

Memorandum

To: Clients and Friends of Ariel Investments
From: Charlie Bobrinsky, Vice Chairman and Portfolio Manager
Date: October 24, 2022
Re: Ariel Focus Fund 3Q22 Client Letter

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. Performance data current to the most recent month-end for Ariel Focus Fund may be obtained by visiting our website, arielinvestments.com.

ARIEL FOCUS FUND PERFORMANCE INVESTOR CLASS ARFFX							
							As of September 30, 2022
Inception date: June 30, 2005	Annualized						
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Ariel Focus Fund	-7.45%	-18.92%	-14.91%	4.34%	3.88%	7.51%	5.24%
Russell 1000® Value Index	-5.62%	-17.75%	-11.36%	4.36%	5.29%	9.17%	6.84%
S&P 500® Index	-4.88%	-23.87%	-15.47%	8.16%	9.24%	11.70%	8.76%

Ariel Focus Fund declined -7.45% in the third quarter, trailing the Russell 1000 Value Index and the S&P 500 Index which fell -5.62% and -4.88%, respectively. For the year, Ariel Focus Fund has fallen -18.92%, trailing the Russell 1000 Value, which returned -17.75% but beating the S&P 500 which moved into bear market territory with a negative return of -23.87%.

Talking Stock

Our recent quarterly letters have been dominated by the macro themes of inflation, interest rates and a possible recession. While these economic trends continue to drive U.S. equity markets, we will focus this letter on some of the stocks that have had the largest impact on performance. We would be remiss, however, without a brief comment on the market as a whole. We monitor investor sentiment so that we can be "greedy when others are fearful and fearful when others are greedy," as Warren Buffett has wisely counseled. Today, fear is in abundance. A year ago, over 40% of financial advisors reported being "bullish," with only 23% "bearish." Today, those percentages have basically reversed. Only 25% are now bullish, with 42% bearish.¹ Meanwhile, the bond market is telegraphing a recession with an inverted yield curve. These days, 2-year Treasuries yield 4.44%, while 10-year Treasuries yield 3.99%. The market is anticipating a Fed-induced recession in the U.S. and is punishing the shares of economically sensitive

¹ Source: Investor Intelligence Advisor Sentiment, October 12, 2022

companies. We acknowledge the growing probability of a near-term recession while working to maintain a portfolio of companies trading below our calculation of intrinsic value due to the market's excessive short-term focus.

During the third quarter, **BOK Financial Corporation (BOKF)** was the largest positive contributor to performance, returning +18.23% in a down market. As we write, BOK Financial has become our second largest position. It is the former Bank of Oklahoma, renamed to reflect its expansion throughout much of the American Southwest. What has not changed, in our opinion, is the company's strong credit culture as first established by its largest shareholder George Kaiser. In an oil and gas industry famous for "wildcatters," boom and bust cycles, and credit losses, Kaiser and a team of bank executives led by CEO Stacy Kymes have established BOK Financial as a leading bank in the region. We believe the company has the ability to choose the best clients, growing without relaxing credit discipline.

Although BOK Financial earned a return on equity of +11.3% in the second quarter, it trades at 1.3 times book, well below other regional banks. We believe the stock is languishing because there is no near-term catalyst. Mr. Kaiser has publicly stated that Oklahoma and surrounding states need a leading independent regional bank. As a result, he has structured its ownership to make it very difficult for it to be acquired by a larger bank. As value investors, we are often attracted to companies trading below their intrinsic value because of "an absence of a future catalyst." A core teaching of Ben Graham, the founder of value investing, is that a company selling at a large discount to its private market value² may have no obvious near-term means of closing this gap. But in the long run, the market is a weighing machine that measures cashflows, not popularity. While we wait, we have been compensated with strong performance from BOK Financial.

Our second largest contributor in the quarter was **Hanger Inc. (HNGR)** which jumped +29.54% after announcing a sale to Patient Capital for \$18.75 per share. Unfortunately, the acquisition price was negotiated after Hanger had posted disappointing first quarter earnings. The deal produced a return of only +2.3% for Hanger shareholders this year. We must acknowledge that while Hanger remained a leader in providing orthotic and prosthetic (O&P) services to its patients, many of whom had tragically lost limbs through accident or disease, the company was never able to achieve our profitability projections and was sold for a price well below our calculation of intrinsic value. Ariel Focus Fund exited its position in Hanger this quarter.

In the third quarter, our biggest detractor was **ZimVie Inc. (ZIMV)** which declined -38.35%. ZimVie is a manufacturer and distributor of medical products, principally implants for dental and spinal surgery. The company was spun out of Zimmer Biomet last November. In our opinion, ZimVie has become an "orphan stock" with a market capitalization of only \$200 million as we write. Its shares were distributed to all holders of Zimmer Biomet, many of whom could not own a company with such a small market cap. Likewise, Wall Street analysts have little incentive to follow the company. In hindsight, we believe ZimVie is probably not large enough to remain a stand-alone public company and estimate a change-of-control valuation materially above today's stock price.

Mohawk Industries, Inc. (MHK) fell -26.51%, in sympathy with broad weakness in housing related stocks during the quarter. Various Ariel portfolios have owned Mohawk continuously since 2004. The company is a leader in the manufacture and distribution of residential and commercial flooring. Historically, carpeting represented the bulk of Mohawk's sales. Recently, the market has moved toward non-carpet floorings including ceramic tile, laminates, wood and luxury vinyl. This shift has required Mohawk to create new capabilities through acquisition and capital expenditures. Recently, increasing prices on many of its inputs (for example, carpet fibers are oil based) have forced Mohawk to raise its own prices. In the second quarter, Mohawk reported operating margins below our expectations and those of Wall Street analysts. Recently, rising interest rates have pushed mortgage rates higher, making homes less affordable. New home construction and sales of existing homes often drive orders for new flooring. Current market expectations are for 2023 Mohawk earnings to be revised downward. We acknowledge this possibility, but its

² Discount to Private Market Value is the percentage discount the portfolio trades at relative to Ariel Investments' internal estimate of the portfolio's private market value (PMV). There is no guarantee that companies we invest in will achieve our PMV or projected future earnings.

shares have been punished excessively. By our calculations, Mohawk is currently trading at only 6.2 times our estimate of next twelve months earnings. We believe we are being more than fairly compensated for the risk of short-term earnings revisions.

The Western Union Company (WU) shares dropped -16.65% during the quarter. Our investment thesis around Western Union has been relatively consistent over our ownership history. We believe the company's network of 500,000 global agents gives it an economic advantage in the business of cross-border remittance payments. A worker sending money home to their family needs an agent near where they work AND near their family back home. Western Union's leadership position gives it economies of scale in spreading fixed costs over the largest number of transactions. The network also makes Western Union the logical partner of choice for companies seeking to "white-label" their own remittance products. Wall Street analysts are currently focused on the risk of increasing digital money transfer, even though Western Union's own digital business is growing over +30%. We often view negative sentiment as a positive contrarian indicator. Currently, Western Union is Ariel Focus Fund's most contrarian holding with six analyst sell ratings, eleven "holds" and only one "buy." Its shares trade at a modest 7.1 times our estimate of next twelve-month earnings.

After this recent period of market turbulence, our portfolio ended September trading at a weighted average of only 7.9 times next twelve-month earnings. At quarter-end, our portfolio traded at a -39.7% discount to our private market value estimate. Although recent market volatility has been painful, it has left us with a portfolio of companies attractively priced relative to their future earnings and intrinsic value.

One final note...

The war in Ukraine has had an outsized effect on global markets. Recent battlefield success by Ukrainian armed forces has, in our view, increased the possibility of a settlement. Putin has been denied his goal of a complete conquest of Ukraine. We believe an eventual settlement will include Russian sovereignty over Crimea and a commitment to neutrality by Ukraine (i.e., a pledge not to join NATO). In exchange, Russia will withdraw its illegal annexation of the Donbas region in Southeast Ukraine. Like many compromises, this will not completely satisfy anyone. But an end to the risk of nuclear Armageddon—a measure of face-saving for Putin—and a return to the possibility of economic growth for Europe will, in our opinion, be enough to force a peace deal. We believe this outcome would be well received by U.S. equity markets.

Ariel Update as of October 24, 2022

Our Chief Technology Officer Mary Cecola recently informed us that she will be leaving Ariel to take on a new challenge with global responsibility at a large fintech company. We wish her the very best in her new position.

We have taken this as an opportunity to combine Ariel's operations and technology teams—creating greater efficiency and synergy across the firm and elevating our deep bench of talent.

Effective immediately, Ken Slovin has assumed a new role as Senior Vice President, Head of Global Operations and Technology. Ken, who brings 33 years of asset management experience, has proven to be an effective leader. As Ariel's SVP & Director of Global Operations since 2016, he has overseen all aspects of operations, including account and fund administration, accounting, trade settlements, performance reporting, middle office trade support and proxy voting. Ken has served a critical role on several firmwide technology initiatives and will ensure a seamless transition.

We are pleased to promote Frank Jones to Chief Technology and Information Security Officer, reporting to Ken. Previously, Frank served as Ariel's Vice President of Infrastructure and Information Security Officer. Frank has over 20 years of experience in cybersecurity and technology strategy.

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 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 nondiversified fund and therefore may be subject to greater volatility than a more diversified portfolio. The Fund is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

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 9/30/22, Ariel Focus Fund held the following positions referenced: BOK Financial Corporation 6.5%; Mohawk Industries, Inc. 3.4%; Western Union 3.4% and ZimVie, Inc. 1.9%. 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 Focus Fund.

Per the Fund's Annual Report for the year ended September 30, 2021, Ariel Focus Fund's Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.20%. Currently, expense ratio caps of 1.00% for the Investor Class and 0.75% for the Institutional Class are in place to waive fees and reimburse certain expenses that exceed these caps. Ariel Investments, LLC (the Adviser) is contractually obligated to maintain these expense ratio caps through 9/30/23. The expense ratio cap prior to February 1, 2014 was 1.25% for the Investor Class.

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.