Ariel Focus Fund

Quarter Ended December 31, 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 Focus Fund may be obtained by visiting our website, arielinvestments.com. For the period ended December 31, 2023 the average annual returns of Ariel Focus Fund (investor class) for the 1, 5, and 10 year periods were +6.97%, +9.57%, and +5.90%, respectively.

Markets worldwide defied expectations in 2023 led by the dominating performance of mega-cap technology stocks known as the "magnificent seven.[1]" Even though gains have been concentrated, improving inflation data and dovish comments from the Federal Reserve drove a fourth quarter rally and strong finish to the year. Investor sentiment has shifted from fears of a recession towards optimism for a soft landing. Such turns in market psychology and economic forecasts continue to highlight the challenges of market timing and the importance of taking a long-term view. Although uncertainty and volatility are likely to remain elevated, the patient investor knows "stock prices trade on fundamentals. And when those solid fundamentals shine through, share prices rise.[2]" Against this backdrop, Ariel Focus Fund advanced +11.05% in the quarter, ahead of the +9.50% return posted by Russell 1000 Value Index, but trailing the +11.69% gain of the S&P 500 Index. Over the trailing one-year period, Ariel Focus Fund increased +6.97%, underperforming both the Russell 1000 Value and S&P 500 indices, which returned +11.46% and +26.29%, respectively.

Several stocks in the portfolio had strong returns in the quarter. Manufacturer and distributor of medical devices specializing in spine and dental products, **ZimVie, Inc. (ZIMV)**, advanced following a top- and bottom-line earnings beat and subsequent increase in full year guidance. Also in the quarter, ZIMV announced an agreement to sell its Spine business to an alternative investment firm, further aiding shares. Management believes the deal will be accretive to ZIMV's revenue growth, EBITDA margin and cash flow conversion, enabling it to streamline operations and use the sale proceeds to pay down debt. We believe the divestiture allows ZIMV to reshape its portfolio as a pure-play dental company in higher-growth end markets with the best long-term growth potential.

Global investment bank, **Goldman Sachs Group, Inc. (GS)**, also increased in the period on solid earnings results. The top-line came in strong led by elevated financing activity and an improvement in advisory revenues, despite weak transaction volumes within the investment banking segment. Should conditions remain conducive, management remains cautiously optimistic the business will experience continued recovery in both capital markets and strategy activity. Meanwhile, GS continues to successfully execute on its strategic initiatives to improve the overall return of the company. It is right sizing headcount and narrowing its ambitions in consumer strategy through divestitures and an enhanced focus on driving profitability in Platform Solutions by 2025. With potential regulatory capital constraints from B3E, GS noted it will reign in buybacks over the short-term but maintain its dividend. Looking ahead, we continue to view the near and long-term outlook for Goldman as attractive at current levels, given favorable business trends, continued positive momentum on strategic initiatives and active expense/capital management programs.

Additionally, manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK),** traded up in the period following a top- and bottom-line earnings beat. Although consumer demand and pricing remains muted due to a challenging macro backdrop, higher than expected sales

---

[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).

[2] Hobson, Mellody and John W. Rogers Jr. "What the Stock market Taught Us This Year: Don't Fall for These Investing Traps." *Wall Street Journal*, 5 December 2023. https://www.wsj.com/finance/investing/stock-market-2023-lessons-investing-2cedd44f

volumes and cost deflation more than offset these headwinds. Management also expects 2024 margins will experience tailwinds from lower cost inventory and remains optimistic volumes will increase as the housing market improves over time. In our view, MHK's healthy balance sheet and success managing through economic cycles have the company well positioned to benefit from long-term growth in residential remodeling, new home construction and commercial projects. At current levels, MHK is trading at a -57% discount to our estimate of private market value.

There were a few notable performance detractors in the quarter. Oil and natural gas explorer, **APA Corporation (APA)**, declined despite delivering healthy earnings results, the operational momentum was overshadowed by a softer than expected 2024 outlook for oil production. Investors were also disappointed with the flat capital expenditure guide for 2024, as management decided to reallocate savings from the North Sea to the Permian Basin. Meanwhile, APA continues to express confidence in the Suriname development and is working with TotalEnergies to complete a plan for the oil hub. Looking ahead, APA is focused on higher-margin oil developments, driving safety and operational improvements, and prioritizing a reduction in carbon intensity. At current valuation levels, APA is trading at a discount to our private market value estimate.

Leading supplier of solutions for combustion, hybrid and electric vehicles **BorgWarner, Inc. (BWA)**, declined in the period. Softer than expected earnings results and a reduction to both near and mid-term guidance driven by recent launch delays for new electric vehicles and slower sales momentum by several original equipment manufacturers weighed on shares. Nonetheless, management still expects electric vehicle sales of over $10 billion annually by 2027. Despite slower than anticipated EV adoption, we believe BWA remains well positioned near-term to benefit from its low-emission, combustion and hybrid vehicle product offerings and expect the company will grow intrinsic value throughout the evolution in the hybrid and EV market.

Global leader in money transfer services, **Western Union Company (WU)**, traded lower in the period, despite the delivery of solid earnings and a subsequent raise in full year guidance. These results were aided by regulatory change in Iraq and margin expansion in the retail business. Meanwhile, management continues to make progress executing on its Evolve 2025 Strategy and continues to return capital to shareholders through dividends and share repurchases. Although the company anticipates the macroeconomic environment will continue to slow, it reminded investors remittances have proved resilient in prior periods of economic contraction. At current levels, WU is trading at a discount to our estimate of private market value.

We did not initiate any new positions in the quarter, however we did exit consumer health company, **Kenvue, Inc. (KVUE)**, to deploy cash into more compelling opportunities.

As the pendulum of worry swings from one scenario to another, our focus on recent headlines and macroeconomic developments is to consider their effect on the long-term intrinsic worth of our holdings over the next five-to-ten years. As rates begin to subside in 2024 and beyond, we believe the gap between mega-cap stocks and their small to mid-cap counterparts will begin to narrow, fortified by consumer confidence, wages that are not likely to go down, as well as slowing, yet steady long-term economic growth. Despite the continued concentration of the U.S. equity market, our 41 years of patient investing spanning five market cycles–the crash of 1987, the dot-com era, the global financial crisis, the U.S. debt downgrade and the Covid plunge–have taught us the fundamental principles of investing are resilient. We believe the disciplined investor that stays the course and consistently owns differentiated, quality business models with robust balance sheets will outperform in the long run.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small and mid cap companies is riskier and more volatile than investing in large cap companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified investment. The Fund is often concentrated in few sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

Per the Fund's Annual Report for the year ended September 30, 2022, the Fund's Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.13%. Currently, expense ratio cap of 1.00% for the Investor Class is in place to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments, LLC (the Adviser) is contractually obligated to maintain this expense ratio cap through 1/31/25.

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 12/31/23, ZimVie, Inc. constituted 2.5% of Ariel Focus Fund; Goldman Sachs Group, Inc. 6.5%; Mohawk Industries, Inc. 4.8%; APA Corporation 5.2%; BorgWarner, Inc. 3.2%; Western Union Company 3.4%; and Kenvue 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 Ariel Focus Fund.

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 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.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary prospectus which 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 prospectus or summary 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.

Ariel Investment Trust

c/o U.S. Bank Global Fund Services
P.O. Box 701
Milwaukee, WI 53201-0701

800.292.7435

- arielinvestments.com
- linkedin.com/company/ariel-investments
- instagram.com/arielinvestments
- twitter.com/arielinvests

SLOW AND STEADY WINS THE RACE