# Ariel Mid Cap Value

## Quarter Ended December 31, 2023

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, the Ariel Mid Cap Value Composite traded up +10.79% gross of fees (+10.52% net of fees) in the quarter, lagging both the Russell Midcap Value and Russell Midcap indices, which returned +12.11% and +12.82%, respectively. Over the trailing one-year period, the Ariel Mid Cap Value Composite advanced +11.70% gross of fees (+10.59% net of fees), trailing both the Russell Midcap Value Index and the Russell Midcap Index which returned +12.71% and +17.23%, respectively.

Alternative asset manager, **Carlyle Group Inc. (CG)**, advanced over the quarter following a solid earnings beat, highlighted by positive investment performance across all its major product lines and continued progress on previously articulated cost savings initiatives. Management also guided to higher transaction and advisory revenues to close out 2023. We believe these results reflect early signs of execution across a number of the strategic initiatives and expect CG will deliver continued growth and margin expansion over time.

Alternative asset manager, **KKR & Co. (KKR)**, also traded higher following solid earnings results in a challenging market environment. This performance was supported by improving trends for fundraising, deployment and monetization in the asset management business. KKR also agreed to acquire the remaining stake in its insurance affiliate, Global Atlantic, which we believe will drive organic growth opportunities and synergies going forward. Notably, management laid out a goal to double the size of the company twice over the next 10 years, highlighting asset management, insurance and the core private equity business as key drivers.

Additionally, financial services provider, **Charles Schwab Corporation (SCHW)**, advanced in the period. A stronger than expected short-term debt paydown, better than expected net interest income and high confidence SCHW can meet the new upcoming regulatory leverage ratio requirement ahead of expected implementation, more than offset an aggregate decline in cash balances and a downward revision to full-year guidance. In our view, SCHW's risk/reward is skewed to the upside and expect the company to flex its scale and customer-centric focus in support of its industry leading cost advantage. We also think the TD Ameritrade acquisition will continue to create incremental value and further enhance SCHW's marketplace standing and long-term growth trajectory.

Alternatively, several positions weighed on performance. Shares of oil services company, **Core Laboratories, Inc. (CLB)**, declined in the period on mixed earnings results. Despite contract delays and lower-than-expected activity in the U.S., CLB maintained solid profitability, delivering operating margin expansion. Although the ongoing geopolitical conflict between Russia and Ukraine, as well as associated European and U.S. sanctions, continue to disrupt the business and create near-term uncertainty, CLB is seeing progress in both onshore and offshore activity across its global operations. We have conviction in the management team's long history of delivering strong operating results, robust free cash flow and returning capital to shareholders.

Toy manufacturer, **Mattel, Inc. (MAT)**, also traded lower in the period. Despite delivering a significant earnings beat, management maintained full-year guidance signaling a lighter-than-expected holiday outlook to investors. Nonetheless, we continue to expect MAT will gain share, improve profitability

[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

and generate higher levels of cash flow in this weaker retail environment. In our view, MAT remains an undervalued company with resilient consumer demand for toys such as Barbie, Hot Wheels and Disney Princesses, as well as an attractive opportunity for future film and TV projects.

Lastly, 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.

We did not initiate or exit any positions in the quarter.

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 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. 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 12/31/23 the performance (net of fees) for the Ariel Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +10.59%, +10.42%, and +6.40%, respectively. For the period ended 12/31/23 the performance for the Russell Midcap Value Index and the Russell Midcap Index for the 1-, 5-, and 10-year periods was +12.71%, +11.16%, and +8.26%, and +17.23%, +12.68%, and +9.42%, 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 Mid Cap Value 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 12/31/23, Carlyle Group, Inc. constituted 2.7% of the Ariel Mid Cap Value Composite (representative portfolio); KKR & Co, Inc. 2.6%; The Charles Schwab Corporation 3.4%; Core Laboratories, Inc. 2.1%; Mattel, Inc. 3.0%; and BorgWarner, Inc. 2.0%. 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 Mid Cap Value 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 Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is February 1, 1995. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is November 1, 1991. 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.

**Ariel Investments**

200 E. Randolph St., Suite 2900
Chicago, IL 60601

312.726.0140

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

SLOW AND STEADY WINS THE RACE