Memorandum

To: Clients and Friends of Ariel Investments

From: John W. Rogers, Jr., Chairman, Co-CEO and Chief Investment Officer
Mellody Hobson, Co-CEO and President

Date: October 24, 2022

Re: Ariel Small, Small Concentrated, Small/Mid and Mid Cap Value 3Q22 Client Letter

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ARIEL SMALL CAP VALUE TAX-EXEMPT COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: September 30, 1983			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-8.03%**	**-26.30%**	**-23.05%**	**4.81%**	**4.39%**	**8.41%**	**11.88%**
Net of Fees	**-8.25%**	**-26.85%**	**-23.81%**	**3.77%**	**3.35%**	**7.33%**	**10.78%**
Russell 2000® Value Index	-4.61%	-21.12%	-17.69%	4.72%	2.87%	7.94%	9.94%
Russell 2000® Index	-2.19%	-25.10%	-23.50%	4.29%	3.56%	8.55%	8.67%
S&P 500® Index	-4.88%	-23.87%	-15.47%	8.16%	9.24%	11.70%	10.77%

ARIEL SMALL CAP VALUE CONCENTRATED COMPOSITE PERFORMANCE				
				As of September 30, 2022
Inception date: April 30, 2020			Annualized	
	3Q22	Year to Date	1 Year	Since Inception
Gross of Fees	**-7.34%**	**-26.38%**	**-23.52%**	**12.51%**
Net of Fees	**-7.57%**	**-26.93%**	**-24.28%**	**11.40%**
Russell 2000® Value Index	-4.61%	-21.12%	-17.69%	17.10%
Russell 2000® Index	-2.19%	-25.10%	-23.50%	11.72%
S&P 500® Index	-4.88%	-23.87%	-15.47%	10.71%

ARIEL SMALL/MID CAP VALUE COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: December 31, 2000			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-7.16%**	**-28.74%**	**-25.29%**	**5.38%**	**5.06%**	**10.15%**	**8.48%**
Net of Fees	**-7.39%**	**-29.27%**	**-26.03%**	**4.34%**	**4.02%**	**9.06%**	**7.40%**
Russell 2500® Value Index	-4.50%	-20.41%	-15.35%	4.52%	3.78%	8.42%	8.27%
Russell 2500® Index	-2.82%	-24.01%	-21.11%	5.36%	5.45%	9.58%	8.12%
S&P 500® Index	-4.88%	-23.87%	-15.47%	8.16%	9.24%	11.70%	6.75%

ARIEL MID CAP VALUE COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: March 31, 1990			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-5.48%**	**-23.39%**	**-17.80%**	**4.96%**	**4.48%**	**9.21%**	**10.77%**
Net of Fees	**-5.71%**	**-23.96%**	**-18.62%**	**3.92%**	**3.45%**	**8.13%**	**9.67%**
Russell Midcap® Value Index	-4.93%	-20.36%	-13.56%	4.50%	4.76%	9.44%	10.71%
Russell Midcap® Index	-3.44%	-24.27%	-19.39%	5.19%	6.48%	10.30%	10.77%
S&P 500® Index	-4.88%	-23.87%	-15.47%	8.16%	9.24%	11.70%	9.77%

There was no shortage of drama during the third quarter. Much of the post-Covid enthusiasm has been drained from stocks as a bear market has taken hold and prices have begun to reflect worst case scenarios. Wall Street is firmly in the grips of recession fears and obsessed with the Federal Reserve's ability to navigate the tradeoff between a hard economic landing and runaway inflation. These troubles are compounded by a bruising combination of lingering supply chain disruptions, escalating geopolitical risk in Europe and the growing possibility of a full-blown energy crisis. Most corporate leaders lack hands-on experience managing through these challenges—degrees of difficulty that have been largely absent for the last 50 years. Against this backdrop, earnings expectations are beginning the painful reset to reflect today's economic reality. Uncertainty rules the day.

Not all is lost, however, as demand remains resilient in the face of rising prices. Consumer spending—which accounts for more than two-thirds of U.S. economic activity—increased +0.4% in August, after falling -0.2% in July.[1] Meanwhile, strong corporate and consumer balance sheets are helping to buffer economic weakness. Although sentiment continues to slide as evidenced by softening consumer confidence and tepid guidance updates from management teams, this contrary indicator could ultimately be telegraphing better days ahead.

Which brings us to the bright, silver lining—valuation. We believe the best indicator of future stock returns is the price an investor pays for shares. A falling stock market has given us the opportunity to load up on our favorite companies at bargain prices as index earnings multiples have generally fallen below their 25-year averages.[2] As we detailed in our second quarter letter, we believe our own portfolios are selling close to historic discounts. This, in combination with our strong belief in the long-term resilience of the U.S. economy as well as the prospects for our holdings, allows us to tune out the noise while calmly and deliberately executing our nearly 40-year-old, patient investing strategy.

Leveraging Uncertainty

In response to the prevailing anxiety, Wall Street is laser focused on the short term. And yet, as market pundits work to dissect daily—and even hourly—share price moves, our portfolio company management teams concede their lack of near-term visibility. While navigating the here and now, these executives are largely focused on the sustained health of their businesses. The dichotomy between investor perceptions and management's reality reminds us that stock prices are frequently much more volatile than the asset values that underpin them.

In such a topsy-turvy environment, knee jerk reactions to short-term gyrations can decimate value. For that reason, our sole consideration of recent events and macroeconomic developments is how they might affect the long-term intrinsic worth of our names. While guessing the near-term direction of tomorrow's stock prices has a large and vocal audience, we are focused on the next five-to-ten years, not the next five-to-ten months. Much has been written on the ineffectiveness of market timing and the futility of forecasting short-term economic phenomena, but it captures Wall Street's imagination. It also heightens hysteria. These emotional

[1] Lucia Mutikani, "U.S. consumer spending rebounds, but high inflation cooling demand," *Reuters,* September 30, 2022, Accessed October 18, 2022, https://www.reuters.com/markets/us/us-consumer-spending-rebounds-august-inflation-picks-up-2022-09-30/.

[2] Vincent Juvyns, "Quarterly Market Review," J.P. Morgan Asset Management, October 10, 2022, Accessed October 18, 2022, https://am.jpmorgan.com/fi/en/asset-management/adv/insights/market-insights/market-updates/monthly-market-review/#:~:text=equity%20market%20valuations%20have%20now%20generally%20fallen%20below%20their%2025%2Dyear%20averages.

responses drive the volatility that creates what we believe to be our biggest opportunities—like the depths of the 2008-2009 financial crisis and peak pandemic fears in 2020.

As the market swings from one scenario to another, we focus on assessing the Private Market Values of businesses based on a consistent application of our investment philosophy and process. Our Private Market Value (PMV) methodology assesses recent transactions, determines break-up values and performs discounted cash flow analysis to attempt to estimate the full and fair price an independent buyer would pay to own an entire company and control its free cash flow. Simplified measures such as price-to-earnings ratios[3] are easy to compute and can offer a healthy sanity check to some valuation metrics, but they can also give an illusion of precision in an impetuous market, obscuring the reality that estimating earnings in a recession (that may or may not happen) or period of unstable inflation is quite difficult.

Shopping in Our Closet

In a slowing economy, consumers often tighten their belts. They will forego new clothes and instead revisit overlooked, already-owned treasures by "shopping in their closets." These days, many are asking what we are buying in the face of today's widespread price dislocations? Not unlike everyday consumers, we believe the best values are currently to be had in our own "closet." By purchasing shares of existing and previously owned portfolio holdings, we are doubling down on the companies we view as undervalued with management teams we know best. When markets indiscriminately punish the good, the bad and the ugly in equal measure, our deep knowledge of our companies and longstanding relationships with their corporate leaders provide us with courage, conviction and clarity amid chaos.

During the third quarter, we added to some of our favorite names as their share prices withered under market and, at times, company specific circumstances. For example, our small cap concentrated and small/mid cap portfolios took advantage of price weakness in the leading manufacturer and distributor of floor coverings, **Mohawk Industries Inc. (MHK)**, as the slowing U.S. housing market began to change consumer discretionary spending. Higher natural gas prices and constrained supply in Europe presented another headwind. With softer demand and lower margins likely, management has increased prices, enhanced service levels and restructured to reduce costs. Having owned the name in various Ariel portfolios since 2004, we believe the company can deliver sales growth and generate strong cash flow despite inflation, rising rates and geopolitical instability.

Paramount Global (PARA) is another small/mid cap favorite whose shares have weakened in recent months. We have successfully owned variations of this successor company to Viacom and CBS on and off since 2006. We nearly eliminated our entire firm-wide position at $100.34 a share in March 2021. Although linear television and suspended operations in Russia have pinched near-term results, the company's fresh array of content has propelled global subscriptions to 64 million active users. CBS was the #1 ranked network for the 20th consecutive quarter and Paramount Pictures opened five #1 films in a row, with "Top Gun Maverick"

[3] Price-to-earnings ratio is a valuation ratio of a company's share price to its per-share earnings. In general, a high "P/E ratio" suggests that investors are expecting higher earnings growth in the future compared to companies with lower P/E ratios. P/E ratio comparisons are more applicable for companies in the same industry, against the stock market in general or against the company's own historical P/E ratio.

grossing over $1.3 billion to date. With its shares now selling at $19.04—a gaping -59% discount to our estimate of its intrinsic worth—our enthusiasm for the name is higher today than ever.

Lastly, in recent months, both our small/mid and mid cap portfolios re-purchased shares in **Generac Holdings, Inc. (GNRC)**, a leading global manufacturer of power generation equipment for the residential, light commercial and industrial markets. We first initiated a position in GNRC in our small cap portfolios in February 2019 at $52 when generators were considered luxury goods. Concerns about climate change and aging infrastructure, as well as a hybrid work environment, have spurred a new reality. The U.S. suffered 383 electricity disturbances last year, up from 141 in 2016.[4] As hurricanes, wildfires and sweltering heat causes widespread outages, the demand for backup power has increased, making the home generator almost as essential as the refrigerators they power.

Generac was a pandemic darling and we profitably parted ways in December 2020 when its rapid price appreciation to $227.34 made its shares too rich for our value blood. It is worth noting, the stock doubled from there before falling. This September, we re-initiated a position in our small/mid and mid cap strategies at $181.21 as demand for big-ticket items is being suppressed by more expensive debt financing along with inflation-driven price increases. Since the time of our re-entry, the stock has fallen further as dealers struggle to keep up with installations. Still, we remain attracted to the company's unmatched distribution network, strong product portfolio and underlying long-term demand. And despite the company's need to work through some backlog to grow again, we delight in the opportunity to own the deeply discounted stock of a unique, high-quality business that commands a whopping 75% market share in the North American residential market.

Looking Forward

Our approach to extreme market movements is simple in theory, but its real-life application is not an easy undertaking. Value investing requires great effort and conviction. Our job is to respond, not react. There is a difference. Reacting is often impulsive, while responding leads us to take a longer-term view. These days, we spend our time checking and rechecking our analyses, confirming our investment theses, and making sure our companies have the competitive advantages and financial wherewithal to withstand any near-term pain. In the short term, anything can happen. In the long term, fundamentals drive all outcomes.

Portfolio Comings and Goings

We did not enter or exit any names in our small cap value portfolios.

In our small/mid cap value strategies, we initiated a new position in **GCM Grosvenor Inc. (GCMG)**, a 50-year-old, Chicago-based, alternative asset manager that pioneered fund-of-funds investing and provides clients with customized multi-manager portfolios and portfolios of direct and co-investments. We believe the company has the potential to achieve economies of scale and grow market share as it expands globally, especially through its ESG and Impact strategies. On the sell side, we successfully exited our investment in **Keysight Technologies, Inc. (KEYS)** which is a top electronic test and measurement business.

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[4] Matt Phillips, "Climate Change Calls for Backup Power, and One Company Cashes In," *The New York Times,* September 15, 2021, Accessed October 18, 2022, https://www.nytimes.com/2021/09/15/business/generac-climate-change-generators.html.

No names were eliminated from our mid cap portfolios this quarter.

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

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 small- and mid-cap companies is more risky and volatile than investing in large cap companies. The intrinsic value of the stocks in which the portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their performance may suffer if these sectors underperform the overall stock market. A concentrated portfolio may be subject to greater volatility than a more diversified portfolio. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of each Composite has been reduced by the amount of the highest fee charged to any client in each Composite during the performance period. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Fee information 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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Ariel's small, small concentrated, small/mid and mid cap portfolios differ from their primary benchmarks with fewer holdings and more concentration in fewer sectors. Effective August 1, 2010, the Ariel Mid Cap Value Composite was

redefined to exclude pooled funds due to differences in performance calculation methods.
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, the Ariel Small Cap Value Composite (representative portfolio) held the following position referenced: Mohawk Industries Inc. 2.02%. Portfolio holdings are subject to change. As of 9/30/22, the Ariel Small Cap Value Concentrated Composite (representative portfolio) held the following position referenced: Mohawk Industries Inc. 3.33%. As of 9/30/22, the Ariel Small/Mid Cap Value Composite (representative portfolio) held the following positions referenced: Paramount Global 3.99%; Mohawk Industries Inc. 3.35%; Generac Holdings, Inc. 1.22% and GCM Grosvenor, Inc. 0.51%. As of 9/30/22, the Ariel Mid Cap Value Composite (representative portfolio) held the following positions referenced: Keysight Technologies, Inc. 1.90% and Generac Holdings, Inc. 1.21%. 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 Composites. Portfolio holdings mentioned do not represent all holdings purchased or sold for the Composites.

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

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.