Ariel Appreciation Fund

Quarter Ended September 30, 2023

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. The investment return and principal value of an investment 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 current to the most recent month-end for Ariel Appreciation Fund may be obtained by visiting our website, arielinvestments.com. For the period ended September 30, 2023, the average annual returns of Ariel Appreciation Fund (investor class) for the 1-, 5-, and 10-year periods were +14.95%, +4.16%, and +6.38%, respectively.

The U.S. stock market posted declines in the third quarter driven by fears of a government shutdown, striking autoworkers, surging oil prices and the prospect of interest rates remaining higher for longer. Against this backdrop, government bond yields soared, equities came under pressure and the richly valued "magnificent seven[1]" lost their shine. As the Federal Reserve attempts to steer the economy, some worry the risks of a hard-landing are growing. Although uncertainty and volatility are likely to remain elevated, we view the recession guessing game as noise within the context of our long-term investment horizon. Ariel Appreciation Fund traded -6.48% lower in the quarter, trailing the Russell Midcap Value and Russell Midcap indices, which returned -4.46% and -4.68%, respectively.

Toy manufacturer, **Mattel, Inc. (MAT)**. was the top contributor to returns in the period. Although the retail environment remains challenging, MAT delivered a solid earnings beat and maintained full-year guidance. The successful release of the *Barbie* movie is expected to generate over $125 million of gross billings this year from film royalty payments while boosting the franchises' consumer products. These results continue to highlight MAT's progress towards expanding its entertainment offering and executing on its strategy to grow market share, improve profitability and generate higher levels of cash flow. In our view, MAT remains an undervalued asset with attractive growth prospects for its Barbie and Hot Wheels brands, as well as its Disney Princess and Frozen toy lines, Trolls and the global launch of Monster High.

Drilling and production equipment provider, **NOV Inc. (NOV)**, also advanced in the period following a top and bottom-line beat. Improving demand for offshore drilling rigs is leading to higher day rates, longer contract terms and opportunities to activate idle rigs. NOV is also deploying new digital, low emissions fracking equipment and rig automation which is expected to enhance drilling efficiency. This value proposition is incentivizing oil and gas companies to increasingly utilize NOV's equipment. Meanwhile, the company has won international projects, including Saudi Aramco's plan to build new land and jackup rigs over the next 10 years. As the company continues to right-size its onshore business and grow its offshore business, with greater efficiencies, we believe the market will come to recognize NOV's value over the long term.

In addition, alternative asset manager, **KKR & Co. (KKR)**, traded higher following solid earnings results in a challenging market environment. This performance was supported by steady fundraising, transaction fees and the early success of two new infrastructure and private equity products. We believe KKR possesses the size and organizational structure to gain from high institutional interest in alternative assets, as well as attractive corporate valuations in certain industries and geographies. The firm also has plenty of dry powder on hand, to invest opportunistically. Notably, KKR has performed quite well across different economic and financial conditions and, in our view, should continue generating alpha for its clients over the long-term.

Alternatively, several positions weighed on performance. Marketing communication company, **Interpublic Group of Companies, Inc. (IPG)** traded lower in the quarter. Broad macro uncertainty and a pullback in spend from tech, telecom and smaller client accounts resulted in an earnings miss and subsequent reduction in full-year guidance. Looking ahead, management expects to grow from new business wins and strengthening performance across its media and healthcare businesses. We believe in IPG's resilient business model and

[1] The "Magnificent Seven" are the largest stocks in the S&P 500 Index driving market performance: Apple Inc. (AAPL), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA) and Tesla, Inc. (TSLA).

its management team's ability to flex its variable cost structure to weather the cyclical headwinds that may come its way.

Leading global manufacturer of power generation equipment, **Generac Holdings, Inc. (GNRC)**, also underperformed in the quarter. Management lowered full-year guidance as a soft consumer environment resulted in weaker-than-expected residential sales, margin contraction and an earnings miss. Subsequently, GNRC held an investor day and issued a new 3-year outlook above consensus driven by grid instability, climate change and accelerating power outages. In our view, GNRC's home standby generator business as well as its commercial and industrial opportunities will benefit from such heightened consumer sensitivities and result in a long runway of penetration across an expanding addressable market, margin expansion and free cash flow generation.

Lastly, leading manufacturer and distributor of coatings technologies, **Axalta Coating Systems, Ltd. (AXTA)**, traded lower as earnings came in slightly below expectations due to currency headwinds and a near-term disruption related to the implementation of its new Enterprise Resource Planning (ERP) system. Nonetheless, management reaffirmed its 2024 full year outlook. We expect AXTA's margins will improve as inflation for raw materials ease. We also expect vehicle production and corresponding demand for mobility coatings to increase as supply chain constraints ease. Longer-term, we believe the company will continue to gain market share in its refinishing business and improve margins through cost savings.

We did not initiate or exit any positions in the quarter.

As the pendulum of worry swings from one scenario to another, our focus on recent events and macroeconomic developments is to consider their effect on the long-term intrinsic worth of our holdings over the next five-to-ten years. Although the new "higher for longer" rate regime will likely present headwinds to corporate earnings growth, we remain confident in our portfolio positioning and stand ready to take advantage of market sell offs. We strongly believe the patient investor that stays the course and consistently owns differentiated business models with solid competitive positioning, low leverage and robust balance sheets will deliver stronger returns over the long run.

Investing in mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Appreciation Fund 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.

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 of the views expressed will come to fruition or any investment will perform as described.

Per the Fund's Annual Report for the year ended September 30, 2022, the Fund's Investor Class shares had an annual expense ratio of 1.10%.

As of 9/30/23, Mattel, Inc. constituted 3.9% of Ariel Appreciation Fund; NOV, Inc. 2.1%; KKR & Company, Inc. 2.7%; Interpublic Group of Companies, Inc. 2.5%; Generac Holdings Inc. 2.4%; and Axalta Coating Systems, Ltd. 2.5%. 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 Appreciation Fund.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is February 1, 1995. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is November 1, 1991. Russell® is a trademark of 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. Its inception date is March 4, 1957.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary prospectus which contains this and other information about the funds offered by Ariel

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SLOW AND STEADY WINS THE RACE