management's commitment to enhanced quality, safety, and their collaboration with best-in-class auto maker Toyota.

Today, we remain concerned about the market's complacency toward risk and elevated corporate indebtedness. As global markets continue to move higher, along with record levels of debt outstanding, we look to capitalize on buying opportunities created by market misperception, preferring companies with the safety of net cash balance sheets. We remain confident in our contrarian approach to investing and the portfolio we own on your behalf.

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.

Past performance does not guarantee future results. Results are preliminary. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. For the period ended 12/31/19, the performance (net of fees) of the Ariel Global Composite for the 1-, 3-, and 5-year periods was +17.08%, +8.63%, and +6.46%, respectively. For the period ended 12/31/19 the performance for the MSCI ACWI Net Index for the 1-, 3-, and 5-year periods was +26.60%, +12.44%, and +8.41%, respectively. 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 U.S. 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 12/31/19 Baidu Inc. constituted 3.35% of the Ariel Global Composite (representative portfolio); Microsoft Corporation 9.86%; Schlumberger N.V. 2.10%; Nokia Corporation 0.30%; Nokia Corporation ADR 1.44%; China Mobile 4.91%; China Mobile ADR 0.47%; and Subaru Corporation 1.48%. Portfolio holdings are subject to change. 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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