Ariel Small Cap Value Concentrated

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 Small Cap Value Concentrated Composite advanced +11.65% gross of fees (+11.37% net of fees) in the quarter, underperforming both the Russell 2000 Value Index and the Russell 2000 Index, which returned +15.26% and +14.03%, respectively. Over the trailing one-year period, the Ariel Small Cap Value Concentrated Composite increased +18.58% gross of fees (+17.40% net of fees), significantly ahead of the Russell 2000 Value Index's +14.65% gain and the +16.93% return posted by the Russell 2000 Index.

Wellness provider onboard cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)** was a top contributor in the period, driven by its third consecutive earnings beat and subsequent raise in full year guidance. Looking ahead, we expect OSW's spa services to continue to be met with high demand and spend levels, particularly as OSW continues to launch new higher value spa services and occupancy rates increase over time. Meanwhile, management continues to pay down debt and return capital to shareholders through buybacks. At current levels, we see the risk/reward skewed sharply to the upside.

Shares of real estate expert, **Jones Lang LaSalle (JLL)**, also traded higher during the quarter on solid earnings results. Despite a slowdown in transaction and leasing activity due to higher long-term interest rates, the Property Management and Work Dynamics businesses delivered strong fee revenues and the business continues to prudently manage expenditures. Additionally, management highlighted a positive revenue outlook for 2024 and reiterated its 2025 financial targets. Despite the recent macro-uncertainty, company leadership is highly confident about the medium- and longer-term revenue outlook for both transactional and recurring revenue streams, alongside its efforts to streamline operations and increase efficiencies to generate higher profit over time.

Additionally, cruise ship operator, **Norwegian Cruise Line Holdings Ltd. (NCLH)**, advanced in the period. Despite operational and financial disruption from itineraries to Hawaii and Israel, NCLH delivered a top- and bottom-line earnings beat, driven by strong onboard spend and pre-cruise sales. Management also reiterated it remains in a record 12-month forward booking position at higher prices. Meanwhile, NCLH is laser focused on right sizing its cost base and improving margins to strengthen its foundation for sustainable and profitable growth. With a young average fleet and solid liquidity position, we remain enthusiastic about the name.

There were a few notable performance detractors in the quarter. 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,

[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

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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 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.

Finally, shares of live entertainment business, **Madison Square Garden Entertainment Corp. (MSGE)**, fell following an earnings miss. Revenue declined year-over-year due to fewer concerts versus the prior year period which benefitted from ~30 rescheduled performances due to COVID. Excluding the rescheduled shows, the number of events were up mid-teens and revenue per concert continued to increase. As a result of strong demand, the Christmas Spectacular added additional shows and given strong visibility into the event pipeline, management reiterated fiscal full year 2024 guidance. With marquee assets such as New York's Madison Square Garden, Radio City Music Hall, Beacon Theatre and The Chicago Theater, we believe MSGE is well positioned to capitalize on strong live entertainment demand. In our view, MSGE's assets are stable cash flow generators and should enable deleveraging. At current valuation levels, the company is trading at a significant discount to our estimate of private market value.

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 small-cap companies is more risky and volatile than investing in large cap companies. A concentrated portfolio may be subject to greater volatility than a more diversified portfolio. 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 one-year period ended 12/31/23 and since inception on April 30, 2020, the performance (net of fees) for the Ariel Small Cap Value Concentrated Composite was +17.40% and +15.24%, respectively. For the one-year period ended 12/31/23 and since inception on April 30, 2020 of the Ariel Small Cap Value Concentrated Composite, the performance for the Russell 2000 Value Index was +14.65% and +17.74%, respectively. And over the same periods the Russell 2000 Index delivered +16.93% and +14.13%, 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 Concentrated Composite differs from its primary benchmark in that it has dramatically 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, OneSpaWorld Holdings, Ltd. constituted 10.9% of the Ariel Small Cap Value Concentrated Composite (representative portfolio); Jones Lang LaSalle, Inc. 5.4%; Norwegian Cruise Line Holdings, Ltd. 8.3%; Core Laboratories, Inc. 3.3%; Mattel, Inc. 5.2%; and Madison Square Garden Entertainment Corporation 3.6%. 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 Concentrated 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.

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

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