

Ariel investments

	Performance (%) as of December 31, 2023		Annualized			
	QTR	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Fund						11/06/1986
ARGFX Investor Class	13.41	15.81	7.02	10.95	7.54	10.67
ARAIX Institutional Class	13.49	16.16	7.35	11.30	7.87	10.78
Russell 2500™ Value Index	13.76	15.98	8.81	10.79	7.42	10.60
Russell 2500™ Index	13.35	17.42	4.25	11.67	8.36	10.42
S&P 500® Index	11.69	26.29	10.01	15.69	12.03	10.72
Ariel Appreciation Fund						12/01/1989
CAAPX Investor Class	10.70	10.62	6.83	10.28	6.32	9.98
CAAIX Institutional Class	10.76	10.97	7.16	10.62	6.65	10.10
Russell Midcap® Value Index	12.11	12.71	8.37	11.16	8.26	10.80
Russell Midcap® Index	12.82	17.23	5.92	12.68	9.42	10.98
S&P 500® Index	11.69	26.29	10.01	15.69	12.03	10.21

Dear Clients and Friends: We are all familiar with the tale of *Goldilocks* and her quest to get things “just right.” Such was the crusade of Federal Reserve Chairman Jay Powell who, over the last 18 months, worked to raise interest rates just enough to tame inflation without sinking the economy into a recession. Unlike *Goldilocks*, where furniture was broken and tempers flared, Powell has thus far defied the odds by managing a “soft landing” with no real collateral damage. This was no small feat. On the heels of a stunning recovery where the S&P 500 rose +26.29% in 2023, some might have forgotten the S&P 500 was down -18.11% in 2022. At that time, inflation was elevated, interest rates were rising, corporate earnings growth slowing and geopolitical tensions multiplying. The bears—of Wall Street, not *Goldilocks*—were out in full force with “the most advertised recession in history” as a foregone conclusion.¹

Indeed, much of the focus this year was on the Federal Reserve—with investors alternating between enthusiasm and gloom as they anticipated or reacted to Fed moves and meeting notes. Watching the market was like observing a tedious game of cat and mouse. Much like an ominous cat shadow menacing a diminutive house mouse, the macroeconomic environment eclipsed the microeconomic fundamentals. A

¹ Tom Lauricella and Lauren Solberg. “15 Charts On the Surprise ‘Everything Rally’ for 2023,” *Morningstar.com*. January 2, 2024.

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains. 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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Performance data current to the most recent month-end for the Funds may be obtained by visiting our website, arielinvestments.com.

monolithic stock market overshadowed the companies that make up its parts.

Once it became increasingly clear that inflation was deflating and the economy was slowing without contracting, the Fed signaled a change in its hawkish stance, and every market sector except Energy rose in the fourth quarter. Gains expanded beyond the seven celebrity stocks dubbed “the Magnificent Seven” in a November/December gush that one market watcher called “the Fed relief rally.”² Even the long-suffering smaller company stocks finally got some real action, beating the S&P 500 for the three months ending December.

For the quarter, our own portfolios posted nice absolute returns, albeit soft relative to their value and core indices. During the short period, our Funds were penalized by some of our Consumer Discretionary holdings. And yet, for the twelve months ending December 31st, Ariel Fund performed mostly in line with its primary Russell 2500 Value Index but fell short against the growthier Russell 2500 Index for the year. Ariel Appreciation Fund missed on both counts.

Too fast, too soon?

It is funny how the market swings from one extreme to another. A year ago, things looked grim. These days, the pundits are asking if the market has moved too fast, too soon. While double-digit returns in just eight weeks are outsized against the backdrop of performance norms, this market has been so top-heavy that it is not surprising that meaningful gains were eventually unleashed—especially among smaller issues that have been particularly repressed. Given the wide gap in valuations and performance, we believe this run can continue.

First off, this has been a one-note bull market. For over a decade, large company growth stocks have dominated with ever-increasing concentration among fewer and fewer names, upping the performance ante. By now, most know that the seven biggest winners all year were Apple Inc. (AAPL), Alphabet Inc. (GOOGL), Microsoft Corp. (MSFT), Amazon.com, Inc. (AMZN), Meta Platforms Inc. (META), Tesla, Inc. (TSLA) and Nvidia Corp. (NVDA). These expensive shares have been bid up so much that they now comprise one-third of the S&P 500 and account for two-thirds of its 2023 surge. By contrast, nearly three-quarters of the holdings that comprise the S&P 500 underperformed the index. As *The Wall Street Journal* noted, “This not only runs counter to the principle of diversification, but it also means the most important stocks investors own are pricey.”³ To this point, according to JP Morgan, the current forward price/earnings multiple of 26.5x for large growth stocks trades at nearly a 40% premium to the 20-year average of 18.9x.

In our view, this level of concentrated performance and overvaluation screams opportunity—especially when contrasted with the smaller company stocks that have been bit players in this market boom. For the ten-year period ending December 31, 2023, the S&P 500’s +12.03% average annual return is nearly double that of the Russell 2000 Value at +6.76%. The Russell Midcap Value Index has done slightly better, averaging +8.26%, but still trails significantly. Few realize that before the recent year-end rally, “the Russell 2000 . . . [had] been in a bear market since peaking in late 2021.”⁴ As a result, small cap, and especially small cap value shares, trade at deep discounts to their growth stock counterparts as well as their own historical valuations. In fact, at 16.3x forward earnings, small-cap value is the *only* asset class out of the nine style boxes trading below its 20-year average. Meanwhile, at 15.0x next year’s earnings, midcap value stocks are even cheaper on an absolute basis.⁵ Think about it—16.3x for small value, 15.0x for mid value versus 26.5x for large growth. And just like people, the bigger you are, the harder it is to grow. As we noted in our recent *Wall Street Journal* editorial, “. . . the total market cap of the Magnificent Seven is now three times the size of every single stock in the Russell 2000 Index combined—making just seven stocks the equivalent of 6,000 small-cap names.”⁶

When queried about our outlook for the market in 2024, we believe a lot of risk is embedded in the S&P 500. In many ways, the current environment reminds us of the late 90s and early 00s when large caps trounced smaller company shares for years, only to be badly bruised by a small cap comeback. Specifically, “the S&P 500 outpaced the Russell 2000 by eight percentage points a year from 1995 to 2000. But from 2001 to 2004,

² William Power. “Stock Funds Get Back on Their Feet.” *The Wall Street Journal*. December 4, 2023. Page R2.

³ Jon Sindreu. “The Magnificent Seven Stocks’ Future Clouds.” *The Wall Street Journal*. December 6, 2023. Page B12.

⁴ Jonathan Boyar. “Small-Cap Stocks Can Shine in a Recession.” *Barron’s.com*. November 22, 2023.

⁵ Source: Morningstar.

⁶ Mellody Hobson and John W. Rogers, Jr. “What the Stock Market Taught Us This Year: Don’t Fall for These Investing Traps.” *The Wall Street Journal.com*. December 5, 2023.

the S&P 500 lost about 2% even as the Russell 2000 Value gained 80%.”⁷ Zeroing in on 2001 when the dotcom bubble burst, the S&P 500 fell -11.89% while the Russell 2000 Value surged +14.02%. Bottom line, when the pendulum swings, the results can be dramatic.

Portfolio Comings and Goings

We chose to be our most patient and had little buying or selling activity during the recent big market move. In the quarter, we did not initiate or eliminate any positions in either Fund.

As always, we appreciate the opportunity to serve you and welcome any questions you may have.

Sincerely,



John W. Rogers, Jr.
Chairman and Co-CEO



Mellody Hobson
Co-CEO and President

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 Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and their 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.

Per Ariel Fund’s Annual Report for the year ended September 30, 2022, Ariel Fund’s Investor Class and Institutional Class shares had an annual expense ratio of 0.98% and 0.67%, respectively.

Per Ariel Appreciation Fund’s Annual Report for the year ended September 30, 2022, Ariel Appreciation Fund’s Investor Class and Institutional Class shares had an annual expense ratio of 1.10% and 0.79%, respectively.

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. Views and opinions are as of the date of this commentary and can change without notice. There is no guarantee that any expressed views will come to fruition or any investment will perform as described.

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

The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with relatively lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is July 1, 1995. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is June 1, 1990.

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

⁷ Jonathan Boyar. “Small-Cap Stocks Can Shine in a Recession.” *Barron’s.com*. November 22, 2023. [Note: The S&P 500 outpaced the Russell 2000 by an *average* of eight percentage points a year from 1995 to 2000. From 2001 to 2004, the S&P 500 lost about 2% versus the Russell 2000 Value, which had a *cumulative* 80% gain.]

based on a combination of their market cap and current index membership. Its inception date is November 1, 1991.

Russell® is a trademark of the 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.

