Memorandum

To: Friends of Ariel Investments

From: Rupal J. Bhansali, Chief Investment Officer, Global Equities

Date: April 28, 2022

Re: Ariel International and Ariel Global 1Q22 Client Letter

ARIEL INTERNATIONAL (DM) COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-1.22%**	**3.51%**	**6.31%**	**5.21%**	**6.22%**	**6.84%**
Net of Fees	**-1.42%**	**2.69%**	**5.47%**	**4.38%**	**5.35%**	**5.97%**
MSCI EAFE Index	-5.91%	1.16%	7.78%	6.72%	6.27%	7.19%
MSCI EAFE Value Index	0.33%	3.55%	5.23%	4.18%	4.87%	5.70%

ARIEL INTERNATIONAL (DM/EM) COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**1.53%**	**5.64%**	**7.32%**	**6.26%**	**6.75%**	**7.39%**
Net of Fees	**1.33%**	**4.80%**	**6.47%**	**5.41%**	**5.86%**	**6.49%**
MSCI ACWI ex-US	-5.44%	-1.48%	7.51%	6.76%	5.55%	6.52%
MSCI ACWI ex-US Value Index	0.13%	3.31%	5.44%	4.67%	4.24%	5.17%

ARIEL GLOBAL COMPOSITE PERFORMANCE						
						As of March 31, 2022
Inception date: December 31, 2011		Annualized				
	1Q22	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**0.98%**	**9.55%**	**10.21%**	**9.02%**	**9.56%**	**10.20%**
Net of Fees	**0.78%**	**8.68%**	**9.34%**	**8.16%**	**8.65%**	**9.28%**
MSCI ACWI Index	-5.36%	7.28%	13.75%	11.64%	10.00%	10.95%
MSCI ACWI Value Index	-0.95%	8.83%	9.02%	7.46%	7.64%	8.50%

ARIEL GLOBAL CONCENTRATED COMPOSITE PERFORMANCE			
			As of March 31, 2022
Inception date: December 31, 2019		Annualized	
	1Q22	1 Year	Since Inception
Gross of Fees	**0.26%**	**6.91%**	**7.92%**
Net of Fees	**0.06%**	**6.06%**	**7.06%**
MSCI ACWI Index	-5.36%	7.28%	12.54%
MSCI ACWI Value Index	-0.95%	8.83%	7.68%

Beware of the 4Ls

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. However, as conditions deteriorated, our global portfolios began to outperform. Although we lagged the dramatic rally in cyclicals that began in late 2020 and persisted throughout 2021, our risk-aware portfolio positioning better protected capital during the recent downturn. While our low portfolio turnover illustrates the merits of our patient approach, we credit our relative outperformance to our avoidance of the 4Ls: Lofty Valuations, Loss Making Companies, Leveraged Balance Sheets and Liquidity Risk.

Lofty Valuations

As we discussed in prior quarterly letters, the global economy's rebound from the March 2020 low through last December was undeniable. With unprecedented fiscal support and interest rates at all-time lows, the MSCI ACWI and S&P 500 indexes surged to new highs in record time and corporate profits shined, propelling equity valuations past historic peaks. We discussed the high relative valuations of cyclicals versus defensives, the outperformance of growth relative to value, as well as how US stock returns versus the rest of the world have continued to widen over the last decade. By contrast, since our investment approach focuses on seeking a margin of safety[1] as evaluated by discount to intrinsic worth, our global portfolios are currently overweight defensive sectors, such as Health Care and Communications relative to cyclicals, with greater international exposure. Our research also revealed favorable entry points within developing economies, where deeply discounted valuations in certain sectors, such as financials, continue to present compelling investment opportunities when weighing the risk and reward.

Loss Making Companies

At the core of every stock thesis is our differentiated process that considers the upside and downside potential for a name. As we scour the globe for high-quality companies with sustainable business models with stable or improving returns on invested capital, we discovered a growing percentage of unprofitable companies, particularly within the technology sector and amongst new issues (IPOs). Interestingly, money-losing tech stocks have been a positive contributor to overall returns across the Growth and Tech indices until this quarter.[2] Meanwhile, in recent years roughly 80% of IPOs lacked profitability, a level not seen since the peak of the Dot Com Bubble two decades ago.[3] Our concentrated portfolios avoid the risks associated with such businesses and instead are comprised of diversified holdings across profitable, well-established franchises with strong competitive positions and durable cost advantages.

Leveraged Balance Sheets

Central banks in the world's largest economies helped mitigate the economic fallout of both the coronavirus pandemic and the 2008 Financial Crisis through fiscal stimulus and monetary relief packages. The unconventional expansion in money supply, which began as quantitative easing, resulted in record low interest rates. These actions drove investment in riskier assets with higher yields, including stocks, junk bonds, real estate and commodities, as easy

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[1] Attempting to purchase with a margin of safety on price cannot protect investors from the volatility associated with stocks, incorrect assumptions or estimations on our part, declining fundamentals or external forces."

[2] "Tech stocks: Challenged, but not all created equal." *Principal Global*. 14 Jan 2022. https://www.principalglobal.com/knowledge/insights/tech-stocks-challenged-not-all-created-equal

[3] BofA Research Investment Committee [@Isabelnet_SA]. "More and more unprofitable companies are going public." Twitter, 11 February 2021, 6:15 AM, https://twitter.com/isabelnet_sa/status/1359868723327344643?lang=es.

money policies distorted the hurdle rate companies and investors use to determine whether an investment is worth the risk/return. Lower capital costs also provided an incentive for corporations to access debt markets to fund acquisitions and/or repurchase shares already selling at inflated prices. Meanwhile, investment grade (IG) markets quadrupled in size since 2007, with approximately 50% of the Bloomberg US Corporate Bond Index consisting of BBB rated debt—the last rung of high-grade issues.[4] Taking this one step further, today, the BBB segment of the corporate bond market stands at 5x the size of the BB tranche.[5] This raises questions about the junk bond market's ability to absorb additional supply without a collapse in pricing if there are large scale downgrades from BBB into high yield.

With inflation rising at its fastest pace in 40 years, corporate earnings growth has begun to face headwinds as pricing pressures climb across supply side factors, including production costs and operating expenditures. To prevent the economy from overheating, policymakers have begun to raise rates. This upward movement will further impact corporate profits, as greater debt servicing costs weigh on the bottom-line. Taken together, we believe these factors are an increasing source of vulnerability for market multiples within the context of various valuation methods. Consequently, our bottom-up fundamental research is laser-focused on the growth and return prospect of a business, as well as the fortitude and resilience of its balance sheet.

Liquidity Risk

While analyzing whether a company has cash flow to fund its liabilities is one way we assess liquidity, evaluating how easily shares can be bought or sold in the market is another area we closely consider. Index funds have experienced massive inflows in recent years, highlighting a shift towards a growing number of price agnostic market participants. Passive strategies buy stocks in the same proportion as the indexes they track with no regard for stock price or fundamental security analysis. Research has shown "as bull markets run, cap weighted indexes tend to become more concentrated in a handful of sectors and stocks. These same sectors and stocks tend to account for a disproportionate amount of the markets gains."[6]

However, during bear markets, flows tend to reverse, at least cyclically for risk assets. We saw a version of this play out in March 2020 when the stock market see-sawed from bull-to-bear status in just 20 days—"the fastest 20% drop in history."[7] Volatility reigned and liquidity for many of the large capitalization companies within the index dried up as markets went risk-off. Stock prices fell fast to bridge the large bid/ask spread between active fundamental investors on the buy-side and passive ones on the sell-side. As the correction unfolded, many passive strategies realized larger losses due to their greater concentration of equities held within the indexes.

This phenomenon could play out again, particularly since growth and cyclical valuations are trading at or near historic peaks. We believe the high active share of our portfolios helps side-step large bid/ask liquidity risk.

Actively Aware

While markets may change from one period to the next, our investment process remains the same. Risk management is embedded in every step—regardless of the market backdrop. 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.

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[4] 2022 Morgan Stanley Credit Strategy Chartbook. Morgan Stanley. 1 April 2022.
[5] 2022 Deutsche Bank U.S. Credit Strategy. Deutsche Bank Research. 8 April 2022.
[6] Johnson, Ben. "Is market-cap indexing a form of momentum investing." TEBI. 24 February 2020. https://www.evidenceinvestor.com/is-market-cap-indexing-a-form-of-momentum-investing/
[7] Winck, Ben. "The Dow plunged into a bear market in just 20 days – the fastest 20% drop in history." *BusinessInsider*. March 12, 2020.

As Ben Graham once said, "in the short run, the market is a voting machine but in the long run, it is a weighing machine."

As always, we appreciate the opportunity to serve you and welcome any questions or comments you may have.

Investments in foreign securities may underperform and may be more volatile than comparable US 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 portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their 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. Net performance of each Composite has been reduced by the amount of the highest fee charged to any client in each 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 International (DM) Composite differs from its benchmark, the MSCI EAFE Index, because: (i) the Composite has fewer holdings than the benchmark, (ii) the Composite will invest in Canada, and (iii) the Composite will at times invest a portion of its assets in the U.S. and emerging markets. The Ariel International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex-US, 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. 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 Ariel Global Concentrated Composite differs from its benchmark, the MSCI ACWI (All Country World Index), because the Composite has dramatically 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.

Investors cannot invest directly in an index. The MSCI EAFE Index is an unmanaged, market-weighted index of companies in developed markets, excluding the United States and Canada. The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI ACWI (All Country World Index) ex-US is an unmanaged, market-weighted index of global developed and emerging markets, excluding the United States. The MSCI ACWI ex-US Value Index captures large and mid cap securities exhibiting overall value style characteristics across 22 Developed and 25 Emerging Markets countries. The MSCI ACWI (All Country World Index) is an unmanaged, market-weighted index of global developed and emerging markets. The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 25 Emerging Markets (EM) countries. All MSCI Index returns are net, which 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. 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 indexes or financial products. This report is not approved or produced by MSCI. (Source: MSCI.)