

Ariel Global 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 Global Fund may be obtained by visiting our website, arielinvestments.com. For the period ended September 30, 2023 the average annual total returns of Ariel Global Fund (Investor Class) for the 1, 5, and 10-year periods were +15.64%, +3.96%, and +5.65%, respectively.

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. Ariel Global Fund traded -3.16% lower in the quarter, ahead of the -3.40% return posted by its primary benchmark, the MSCI ACWI Index’s, but trailing the -1.76% loss of its secondary benchmark, the MSCI ACWI Value Index.

Ariel’s non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel Global Fund continues to be significantly overweight defensive sectors such as Health Care, Communication Services, Utilities and Consumer Staples, meaningfully underweight Industrials, Information Technology and Consumer Discretionary, as well as lacks exposure Materials and Energy. At the sector level, our cash position and investment choices within Consumer Discretionary and Consumer Staples led the way, while our Communication Services holdings and lack of exposure to Energy were the largest performance detractors.

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, 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.

Peruvian banking franchise, **Credicorp, Ltd.**, also declined in the quarter. Although the company delivered solid earnings results, management anticipates slower loan growth and



higher provisions in the back half of the year due to an increasingly challenging macro backdrop. Our thesis remains focused on Credicorp's attractive long-term earnings potential. The company holds a dominant position in a highly concentrated banking system with many attractive features including low penetration and high returns on equity. Credicorp also continues to invest in digital transformation and accelerate disruptive innovations. Moreover, it views venture capital and the underdeveloped fintech market in Peru as an opportunity to boost growth and enhance shareholder value.

Finally, global pharmaceutical and diagnostics leader, **Roche Holding AG**, weighed on returns in the period on mixed earnings. A miss in the diagnostics segment drove sales slightly lower than consensus, but margins came in ahead and EPS was in-line. Importantly, management reiterated full year guidance. We remain enthusiastic about Roche's growing pharma portfolio and believe the core oncology franchise remains one of the most valuable in the world. The diagnostics segment also continues to demonstrate momentum following a rise in installed platforms during the pandemic. In our view, Roche is a quality defensive name with a rich suite of pipeline opportunities.

Also in the quarter, we initiated a new position in Mexico's leading stock exchange, **Bolsa Mexicana de Valores S.A.B. de C.V. (BMV)**. The company's integrated business model and near monopoly has played a pivotal role in the country's financial market infrastructure, consistently yielding impressive results. With a well-diversified portfolio, robust cost controls, and ongoing initiatives to obtain additional liquidity, we anticipate BMV will deliver steady growth. Additionally, we find BMV's strong financial position, highlighted by its net cash balance sheet and robust free cash flow generation, to be an attractive feature for a long-term investment opportunity.

To pursue higher conviction opportunities and pair back holdings representing less than 1% of the portfolio so each of our resulting holdings may have more impact, we sold our stakes in the following names: British multinational consumer healthcare company, **Haleon plc**, United Kingdom based merchant banking company **Close Brothers Group plc**, multinational pharmaceuticals company **Novartis AG**, China's leading after school tutoring program, **New Oriental Education & Technology Group, Inc.** and China's leading online travel agency (OTA), **Trip.com Group Ltd.**

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 and exchange-traded funds (ETFs) 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 Fund invests may never be recognized by the broader market. The 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.

Per the Fund's Annual Report for the year ended September 30, 2022, Ariel Global Fund's Investor Class had an annual net expense ratio of 1.13% and an annual gross expense ratio of 1.30%. Currently, an expense ratio cap of 1.13% for the Investor Class is in place to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments LLC (the Advisor) is contractually obligated to maintain this expense ratio cap through 9/30/24.

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 2.0% of Ariel Global Fund; GSK, plc 5.3%; Michelin SCA 4.2%; Verizon Communications Inc. 4.5%; Credicorp Ltd. 3.1%; Roche Holding AG 4.7%; Bolsa Mexicana de Valores SAB de CV 0.0%; Close Brothers Group PLC 0.0%; Haleon PLC 0.0%; New Oriental Education & Technology Group, Inc. 0.0%; Novartis AG 0.0%; and Trip.com Group Ltd 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 Ariel Global Fund.

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 company's 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.

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