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Vice Chairman
Portfolio Manager

	Performance (%)			Annualized		
	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Focused Value						03/31/2005
Gross of Fees	11.48	-8.87	6.05	5.85	9.71	6.95
Net of Fees	11.30	-9.45	5.37	5.17	8.97	6.08
Russell 1000® Value Index	12.42	-7.54	5.96	6.67	10.29	7.45
S&P 500® Index	7.56	-18.11	7.66	9.43	12.56	9.04

Watch the Money Supply

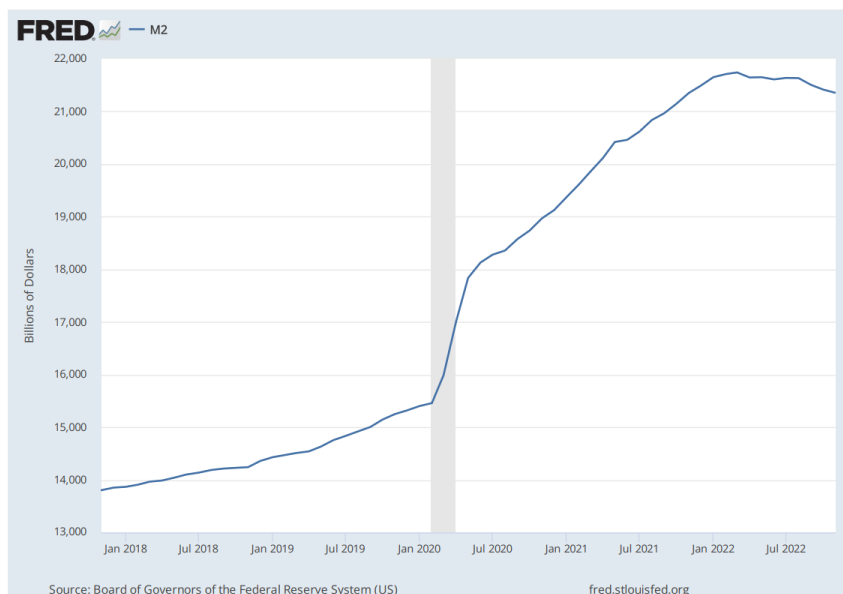
For the fourth quarter ending December 31, 2022, the Ariel Focused Value Composite returned +11.48% gross of fees (+11.30% net of fees), fractionally behind the Russell 1000 Value Index, which rose +12.42%, and well ahead of the S&P 500 Index which gained +7.56%. For the year, the Ariel Focused Value Composite declined -8.87%, trailing a loss of -7.54% for the Russell 1000 Value Index but significantly ahead of the S&P 500 Index, which fell -18.11%. For both the quarter and year, Ariel Focused Value was helped by an emphasis on companies that do well in an inflationary environment, and by avoiding those businesses negatively impacted by rising interest rates. Detractors from performance generally included economically sensitive companies, particularly housing, as the market closed out the year amidst rising concerns of a Federal Reserve induced recession.

Fundamentally, we are “bottom up” stock pickers. We seek to purchase companies with sustainable competitive advantages trading at discounts to our calculation of intrinsic value. There are times, however, when broad macroeconomic themes have a disproportionate effect on our portfolio. This is clearly one of those times. As such, much of this letter will discuss our outlook for some of these macro themes, particularly inflation, and will conclude with an update on individual companies whose performance impacted our returns.

This letter marks an inflection point in our assessment of inflation, the macro factor which has recently had the largest impact on the US stock market. For the first time in two years, we believe inflation has peaked and is beginning to decline. Our changing view directly results from a shift in Federal Reserve policy. Specifically, the money supply has actually decreased modestly since March of 2022. Simultaneously, the supply of goods and services available in the US economy is slowly recovering to pre-Covid levels. If inflation is caused by “too much money chasing too few goods,” we currently are seeing marginally less money chasing marginally more goods, producing a marginal drop in our expectation for the future rate of inflation.

To understand where we are going, we must understand where we have been and how we got here. The chart below shows the Federal Reserve Bank of St. Louis’ calculation of M2, a broad definition of money that includes cash and “near-cash” such as checking accounts, savings accounts, and certificates of deposit.

M2 Money Supply – January 2018 through November 2022



In February 2020, M2 stood at \$15.5 trillion after years of steady, low single-digit percentage increases. That period of a stable money supply ended with the onset of Covid. The Federal government and Congress responded to a mostly closed US economy by dramatically increasing spending through a series of Covid relief bills. Simultaneously, the Federal Reserve initiated a program of Quantitative Easing (“QE”) where each month the Fed purchased bonds in the open market, thereby increasing the amount of money in circulation. The M2 money supply grew from \$15.5 trillion in February to \$17.8 trillion in May. This was a rational and appropriate response from the Fed. What followed, however, was not appropriate, in our view. From May 2020 to March 2022, the Fed purchased an additional \$120 billion of bonds each month, taking M2 from \$17.8 trillion in May of 2020 to \$21.7 trillion by March of 2022—a 40% increase in the money supply in a little more than two years. We thought high inflation was inevitable, and unfortunately, we got what we expected.

In the Spring of 2022, the Fed realized its mistake in characterizing inflation as “transitory.” It abruptly shifted from a policy of Quantitative Easing to one of Quantitative Tightening based on bond sales and a shrinking money supply. Since March of 2022, M2 has declined from \$21.7 trillion to \$21.3 trillion in November. We believe changes in the money supply affect macro factors, but only after a lag that could be as long as six to twelve months. We are already seeing the effects and expect inflation to decline through next year.

While our expectation of higher inflation and resulting investments in natural resource companies helped performance in 2022, our anticipation of a healthy US economy did not. At the end of 2021, our conversations with our portfolio company managements suggested general optimism. Healthy labor markets, strong consumer balance sheets and pent-up demand from Covid restrictions led us to believe it would be a good year for companies serving US consumers. We were particularly bullish on the demand for housing, both remodeling and new construction. This led us to initiate a new position in **Resideo Technologies, Inc. (REZI)**, the recently spun off thermostat business of Honeywell, Inc.; followed by a new position in **Generac Holdings, Inc. (GNRC)**, the back-up residential generator manufacturer. These, combined with a longstanding holding in flooring manufacturer **Mohawk Industries, Inc. (MHK)**, gave us significant exposure to the US housing market. When the Fed announced plans for increases in interest rates, short-term investors punished housing stocks on expectations of higher mortgage rates and falling home prices. Mohawk, Generac and Resideo were three of our four largest detractors on an absolute basis dropping -43.89%, -58.94%, and -36.80% respectively for the year.

Our Outlook

Currently, our outlook for 2023 can best be described as “long-term optimistic, short-term cautious.” On the positive side of the ledger, we believe our portfolio is attractively priced, trading at less than 11 times forward earnings as we go to print. As natural contrarians, we also view a general level of negativity in the market as a positive, with vocal predictions of a Fed-induced recession. Often widespread pessimism is a positive contrarian predictor of future performance. On the negative side, there is no denying the Fed’s intent to slow down the US economy through higher interest rates and an overheated labor market. We believe the Fed is in danger of making a serious policy mistake. Inflation came from excess money supply, not an overheated jobs market. Wage increases

have actually trailed overall inflation. But there is no denying that if the Fed wants to bring on a recession, it can. The adage, “Don’t fight the Fed,” is widely repeated for a reason. Watch for short-term volatility as we navigate a tricky economic landing followed by solid equity returns when the tightening stops.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small- and mid-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. A focused portfolio may be subject to greater volatility than a more diversified investment.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of the Ariel Focused Value Composite has been reduced by the amount of the highest fee charged to any client in the Composite during the performance period. 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 Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated 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.

As of 12/31/22, the Ariel Focused Value Composite (representative portfolio) held the following positions referenced: Resideo Technologies 3.45%; Mohawk Industries, Inc. 3.34% and Generac Holdings, Inc. 1.28%. The 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 Focused Value Composite.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is January 1, 1987. 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.