Ariel International Fund
Ariel Global Fund

As of December 31, 2022

Rupal J. Bhansali
Chief Investment Officer
International & Global Equities

Performance (%)

			Annualized			
	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel International Fund						12/30/2011
AINTX Investor Class	**14.35**	**-11.33**	**-0.41**	**0.11**	**4.05**	**4.07**
AINIX Institutional Class	**14.49**	**-11.11**	**-0.17**	**0.35**	**4.30**	**4.33**
MSCI EAFE Net Index	17.34	-14.45	0.87	1.54	4.67	5.76
MSCI ACWI ex-US Net Index	14.28	-16.00	0.07	0.88	3.80	4.92
MSCI EAFE Value Net Index	19.64	-5.58	0.65	0.17	3.51	4.72
MSCI ACWI ex-US Value Net Index	15.70	-8.59	0.06	-0.05	2.72	3.94
Ariel Global Fund						12/30/2011
AGLOX Investor Class	**10.93**	**-5.47**	**4.31**	**4.35**	**7.35**	**7.18**
AGLYX Institutional Class	**11.03**	**-5.24**	**4.59**	**4.61**	**7.63**	**7.46**
MSCI ACWI Net Index	9.76	-18.36	4.00	5.23	7.98	8.69
MSCI ACWI Value Net Index	14.21	-7.55	3.30	3.47	6.42	7.22

2022 Year End Review

2022 was a wake-up call for the global economy. Major declines across the S&P 500 and MSCI Indices forced investors to wrestle with the long-term consequences of an overvalued and overleveraged stock market. Despite a difficult and downbeat macroenvironment marked by unexpected war and inflation, our international and global portfolios delivered capital preservation and relative outperformance. Looking ahead, we feel confident in our 2023 positioning. We continue to steer clear of what we call the four Ls: companies with losses, excess leverage, lofty valuations, and liquidity risk.

For the year ending December 31, 2022, Ariel International Fund (Investor Class) declined -11.33%, well ahead of the MSCI EAFE Index, which fell -14.45%, and the MSCI ACWI ex-US Index, which dropped -16.00%. Similarly, Ariel Global Fund (Investor Class) returned -5.47%, outperforming the MSCI ACWI Index's -18.36% loss.

Our Contributors and Detractors

Our top contributors in 2022 came from different sectors and geographies. Our Communications and Consumer Staples names were strong in Ariel International Fund. Likewise, we benefited from stock selection amongst our Financial, Consumer Discretionary and Technology companies in Ariel Global Fund. More specifically, in Consumer Staples, **Phillip Morris** stood out as demand for less harmful, next-generation smoke-free products continued to gain acceptance. Financial holding, **BB Seguridade**, outperformed despite an uncertain political backdrop in Brazil. The company consistently delivered strong operational and financial results and we continue to believe it is in the early innings of a long-term growth story driven by the wealth and savings of a burgeoning middle class. In Ariel Global Fund, **Gilead Sciences Inc**. was boosted by incremental success in its HIV and oncology initiatives.

Our weakest names were impacted by short-term dislocations. The Russia-Ukraine war's supply chain disruptions hurt the automobile industry and therefore negatively affected French tire manufacturer **Michelin's** performance. However, we believe Michelin's strong global competitive positioning will drive long-term value. Global pharmaceutical and diagnostics leader, **Roche Holding AG** also traded lower on disappointing test results for the company's Alzheimers drug to treat dementia, as well as the announced departure of the Pharma Division CEO. Although it is important to remind investors drug trials occasionally have less than favorable outcomes, we remain constructive on the rest of Roche's pharma portfolio. The core oncology franchise is performing well, and the diagnostics segment continues to demonstrate strong growth momentum as it experiences a further normalization of post-pandemic trends. In our view, Roche is a quality defensive name with a rich suite of best-in class pipeline opportunities.

Finally, **Direct Line Insurance Group** underperformed as claims inflation in the United Kingdom (UK) hurt the company's profit margins, causing it to subsequently report an unexpected profit warning. The announcement was driven by higher claims within the home insurance business due to unusual, below-freezing temperatures in the UK throughout December. As a result of these trends, solvency ratios are at the lower end of management's desired range, causing the company to cancel their final dividend for 2022. While we expect these adverse factors to normalize if not reverse over the course of 2023, a recovery in earnings will likely be more back-end loaded than we anticipated. Although we are disappointed with these developments, we continue to hold the shares as we believe the stock is materially undervalued relative to its normalized earnings power. While 2022 presented challenges across several sectors, we stayed true to our knitting and focused on our research and business fundamentals.

Our underweight in Technology was a proof point last year. Higher interest rates disproportionally hit tech companies, specifically the FAANG stocks. **Meta Platforms, Inc** (Facebook)**, Apple Inc., Amazon.com Inc., Netflix, Inc,** and **Alphabet Inc.** (Google) all posted double-digit declines in 2022.[1] Meta was among the worst of the group with its stock plummeting 65%. Meanwhile, Amazon and Netflix followed, declining -64% and -51% respectively.[2] Recessionary fears led to pullbacks in advertiser spending, negatively impacting the revenue of the tech giants with advertising-led business models. Overall, the tech industry lost over $7 trillion in market cap in 2022.[3] We anticipate more layoffs, valuation dips and, assuming a recession in 2023, lower earnings.

Although **Microsoft Corporation** was our top detractor in Ariel Global Fund, we believe the stock is an outlier. Unlike the growthier names with ad-driven business models, it is an enterprise platform technology company with solid fundamentals and a distinct long-term outlook. The value proposition for its hybrid cloud infrastructure Azure has yet to materialize and will have a multi-year impact as more Fortune 500 corporations transition to the cloud. Our research shows a significant upside in the price.

There is Nothing New Under the Sun

Last year, the international and global equity landscape presented dynamics similar to what we have witnessed over decades of investing. With inflation at levels not seen since the early 1980s, eradicating current inflationary issues under Jerome Powell may be as painful and extended as it was under Former Federal Reserve Chair Paul Volcker. Likewise, US valuation bubbles in 1999 and 2007 resemble the valuation multiples of 2020 and 2021. In early 2022, growth stock valuations reached frothy levels. The MSCI World Growth Index traded at 31 times expected earnings, compared to only 14 times expected earnings for the MSCI World Value Index. By year-end, valuations had fallen to 21 and 12 times, respectively.[4] Finally, one could draw parallels to the overly stimulative monetary policies in 1999, 2007, and today. The major difference is the excessive speculation in technology and internet-based companies (FAANGs), meme stocks, cryptocurrencies, and SPACs, rather than traditional assets such as real estate.

2023 Outlook: Defense is the Best Offense

Looking to 2023, managing risk will be as important as managing returns. Quantitative Tightening[5] (QT) may drive a deeper dagger into the heart of the cyclical excesses of the last two years to annihilate high inflation rates globally. In our view, as earnings fall and multiples compress, investors should focus on capital preservation rather than appreciation. This means avoiding long-duration assets such as growth stocks and favoring short-duration value companies with compelling dividend yields. We believe 2023 will be another resilient year for our international and global portfolios as our bottom-up investment process seeks to eliminate risky businesses (as categorized by the four Ls) and embrace quality names. While we are bearish on the broader market, we are bullish on active management. We believe the next few years are likely to be very beneficial for stock pickers as market sell-offs hurt passive but create opportunities for patient, active investors.

[1] Gunjan Banerji and David Maraino-Nachison, "For Divng FAANG Stocks, It's the End of an Era," *The Wall Street Journal,* October 27, 2022, Accessed January 14, 2023. https://www.wsj.com/livecoverage/stock-market-news-today-10-27-2022-us-economy-gdp-q3/card/faang-stocks-fall-V1mVeZ2CrRFp6JXVvKpF.
[2] "FAANG in 2023: How have shares performed and what to expect?" INDMoney.com. Last modified January 18, 2023. https://www.indmoney.com/articles/us-stocks/faang-in-2023-how-have-shares-performed-and-what-to-expect.
[3] Rohan Goswani, "Tech's reality check: How the industry lost $7.4 trillion in one year," CNBC.com, Last modified November 25, 2022, https://www.cnbc.com/2022/11/25/techs-reality-check-how-the-industry-lost-7point4-trillion-in-one-year.html.
[4] Mike Bell, "Markets Review," JP Morgan Asset Management, January 3, 2022, https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/market-insights/mi-monthly-market-review.pdf
[5] Quantitative Tightening refers to policies that reduce the size of the Fed's balance sheet. Source: Federal Reserve Bank of St. Louis

We appreciate the opportunity to serve you and welcome any questions you might have.

Investments in foreign securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, and foreign 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 Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and the Funds' 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.

As of September 30, 2022, Ariel International Fund's Investor Class and Institutional Class had gross annual expense ratios of 1.28% and 0.93%, respectively. As of September 30, 2022, Ariel International Fund's Investor Class and Institutional Class had annual net expense ratios of 1.13% and 0.88% respectively. As of September 30, 2021, Ariel International Fund (Investor Class) had an annual net expense ratio of 1.13% and a gross expense ratio of 1.30%. As of September 30, 2021, Ariel International Fund (Institutional Class) had an annual net expense ratio of 0.88% and a gross expense ratio of 0.93%. As of September 30, 2022, Ariel Global Fund's Investor Class and Institutional Class had gross annual expense ratios of 1.30% and 0.94%, respectively. As of September 30, 2022. Ariel Global Fund Investor Class and Institutional Class had net annual expense ratios of 1.13% and 0.88%, respectively. As of September 30, 2021, Ariel Global Fund (Investor Class) had an annual net expense ratio of 1.13% and a gross expense ratio of 1.36%. As of September 30, 2021, Ariel Global Fund (Institutional Class) had an annual net expense ratio of 0.88% and a gross expense ratio of 0.95%. Currently, expense ratio caps of 1.13% for the Investor Class and 0.88% for the Institutional Class of these Funds are in place to waive fees and reimburse certain expenses that exceed these caps. Ariel Investments, LLC (the Adviser) is contractually obligated to maintain these expense ratio caps 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.

As of 12/31/22, Ariel International Fund held the following positions referenced: Roche Holding AG 7.0%; Phillip Morris International 6.8%; Michelin (CGDE) 5.6%; Direct Line Insurance Group plc 4.1% and BB Seguridade Participacoes SA ADR 0.3%. As of 12/31/22, Ariel Global Fund held the following positions referenced: Microsoft Corporation 7.8%; Phillip Morris International 5.9%; Roche Holding AG 5.7%; Michelin (CGDE) 3.7%; Gilead Sciences, Inc. 3.4%; BB Seguridade Participacoes SA 2.1% and Direct Line Insurance Group plc 2.0%.

Each Fund's primary index is the first one listed below each respective Fund's performance data. Indexes are unmanaged. Investors 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) 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 (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. The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 25 Emerging Markets (EM) countries. Its inception date is December 8, 1997. 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. *Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current summary prospectus or full prospectus that contains this and other information about the funds offered by Ariel Investment Trust, call us at 800-292-7435 or visit our website, arielinvestments.com. Please read the summary prospectus or full prospectus carefully before investing. Distributed by Ariel Distributors LLC, a wholly owned subsidiary of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.*