Ariel Small Cap Value

Quarter Ended September 30, 2023

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. The Ariel Small Cap Value Tax-Exempt Composite declined -7.53% gross of fees (-7.76% net of fees) in the quarter, trailing both the Russell 2000 Value Index and the Russell 2000 Index, which returned -2.96% and -5.13%, respectively.

Live entertainment, media and technology company, **Sphere Entertainment Co. (SPHR)** was the top contributor during the quarter. Shares jumped following news the Las Vegas venue was on track to open in late September and costs were in-line with expectations. Additionally, the company delivered a profitable fourth quarter relative to the loss posted a year ago. While the Sphere venue will take some time to reach its full potential, the company is planning to have events 365 days a year. In addition to hosting concert residencies, marquee sporting and corporate events, The Sphere Experience will debut in October, consisting of a series of exhibits chronicling technology's impact on the development of human potential. Management also believes there is a significant opportunity for advertising and sponsorship on the Exosphere (the Sphere's exterior) as well as licensing interior VIP hospitality suites. Meanwhile, U2 opened to great fanfare on September 29th – sending shares even higher into the month of October. In our view, the Sphere's new experiential immersive venue and the company's two regional sports and entertainment networks present a long-term opportunity, which remains meaningfully underappreciated at current trading levels.

Toy manufacturer, **Mattel, Inc. (MAT)**, also advanced 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.

Logistics and cash management services provider, **Brink's Company (BCO)**, also traded higher in the period on an earnings beat, highlighted by record second quarter revenue and operating profit. Management reaffirmed full-year guidance and remains focused on improving the customer experience, enhancing productivity, driving additional growth through digital retail solutions and ATM managed services, as well as improving free cash flow conversion. At today's valuation, BCO still trades at a discount to our estimate of private market value.

Alternatively, shares of luxury adventure travel services company, **Lindblad Expeditions Holdings, Inc. (LIND)**, weighed on results in the period. We believe this recent price action runs counter to the company's solid business fundamentals. LIND reported revenue and EBITDA ahead of Wall Street expectations. Future travel reservations continue to be strong with both booking trends and pricing for 2023 ahead of pre-pandemic levels. Although more expensive fuel prices and an uptick in discounting from certain competitors may present short-term headwinds, cancelation rates are slowly improving and should result in higher cruise occupancy. Longer-term, we expect LIND's fundamentals will pave the way for multiple expansion as the company extends its market share in the expedition tourism niche. At today's valuation, we believe LIND's risk/reward is skewed sharply to the upside.

Leading direct-to-consumer pool and spa care services company in the U.S., **Leslie's Inc. (LESL)**, also declined in the period following a preannounced earnings miss. Unfavorable weather across key markets and increased price

[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).

sensitivity has resulted in weaker than expected store and website traffic trends. Investor concerns regarding the potential deflation on the price of chlorine further weighed on shares. In response to these results, management is reducing inventory, cutting costs and installed a new CFO. We believe our thesis on the name remains intact. In our view, the company continues to differentiate itself through its loyal client base, vertically integrated supply chain, scale advantage and seamless customer experience.

Lastly, Cruise ship operator, **Norwegian Cruise Line Holdings Ltd. (NCLH)** traded lower in the quarter. The stocks strong price appreciation–up 34.64% year-to-date–drove profit taking following an underwhelming outlook relative to Royal Caribbean Group's upward guidance revision. Notably, NCLH continues to deliver record cumulative bookings as well as increased occupancy capacity at higher prices. The company remains focused on right sizing its cost base and improving margins to strengthen its foundation for sustainable and profitable growth. Meanwhile, the company executed on its leadership succession plan, with 15-year veteran, Harry J. Sommer's recent appointment to CEO. With an experienced management team at its helm, a young average fleet and solid liquidity position, we remain enthusiastic about the name.

Also in the quarter, we initiated a new position in boutique asset manager, **Affiliated Managers Group, Inc. (AMG)**. AMG has a unique business model in which it purchases meaningful equity interests in boutique asset management firms and in return receives a fixed percentage of revenues. The Company's partnership approach allows for its affiliates' management teams to own significant equity while maintaining operational independence. We believe AMG's size and scale allow the company to be the leading destination for growing boutique firms addressing succession issues and/or seeking assistance in marketing, distribution and product development. In our view, investors currently underappreciate the company's active and alternative-asset affiliate business model.

By comparison, we exited niche supplier of highly-engineered electronic components, **Methode Electronics, Inc. (MEI)** to pursue higher conviction opportunities.

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 small-cap companies is more risky and volatile than investing in large cap companies. 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 9/30/23 the performance (net of fees) for the Ariel Small Cap Value Tax-Exempt Composite for the 1-, 5-, and 10-year periods was +16.89%, +3.89%, and +6.53%, respectively. For the period ended 9/30/23 the performance for the Russell 2000 Value Index and the Russell 2000 Index for the 1-, 5-, and 10-year periods was +7.84%, +2.59%, and +6.19, and +8.93%, +2.40%, and +6.65%, 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 Small Cap Value Tax-Exempt Composite differs from its primary benchmark in that it has fewer holdings and more concentration in fewer sectors.

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 9/30/23, Sphere Entertainment Co. constituted 2.3% of the Ariel Small Cap Value Tax-Exempt Composite (representative portfolio); Mattel, Inc. 4.7%; Brink's Company 5.3%; Lindblad Expeditions Holdings, Inc. 3.7%; Leslie's, Inc. 2.5%; Norwegian Cruise Line Holdings Ltd. 3.5%; Affiliated Managers Group, Inc. 1.2%; and Methode Electronics, Inc. 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 Small Cap Value Tax-Exempt Composite.

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 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios, lower forecast growth and lower sales per share historical growth. Its inception date is June 1, 1993. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is January 1, 1984. 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.

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SLOW AND STEADY WINS THE RACE