Ariel investments

Performance (%) as of March 31, 2024	QTR	1-Year	3-Year (Annualized)	5-Year (Annualized)	10-Year (Annualized)	Since Inception (Annualized)
Ariel Focus Fund						06/30/2005
ARFFX Investor Class	**7.45**	**14.54**	**2.76**	**8.38**	**6.44**	**6.23**
AFOYX Institutional Class	**7.51**	**14.87**	**3.02**	**8.66**	**6.71**	**6.40**
Russell 1000® Value Index	8.99	20.27	8.11	10.31	9.01	8.06
S&P 500® Index	10.56	29.88	11.49	15.04	12.96	10.40

Past performance is not indicative of future results. An investment's return and principal value 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 as of the most recent month-end may be obtained by visiting our website, arielinvestments.com.

Dear Clients and Friends: In the first quarter ended March 31, 2024, Ariel Focus Fund returned +7.45%, trailing our Russell 1000 Value benchmark, which rose +8.99% as well as the S&P 500 Index, which increased +10.56%. Value stocks continued to trail growth stocks. Ariel Focus Fund continues to hold larger weights in value stocks trading at low multiples of earnings than the large cap index.

Stories My Grandfather Told Me: *Buy 'em at one; Sell 'em at two!*

At the end of March, **Goldman Sachs Group, Inc. (GS)** was our largest holding, an outcome related to advice I received from my grandfather a long time ago.

Many grandfathers sit with their young grandchildren recounting stories of great sporting events they may or may not have witnessed. "I was there when Willie Mays caught the ball over his shoulder" or "I was there when Babe Ruth called his home run against the Cubs." My grandfather also told me stories. However, his tales were about the stock market.

When he first advised me, "Buy 'em at one; Sell 'em at two," I thought he might be instructing me to purchase a series of Spider Man comics for one dollar and then turn around and sell them for two. Instead, he told me how magical it was to purchase bank stocks for "1.0x (!) book value."

He had already taught me that "buying at book value" was a strategy of purchasing banks for the value of their assets less their liabilities. Now he explained to me that if you bought a bank stock for a price equal to its book value, your entire purchase price was covered by the securities held by the bank. Loans, stocks, bonds and mortgages were equal to what you paid. But the best part, my grandfather excitedly added, was the bank's fee-paying services came for free! This included the capital markets fees, custody fees, loan origination fees, trust department fees, safety deposit box fees and the merger and acquisition fees. These were all on top of the investment returns emanating from the bank's loans and stocks and bonds. So long as the bank's accounting was on the up and up, and they were not inflating their book value, it was easy to make a good return if you paid 1.0x book for a bank stock. My grandfather loved to tell his oldest grandson stories about the wonderful world of investing.

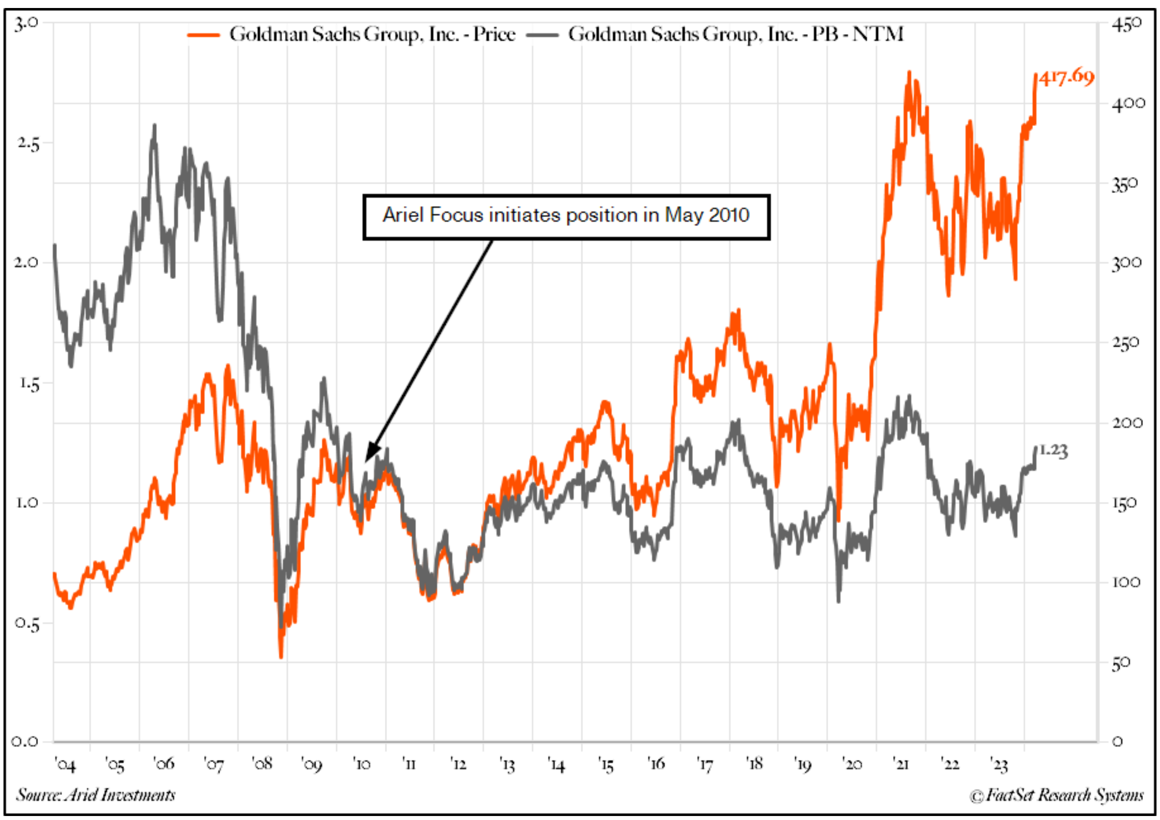
Like all stories told by grandparents everywhere, this one has a happy ending. "Sell 'em at two!" was how the tale concluded. The wise investor sells bank stocks when they trade at 2.0x book value. My grandfather believed it was relatively easy for a bank with a healthy set of assets to earn a market rate of return on its book value, but relatively hard to post a return on book of twice the market rate—the return required to justify a price to book value of 2.0x. Banking is a competitive business and if anyone is earning double the market rate on capital, new entrants will usually spring up and drive returns down. Following my grandfather's advice some four decades later . . .

Ariel Focus Fund initiated a position in Goldman Sachs in May of 2010 at $145.85 a share. Chart 1 shows the stock price of Goldman (the orange line measured on the right axis) and its price to book ratio (the gray line measured on the left axis). Our initial purchase was made when Goldman was trading very close to my grandfather's directive: 1.0x book!

Over the last 20 years, whenever Goldman has traded at 1.0x book or less, its stock has moved higher. Goldman traded below book value in 2011 during the debt-ceiling crisis, then again in 2016 during Brexit. Once again in 2020, COVID took Goldman's share price to a remarkable 0.6x book.

At the end of March, Goldman closed at $417.69, up +9% for the first quarter and more than double our initial 2010 purchase price.

Chart 1: Goldman Sachs Stock Price Versus Price to Book Ratio



As the above chart shows, my grandfather was also right about selling at 2.0x book! This would have been good advice to follow in 2007 before the Great Financial Crisis when Goldman traded 2-2.5x book, with its stock hovering above $225—a price it would not see again for nearly a decade. Today, while Goldman shares have appreciated significantly from their Covid lows, its 1.2x price-to-book ratio is much closer to my grandfather's buy signal than his sell.

Goldman Sachs is not our only bank holding trading close to our 1.0x book target. As we go to press, **BOK Financial Corporation (BOKF)**, the previously named Bank of Oklahoma, trades for 1.2x book, while **Bank of America Corporation (BAC)** has an even more attractive ratio of 1.1x.

Nothing in my grandfather's story means that these attractively priced bank stocks are guaranteed to produce a profit. A bear market in stocks and/or bonds could drive book value down and take their share prices down in sympathy. But in the long run, this strategy gives an investor an opportunity to earn an excess return from the fee generating power of the bank's franchise. We are hoping for a happy ending when Goldman Sachs trades for 2.0x book again and we can all live happily ever after.

Portfolio Contributors and Detractors

During the first quarter, the three holdings that detracted most from the performance of Ariel Focus Fund were all commodity related: **APA Corporation (APA)**, down -3.4%; **Barrick Gold Corporation (GOLD)** down -7.4%; and **The Mosaic Company (MOS)**, down -8.5%. Notably, the underlying commodities of APA and Barrick Gold were strong in the first quarter. The fundamentals around Mosaic's fertilizer products are more complicated.

In the first three months of 2024, oil prices were propelled higher by unrest in the Middle East and the Organization of the Petroleum Exporting Countries'(OPEC) production cuts. The price of a barrel of West Texas Intermediate jumped +16.1% during the quarter. Normally, APA's stock price is highly correlated to the underlying commodity, but not of late. The future curve for oil is currently in "backwardation" which means the market is demanding a premium for current production but expects a lower price going forward. This could occur if electric vehicle production increases and reduces demand for oil. An end to war in the Middle East could relieve pressure on global oil supply, bringing down prices as well. Finally, a weak Chinese economy might reduce oil demand. As a result of this pessimistic outlook for oil, APA currently trades at a price/earnings (P/E) multiple of less than 6.0x our estimate of forward earnings. We believe the world's population will see improvement in their standard of living over the next decades just as they have in the past. Demand for petroleum products should grow in tandem until the middle of this century in our opinion. At a P/E of 6.0x, we believe we have a margin of safety even if our oil demand estimates prove optimistic.

Barrick Gold's share price declined in the first quarter despite an increase in the price of gold. Gold increased from $2,071.80 at the end of 2023 to an all-time high of $2,238.49 at the end of the quarter. Many investors view gold as a hedge against inflation, which they expect to decline toward the Federal Reserve's 2% target. The bears argue gold miners will suffer in a disinflationary environment. While we understand this analysis, trillion-dollar U.S. federal deficits are not going away anytime soon. We believe Barrick Gold should be well positioned for any unpleasant surprises on the inflation front.

Unlike oil and gold, the fertilizer market is more opaque. Mosaic produces potash and phosphates by the ton, and sells to countries and farming cooperatives in private, heavily negotiated transactions. However, the price of corn in the public market is very visible. Corn prices are a reasonable gauge for the health of farmers, particularly in North America where much of Mosaic's fertilizer tonnage is sold. At the outbreak of the Russian Ukrainian War in 2022, corn prices surged above $7 a bushel with Ukrainian shipments sharply curtailed. Simultaneously, shipments from Russia and their allies in Belarus were negatively impacted by economic sanctions and trade restrictions. Since then, corn prices have declined steadily to just over $4 today. These lower corn prices reduced the ability and desire of farmers to maximize yields per acre through their use of fertilizers.

The effect of these conditions on Mosaic is relatively short term in nature and helps explain share weakness in recent years. We are bullish on the company as we anticipate continuous improvements in global diets resulting in increased consumption of animal-based proteins, particularly chickens, cattle and hogs. In turn, this protein consumption will result in increased demand for grains, all to be produced on declining agricultural acreage due to expanding urbanization and climate change.

Yield per acre must increase globally to feed an expanding population with an improving diet. Finally, tightening environmental regulations will make it more expensive to produce new fertilizer capacity near the most efficient agricultural acreage, particularly in North America. We see continued growth in demand for fertilizers with relatively modest increases in supply. Finally, Mosaic currently trades at less than 0.9x book value.

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

Charles K. Bobrinskoy
Vice Chairman

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small- and mid-cap companies is more risky and volatile than investing in large-cap companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified portfolio. The Fund is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

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. There is no guarantee that any expressed views will come to fruition or any investment will perform as described.

As of 3/31/24, Ariel Focus Fund held the following positions referenced: Goldman Sachs Group, Inc. 6.6%; BOK Financial Corporation 5.3%; Bank of America Corporation 4.9%; APA Corporation 4.6%; The Mosaic Company 3.2% and Barrick Gold Corporation 3.0%. The 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 Focus Fund.

Per the Ariel Focus Fund's Prospectus as of February 1, 2024, the gross expense ratio for the Investor Class and Institutional Class was 1.16% and 0.86%, respectively. Effective February 1, 2014, Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel Focus Fund's total annual operating expenses to 1.00% and 0.75% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2025. Prior to February 1, 2014, the Expense Cap was 1.25% of net assets for the Investor Class.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. The inception date of this benchmark is January 1, 1987. Russell® is a trademark of the London Stock Exchange Group, which is the source and owner of the Russell Indexes' trademarks, service marks, and copyrights. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes or underlying data and no party may rely on any Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. The S&P 500® Index is widely regarded as the best gauge of large cap U.S. equities. It includes 500 leading companies and covers approximately 80% of available U.S. market capitalization.

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