Ariel investments

Quarterly Commentary

Ariel International 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 International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended September 30, 2023 the average annual total returns of Ariel International Fund (Investor Class) for the 1-, 5, and 10-year periods were +16.78%, +0.66%, and +2.39%, 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 International Fund declined -4.55% in the quarter, lagging both its primary benchmarks, the MSCI EAFE and MSCI ACWI ex-US indices, which returned -4.11% and -3.77%, respectively. It also trailed both of its secondary benchmarks, the MSCI EAFE Value Index and the MSCI ACWI ex-US Value Index, which returned +0.59% and -0.07%, respectively.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchise-quality companies that are misunderstood and mispriced. Ariel International Fund is significantly overweight Utilities, Communication Services, Health Care, Consumer Staples and Consumer Discretionary. The portfolio is meaningfully underweight Industrials, Energy, Information Technology and Real Estate as well as lacks exposure to Materials. At the sector level, our Consumer Staples holdings led the way, while investment choices within Financials and our cash allocation were the greatest detractors from performance over the trailing one-year period.

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.

French multinational tire manufacturer, **Michelin SCA**, also 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.

Additionally, Japanese auto manufacturer, **Subaru Corporation**, advanced over the period on solid financial results. Despite semiconductor chip shortages, management noted production and vehicle sales remain on track to meet the company's full year outlook. Additionally, the company expressed its intention to push ahead its electric vehicle (EV) strategy and boost U.S. production capacity. We remain focused on Subaru's solid business fundamentals and view its EV roadmap as a long-term opportunity to increase market share.

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.

Global pharmaceutical and diagnostics leader, **Roche Holding AG**, also 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

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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.

Finally, Dutch international grocer, **Koninklijke Ahold Delhaize N.V.**, traded lower in the quarter. Despite the delivery of robust earnings results, food inflation is slowing and some investors are concerned the back half of the year will be more challenging. We continue to believe Ahold's strong market share, stable business model and solid balance sheet should help the company navigate the current market environment. We also think there is potential for Ahold to unlock additional value through its online channel, bol.com.

Also in the quarter, we established a new position in Singapore-based, niche electronics manufacturing service provider, **Venture Corporation Ltd.** The company has a diversified customer base, generates industry leading margins and is consistently recognized for solid execution. Macro headwinds and near-term demand weakness provided us an attractive entry point in the name. In our view, Venture Corporation can attract test & measurement and life-science customers, which are largely underpenetrated due to complex specification and regulatory requirements. We also see upside with Philip Morris, one of the company's key customers, as they roll out their electronic cigarette product, IQOS, in the US. Additionally, we find Venture Corporation's strong financial position, highlighted by its net cash balance sheet to be a plus 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: Chilean Bank, **Banco Santander Chile**, United Kingdom based merchant banking company **Close Brothers Group plc**, Japan-based construction and property management company, **Daito Trust Construction Co., Ltd.**, Canada based **Element Fleet Management**, international pharmaceutical company **H. Lundbeck A/S**, food distributor and specialized retailer, **Jeronimo Martins (JM)**, 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 International Fund Investor Class had an annual net expense ratio of 1.13% and an annual gross expense ratio of 1.28%. Currently, an expense ratio cap of 1.13% is in place for the Investor Class 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 4.2% of Ariel International Fund; Michelin SCA 5.8%; Subaru Corporation 4.7%; Telefonica Deutschland Holding AG 3.1%; Roche Holding AG 5.8%; Koninklijke Ahold Delhaize NV 4.9%; Venture Corporation, Ltd. 0.3%; Banco Santander Chile 0.0%; Close Brothers Group PLC 0.0%; Daito Trust Construction Co Ltd 0.0%; Element Fleet Management Corporation 0.0%; H. Lundbeck A/S 0.0%; Jeronimo Martins SGPS SA 0.0%; New Oriental Education & Technology Group, Inc. 0.0%; Novartis AG 0.0%; and Trip.com Group Ltd 0.0%.

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 EAFE® Index is an equity index of large and mid-cap representation across 21 Developed Markets (DM) countries around the world, excluding the U.S. and Canada. Its inception date is May 31, 1986. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-US Index is an index of large and mid-cap representation across 22 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI ex-US Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 22 Developed and 24 Emerging Markets 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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