QUARTERLY COMMENTARY

Ariel Global Concentrated (AUD)

• Value • Global

Quarter Ended 31 March 2022

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 Concentrated Composite traded down 2.93% gross of fees (-3.13% net of fees) in the quarter, outperforming the MSCI ACWI Index return of -8.37%

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchise-quality companies that are misunderstood and mispriced. The Ariel Global Concentrated strategy continues to be significantly overweight Communication Services, Health Care and Consumer Staples. The portfolio is meaningfully underweight Financials, Consumer Discretionary and Information Technology and lacks exposure to Industrials, Materials and Energy. At the sector level, stock selection within Communication Services and Financials was the largest source of positive attribution. By comparison, relative positioning within Energy and Materials was the largest detractor from results.

Several stocks in the portfolio delivered strong returns in the quarter. 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.

Peruvian banking franchise, **Credicorp, Ltd.** was another 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.

Additionally, Brazilian insurance company, **BB Seguridade Participacoes (BBS)** 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.

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.

China's internet search and online community leader, **Baidu, Inc.** also 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.

Lastly, enterprise software provider **Microsoft Corporation** traded lower as higher interest rates have created headwinds for growth-oriented technology companies. We believe this price action runs counter to Microsoft's solid business fundamentals. The company is driving long-term value creation by capitalizing on a broad and deep set of opportunities, including its hybrid cloud infrastructure via Azure. The platform continues to demonstrate share gains and strong multi-year purchase intent as enterprises transition to cloud based platforms. Despite being a large, widely recognized and long-standing holding in our global strategies, we believe Microsoft's shares remain undervalued.

Although we did not initiate any new positions in the quarter, we exited our position in China based air travel ticketing company, **TravelSky Technology Ltd.** to pursue other opportunities.

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. A concentrated portfolio may be subject to greater volatility than a more diversified portfolio. 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 Concentrated strategy for the 1-year and since inception on 31/12/2019 was +7.57% and +3.96%, respectively. For the period ended 31/3/22 the performance for the MSCI ACWI Index over the 1-year and since inception of the Ariel Global Concentrated strategy on 31/12/2019 was +8.81% and +9.27%. Performance of the Ariel Global Concentrated 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 Australian dollars. Current performance may be lower or higher than the performance data quoted. 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.

As of 31/3/2022 China Mobile Limited constituted 9.12% of the Ariel Global Concentrated (representative portfolio); Credicorp Ltd. 4.29%; BB Seguridade Participacoes SA 3.63%; Gilead Sciences, Inc. 5.93%; Baidu, Inc. 7.63%; Microsoft Corporation 14.88% and TravelSky Technology Ltd. 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 Concentrated 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.

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