Ariel Global Concentrated

Quarter Ended September 30, 2023

Markets worldwide posted declines in the third quarter, with many developed economies adjusting to the new “higher for longer” rate regime and its implications for slowing global growth. Japan remains an outlier with accommodative policy, while intensifying problems in China have many investors anticipating additional stimulus. As some investors remain cautiously optimistic central banks will engineer a soft-landing, others worry the stress of tight monetary policy will induce a hard landing. Although macroeconomic uncertainty is high and market volatility will likely remain elevated, we view these near-term risks as noise within the context of our long-term investment horizon. The Ariel Global Concentrated Composite declined -4.15% gross of fees (-4.34% net of fees) in the period, trailing both its primary and secondary benchmark, the MSCI ACWI and MSCI ACWI Value Indices, which returned -3.40% and -1.76%, respectively.

Ariel’s non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. The Ariel Global Concentrated strategy continues to be significantly overweight Communication Services, Real Estate and Health Care. The portfolio is underweight Information Technology, Consumer Discretionary and lacks exposure to Industrials, Energy and Materials. At the sector level, Consumer Discretionary holdings and our allocation to Cash were the greatest sources of positive attribution, while stock selection within Communication Services and avoidance of Energy were the largest performance detractors in the quarter.

After underperforming during the first half of the year, British home and auto insurer, **Direct Line Insurance Group PLC** was the top contributor to returns in the quarter. The overhang of a potential equity raise was removed following the sale of its brokered commercial business. Additionally, improving pricing conditions, a strengthening in Direct Line’s motor reserve, as well as the appointment of a new CEO aided shares. In our view, the stock continues to be undervalued relative to its normalized earnings power.

Global pharmaceutical and healthcare company, **GSK plc.**, also advanced in the period following a top- and bottom-line earnings beat and subsequent raise in full-year guidance. Shares were also aided by a successful U.S. and European launch of Arexvy, a respiratory syncytial virus (RSV) vaccine for older adults. Although risks around the Zantac litigation remain a concern, we believe GSK should generate sustainable growth and margin expansion as the company transitions its Pharma pipeline towards specialty medicines and vaccines. Furthermore, the company’s robust balance sheet provides the scope for bolt-ons, which has the potential to drive additional growth.

Additionally, French multinational tire manufacturer, **Michelin SCA**, traded higher over the period following an earnings beat and a raise in full year guidance. We remain enthusiastic about Michelin's strong global competitive position, cyclical resiliency, pricing strategy and cost discipline. Furthermore, we expect the company's “Around Tire” and “Beyond Tire” initiatives to drive profitable growth over the long term.

By comparison, shares of German mobile telecommunications company, **Telefónica Deutschland Holdings AG**, sharply declined in the quarter. This underperformance was driven by 1&1’s recent announcement it would move its national roaming and spectrum leasing partnership from Telefónica to Vodafone in 2025. Although management expects the decision to meaningfully impact EBITDA and free cash flow over the medium-term, the company reassured investors it will remain a rational player in the market. Telefónica plans to use the now under-utilized network capacity to accommodate new and existing customers. While we remain cautious about these recent developments, we think Telefónica Deutschland can benefit from the relatively stable competitive environment in Germany over the long term.

Real estate investment trust, **Equity Commonwealth (EQC)**, also underperformed in the quarter. Although second quarter earnings results were in-line with expectations, the company traded down alongside the broader sector on investor concerns that development and leasing delays could impact office and industrial REIT earnings. This share decline runs counter to the company’s strong financial position largely sitting in cash that is waiting to be deployed. In our view, EQC executed well on its leadership succession plan after the unexpected passing of Founder and Chairman, Sam Zell. Additionally, we believe the company has a deeply experienced team, whose rigorous risk management and conservative balance sheet stands to benefit from attractive acquisitions from distressed commercial properties in the years ahead.

Finally, global communications and technology leader, **Verizon Communications Inc.**, continued to weigh on performance following an article in the *Wall Street Journal* outlining concerns on lead cable lines posing a significant public health threat. Although the lead covered cable lines remain an overhang on shares, we find Verizon's valuation to be compelling. The company delivered a solid earnings report, with subscriber and financial metrics in-line or ahead of consensus. Management also reiterated full year guidance and noted it may exceed its outlook for free-cash-flow. From a competitive and financial standpoint, we view Verizon to be among one of the best positioned telecoms in the world. Looking forward, we expect free cash flow to grow significantly in the years ahead as the company moves past the secular peak in 5G capital spending.

We initiated four new positions in the quarter. We added French banking and financial services company, **BNP Paribas SA**, which has a well- capitalized balance sheet along with industry leading underwriting and credit discipline. We believe the company's diversified business model presents limited downside risks. Additionally, we are pleased to see the company utilizing proceeds from the sale of its U.S. business to reinvest in its core operations as well as enhance returns for shareholders.

We also purchased shares of **Check Point Software Technologies Ltd.**, an Israeli based multinational provider of hardware and software products for information technology security. The company has exposure to the fast growing cloud security market and maintains industry leading profitability. Check Point Software is also an astute steward of capital, pursuing organic growth and utilizing surplus cash to steadily buy back shares.

We also initiated a position in Belgian multichannel bank insurer, **KBC Group NV**, which has a strong deposit franchise, an affluent client base, is well capitalized and generates best-in-class returns among European banks. We believe the company can continue to achieve growth in net interest income, supported by the European Central Bank's higher for longer interest rate policy and its low deposit beta. Additionally, we believe KBC's solid liquidity profile enhances its defensive attributes.

Finally, we added **China Feihe, Ltd.**, which is the leading domestic producer of infant milk formula in China. We believe the company will not only benefit from recent regulations whereby the Chinese government favors domestic companies, but from consumers increasingly seeking premium products. Furthermore, we think China Feihe is poised to take market share from smaller domestic players and international competitors, as it leverages its strong brand and effective channel penetration strategy.

By comparison, we exited our position in British multinational consumer healthcare company, **Haleon plc** to pursue higher conviction opportunities from a risk/reward standpoint.

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 three-to-five years. While we believe the rise in interest rates is largely behind us, corporate earnings are vulnerable as growth slows and margins face potential compression. We see this environment as conducive for active managers, whose knowledge, expertise and forward thinking enables them to look beyond the short-term noise and identify new opportunities. Accordingly, we are finding many mispriced stocks where valuation is attractive, profitability less vulnerable and balance sheets remain strong. In our view, our international and global portfolios are well-positioned to deliver stronger returns over the long run.

Investments in non-U.S. securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving non-U.S. economies, markets, political systems, regulatory standards, 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 shown net of the highest management fee charged to any client in the Composite during the performance period. Net returns reflect performance returns after the deduction of advisory fees and transaction costs and assume the reinvestment of dividends and other earnings. For the period ended 9/30/2023, the performance (net of fees) of the Ariel Global Concentrated Composite for the 1-year and since inception on 12/31/2019 was +15.81% and +3.79%, respectively. For the period ended 9/30/2023, the performance for the MSCI ACWI Index and the MSCI ACWI Value Index over the 1-year and since inception of the Ariel Global Concentrated Composite on 12/31/2019 was +20.80% and +5.86%, and +16.98% and +3.29%, respectively. 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 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. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 9/30/2023, Direct Line Insurance Group Plc constituted 3.6% of the Ariel Global Concentrated Composite (representative portfolio); GSK plc ADR 6.7%; Michelin SCA 4.4%; Telefonica Deutschland Holding AG 3.8%; Equity Commonwealth 6.7%; Verizon Communications Inc. 5.7%; BNP Paribas SA ADR 3.0%; Check Point Software Technologies Ltd 1.0%; China Feihe Ltd 0.1%; KBC Group N.V. ADR 2.0%; and Haleon PLC 0.0%. 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.

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

Indexes are unmanaged. An investor cannot invest directly in an index. The MSCI ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. Its inception date is December 8, 1997. All 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. 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 indices or financial products. This report is not approved or produced by MSCI.

Ariel Investments

200 E. Randolph St., Suite 2900
Chicago, IL 60601

312.726.0140

- arielinvestments.com
- linkedin.com/company/ariel-investments
- instagram.com/arielinvestments
- twitter.com/arielinvests