ARIEL INVESTMENTS

Turtle thoughts

PORTFOLIO MANAGER LETTERS **THIRD QUARTER 2022**

- Value
- Global
- Focused value

"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."

John W. Rogers, Jr. and Mellody Hobson

"The U.S. Federal Reserve, European Central Bank and other major central banks have shifted from protecting Wall Street with Quantitative Easing (QE), to defending Main Street from inflation with Quantitative Tightening (QT)."

Rupal J. Bhansali

"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."

Charles K. Bobrinskoy

Value

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"

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[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.

[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.

Global

Memorandum

To: Clients and Friends of Ariel Investments

From: Rupal J. Bhansali, Chief Investment Officer, International and Global Equities

Date: October 24, 2022

Re: Ariel International and Ariel Global 3Q22 Client Letter

ARIEL INTERNATIONAL (DM) COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: December 31, 2011			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-13.72%**	**-21.61%**	**-18.81%**	**-2.00%**	**-1.23%**	**4.53%**	**4.24%**
Net of Fees	**-13.89%**	**-22.08%**	**-19.45%**	**-2.78%**	**-2.01%**	**3.69%**	**3.39%**
MSCI EAFE Net Index	-9.36%	-27.09%	-25.13%	-1.83%	-0.84%	3.67%	4.34%
MSCI EAFE Value Net Index	-10.21%	-21.08%	-20.16%	-2.79%	-2.74%	2.39%	3.10%

ARIEL INTERNATIONAL (DM/EM) COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: December 31, 2011			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-12.33%**	**-18.27%**	**-15.14%**	**-0.70%**	**-0.33%**	**5.28%**	**4.89%**
Net of Fees	**-12.50%**	**-18.76%**	**-15.82%**	**-1.49%**	**-1.11%**	**4.41%**	**4.02%**
MSCI ACWI ex-US	-9.91%	-26.50%	-25.17%	-1.52%	-0.81%	3.01%	3.74%
MSCI ACWI ex-US Value Net Index	-10.44%	-21.00%	-20.02%	-2.15%	-2.12%	1.87%	2.64%

ARIEL GLOBAL COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: December 31, 2011			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-9.67%**	**-13.73%**	**-8.75%**	**4.24%**	**3.84%**	**8.28%**	**8.10%**
Net of Fees	**-9.85%**	**-14.24%**	**-9.47%**	**3.42%**	**3.02%**	**7.39%**	**7.20%**
MSCI ACWI Index	-6.82%	-25.63%	-20.66%	3.75%	4.44%	7.28%	7.97%
MSCI ACWI Value Net Index	-7.66%	-19.05%	-13.97%	1.27%	1.71%	5.39%	6.08%

ARIEL GLOBAL CONCENTRATED COMPOSITE PERFORMANCE				
				As of September 30, 2022
Inception date: December 31, 2019			Annualized	
	3Q22	Year to Date	1 Year	Since Inception
Gross of Fees	**-10.90%**	**-14.29%**	**-9.43%**	**0.53%**
Net of Fees	**-11.08%**	**-14.80%**	**-10.14%**	**-0.27%**
MSCI ACWI Index	-6.82%	-25.63%	-20.66%	0.90%
MSCI ACWI Value Net Index	-7.66%	-19.05%	-13.97%	-1.29%

Global equities suffered their third consecutive quarter of losses this year as investors wrestled with tightening monetary policies, inflation and a looming recession. The MSCI ACWI Index declined -6.82%, while the MSCI EAFE and MSCI ACWI ex U.S. indices dropped -9.36% and -9.91%, respectively. Ariel's international and global portfolios underperformed during the three-month period largely due to a risk-on rally in July and early August. Conversely, year-to-date, our strategies mostly outperformed their core and value indices.

Despite record declines in the first half of 2022, we believe a more significant market correction still lies ahead. However, our investment process and philosophy remain consistent. We believe our concentrated strategies are designed to generate compelling risk-adjusted returns over the long run, and owning undervalued, high dividend yielding, quality companies with strong balance sheets positions us well for long-term outperformance.

As discussed in prior letters, we are experiencing the effects of a regime change from quantitative easing (QE) to quantitative tightening (QT).[1] As a result, we anticipate junk bonds and junk equities will face the greatest challenges. In our first quarter letter, we explained junk equities by introducing the four **Ls**—**L**ofty valuations, **L**everage, **L**oss-making companies and **L**iquidity risk. In our second quarter letter, we highlighted Leverage and its risk to all equity investors. This quarter, we will focus on the consequences of **"Lofty valuations and expectations."**

From Goldilocks to Stagflation

In our view, the Goldilocks era has ended—a period where growth was perceived as neither too fast nor too slow, but "just right." Since the 2008 Financial Crisis, we have lived through a decade and a half of record-breaking QE. Massive monetary accommodation, further amplified by COVID-19-related stimulus, drove high multiples for U.S. stocks and an explosion in values for speculative assets.[2] The Goldilocks years were an ideal environment for risk-taking investors. However, as the saying goes, "nothing lasts forever." The U.S. Federal Reserve, European Central Bank and other major central banks have shifted from protecting Wall Street with QE, to defending Main Street from inflation with QT. As interest rate hikes and contractionary policies continue, we will likely see a larger reckoning unfold in the markets—exposing the bad bets of the prior regime.

Global growth is expected to decline from 5.7% in 2021, to 2.9% in 2022—much lower than The World Bank's projections in January.[3] Meanwhile, inflation levels remain elevated at multi-year highs. Against this backdrop, the world is at risk of severe stagflation—a phenomenon whereby growth is slow and inflation is high—reminiscent of the 1970s. Recovery from the last stagflation slump required tightening policies, which led to a global recession. The actions triggered large stock market declines and substantial debt crises in developed and emerging economies in the early 1980s.[4] We would not be surprised if similar outcomes play out—particularly in the U.S.

[1] Quantitative easing refers to policies that substantially expand the size of the Fed's balance sheet. Quantitative tightening refers to the opposite—policies that reduce the size of the Fed's balance sheet. Source: Federal Reserve Bank of St. Louis

[2] Speculative assets refer to Junk Bonds, SPACS, Cryptocurrency, Corporate Debt and Real Estate.

[3] World Bank, "Stagflation Risk Rises Amid Sharp Slowdown in Growth," June 7, 2022, Accessed October 7, 2022, https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets

[4] World Bank, "Global Economic Prospects June 2022," June 22, 2022, https://www.worldbank.org/en/news/press-release/2022/06/07/stagflation-risk-rises-amid-sharp-slowdown-in-growth-energy-markets.

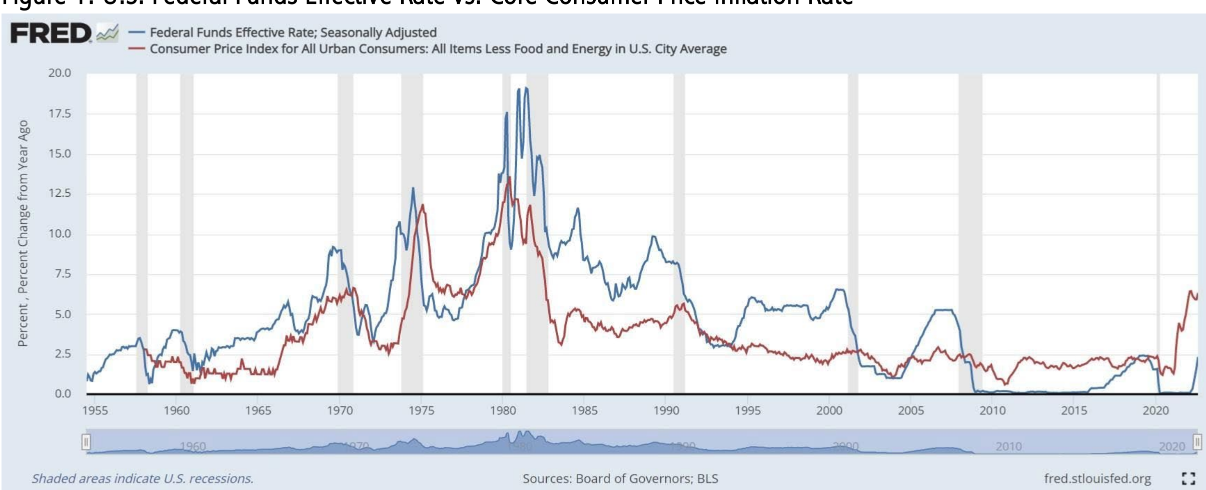
Lofty Valuations and Expectations

U.S. equity investors should be concerned about market valuations. Notwithstanding large declines this year, U.S. stocks continue to trade at historically elevated levels. For the last ten years, the U.S. has been the best-performing market.[5] We believe these stocks are at much greater risk of a deep and prolonged market correction as part of a wide-ranging pricing reset across asset classes. As a result, we are underweight U.S. equities, and believe there are more attractive opportunities in Europe and Emerging Markets.

In our view, the consensus outlook for earnings and fixed-income expectations are ambitious. Economic history has taught us that corporate profits decline significantly during cyclical downturns. Since 1960, the average peak-to-trough earnings drop is about 31%.[6] However, we have only seen a 4% decrease in earnings estimates year-to-date,[7] and Wall Street analysts still expect 2023 earnings to outperform 2022. We believe it is more likely that 2023 earnings will be largely below 2022 once negative estimate revisions unfold over the next year.

We also see a similar mismatch in the fixed-income landscape. During most of 2020 and 2021, U.S. Federal Funds rates stood at 0%. While those rates have risen to over 3% today, Fed expectations currently sit at 4.6%–far too low relative to inflation. Figure 1 illustrates Fed Funds (blue line) relative to core inflation (red line) in the past. Since the 1950s, Fed Funds have almost always been raised at least 200-500 basis points above core inflation to address spiraling prices. As such, we believe the expected 4.6% peak Fed Funds rate is nowhere near the level of positive real rates historically required to extinguish our high and accelerating inflation. Interest rate expectations across the fixed-income market likely remain too low as earnings expectations for stocks look too high.

Figure 1: U.S. Federal Funds Effective Rate vs. Core Consumer Price Inflation Rate



Source: FRED Economic Data https://fred.stlouisfed.org/series/FEDFUNDS#0

[5] Lazard Asset Management, "Can US Stocks Continue to Outperform?," Accessed October 16, 2022, https://www.lazardassetmanagement.com/us/en_us/research-insights/the-current/the-great-rotation/can-us-stocks-continue-to-outperform.

[6] Jonathan Levin, "Stocks Are Courting a Nasty Surprise on Corporate Earnings," Bloomberg.com, September 19, 2022, Accessed October 16, 2022. https://www.bloomberg.com/opinion/articles/2022-09-19/stocks-are-courting-a-nasty-surprise-on-corporate-earnings.

[7] Peter Eavis and Joe Reninson, "Wall Street Braces for an Earnings Season of Mixed Signals," *The New York Times,* October 12, 2022, Accessed October 16, 2022. https://www.nytimes.com/2022/10/12/business/wall-street-mixed-quarterly-earnings.html.

Finding Value in Europe and Emerging Markets

We believe European markets have much more attractive risk/reward dynamics today. While we still see valuation risk, we have identified more companies trading with a larger margin of safety.[8] On a relative basis, European businesses sell at some of the most inexpensive valuation levels versus the U.S. in more than a half-century. We believe the Russia-Ukraine war and other geopolitical and commodity concerns are mostly priced in. As contrarian investors, we see opportunities in the volatility. The energy crisis in Europe is acute but mainly impacts the manufacturing sector. Health Care names such as **GlaxoSmithKline plc, Novartis AG**, **Roche Holding AG** and **Sanofi S.A.** are stable businesses with strong research and development pipelines and reliable dividends. Healthcare is less energy-intensive than the auto, chemical or aluminum industries. In our view, high dividend yielding European companies in less cyclical sectors such as Health Care, Communications, Consumer Staples and Utilities with strong balance sheets will be resilient in a challenging global macroeconomic environment.

We are bullish on emerging market (EM) opportunities, particularly in Latin America. When we launched Ariel's international and global strategies in 2011, we were negative on the EM landscape. At that time, many investors poured into EM stocks with high growth expectations, which we believed would disappoint and cause valuations to deflate. This has now happened.[9] After a decade of disappointment, we believe Latin American stocks look particularly attractive, and we have been allocating more capital in Brazil, Peru and Chile.

The Road Ahead: From Passive to Active

Benjamin Graham once said, "In the short run, the market is a voting machine but in the long run, it is a weighing machine." The pendulum is swinging on multiple fronts—from QE to QT, Goldilocks to Stagflation, and Wall Street to Main Street. Therefore, we believe outperformance in the next decade is unlikely to come from a passive, growth-momentum approach. In our view, active, value-oriented strategies are more likely to shine. This plays to the strengths of our investment process. While the current market environment is volatile and uncertain, we believe our portfolios are positioned to weather the storm—as they are heavily weighted toward undervalued, high dividend yielding companies with low operating and financial leverage.

We appreciate the opportunity to serve you and welcome any questions you might have.

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[8] Attempting to purchase a stock with a margin of safety does not protect investors from the loss of their investment, volatility associated with stocks, declining fundamentals, external forces, or our incorrect assumptions.

[9] Abhishek Vishnoi, "Emerging Stocks Haven't Had Such a Long Stretch Since Cycle Peak," Bloomberg.com, October 3, 2022), Accessed October 16, 2022. https://www.bloomberg.com/news/articles/2022-10-04/emerging-stocks-haven-t-had-such-a-long-stretch-of-bear-market?leadSource=uverify%20wall

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.

Investments in foreign securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, and foreign currencies and taxes. The use of currency derivatives, exchange-traded funds (ETFs) and other hedges may increase investment losses and expenses and create more volatility. Investments in emerging markets present additional risks, such as difficulties in selling on a timely basis and at an acceptable price. 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. 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. 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 International (DM) Composite differs from its benchmark, the MSCI EAFE Index, because: (i) the Composite has fewer holdings than the benchmark, (ii) the Composite will invest in Canada, and (iii) the Composite will at times invest a portion of its assets in the U.S. and emerging markets. The Ariel International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex-US, because: (i) the Composite has fewer holdings than the benchmark and (ii) the Composite will at times invest a portion of its assets in the U.S. The Ariel Global Composite differs from its benchmark, the MSCI ACWI (All Country World Index), because the Composite has fewer holdings than the benchmark. The Ariel Global Concentrated Composite differs from its benchmark, the MSCI ACWI (All Country World Index), because the Composite has dramatically fewer holdings than the benchmark.

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 International (DM) Composite (representative portfolio) held the following positions referenced: Roche Holding AG 8.36%; GlaxoSmithKline plc 5.07%; Sanofi S.A. 2.06%; Novartis AG 0.97% and

Novartis AG ADR 0.09%. As of 9/30/22, the Ariel International (DM/EM) Composite (representative portfolio) held the following positions referenced: Roche Holding AG 8.40%; GlaxoSmithKline plc 4.81%; Sanofi S.A. 1.80% and Novartis AG 0.57%. As of 9/30/22, the Ariel Global Composite (representative portfolio) held the following positions referenced: Roche Holding AG 6.76%; GlaxoSmithKline plc 4.47%; Sanofi S.A. 1.28% and Novartis AG 0.40%. As of 9/30/22, the Ariel Global Concentrated Composite (representative portfolio) held the following positions referenced: GlaxoSmithKline plc ADR 6.19%; Roche Holding AG ADR 3.97% and Sanofi S.A. ADR 0.50%. Portfolio holdings are subject to change.

Each strategy's primary index is the first one listed below each respective strategy's performance data. Indexes are unmanaged. Investors cannot invest directly in an index.

The MSCI EAFE® Index is an equity index of large and mid-cap representation across 21 Developed Markets (DM) countries around the world, excluding the U.S. and Canada. It's inception date is May 31, 1986. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-US Index is an index of large and mid-cap representation across 22 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI ex-US Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 22 Developed and 24 Emerging Markets countries. Its inception date is December 8, 1997. All MSCI Index net returns reflect the reinvestment of income and other earnings, including the dividends net of the maximum withholding tax applicable to non-resident institutional investors that do not benefit from double taxation treaties. MSCI uses the maximum tax rate applicable to institutional investors, as determined by the companies country of incorporation. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

Focused Value

Memorandum

To: Clients and Friends of Ariel Investments

From: Charlie Bobrinskoy, Vice Chairman and Portfolio Manager

Date: October 24, 2022

Re: Ariel Focused Value 3Q22 Client Letter

ARIEL FOCUSED VALUE COMPOSITE PERFORMANCE							
							As of September 30, 2022
Inception date: March 31, 2005			Annualized				
	3Q22	Year to Date	1 Year	3 Years	5 Years	10 Years	Since Inception
Gross of Fees	**-7.29%**	**-18.25%**	**-13.81%**	**5.09%**	**4.77%**	**8.55%**	**6.39%**
Net of Fees	**-7.44%**	**-18.65%**	**-14.37%**	**4.41%**	**4.09%**	**7.80%**	**5.52%**
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%	8.72%

Ariel Focused Value declined -7.29% gross of fees (-7.44% net of fees) 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, the Ariel Focused Value Composite has fallen -18.25% gross of fees (-18.65% net of fees), 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 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

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

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 value[2] 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 Focused Value 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 tyle, 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 shares have been punished excessively. By our calculations, Mohawk is currently trading at only 6.2 times our

[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.

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 Value'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 US equity markets.

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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-cap companies. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. A focused portfolio may be subject to greater volatility than a more diversified investment.

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 the Ariel Focused Value Composite has been reduced by the amount of the highest fee charged to any client in the Composite during the performance period. 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 Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated in fewer sectors.

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As of 9/30/22, the Ariel Focused Value Composite (representative portfolio) held the following positions referenced: BOK Financial Corporation 6.39%; Mohawk Industries, Inc. 3.34%; Western Union 3.26% and ZimVie, Inc. 1.92%. 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 the Ariel Focused Value Composite.

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.

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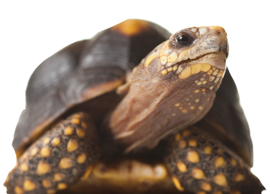

Slow and steady wins the race.