Ariel investments

Performance (%) as of December 31, 2023	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception
		Annualized				
Ariel Emerging Markets Value						04/30/2023
Gross of Fees	**5.20**	-	-	-	-	**10.81**
Net of Fees	**4.95**	-	-	-	-	**10.12**
MSCI EM Net Index	7.86	-	-	-	-	6.86
Additional Indexes						
MSCI EM Value Net Index	8.05	-	-	-	-	9.48
Ariel Emerging Markets Value ex-China						05/31/2023
Gross of Fees	**10.19**	-	-	-	-	**18.03**
Net of Fees	**9.90**	-	-	-	-	**17.32**
MSCI EM ex-China Net Index	13.03	-	-	-	-	13.33

Dear Clients and Friends: During the fourth quarter of 2023, the MSCI Emerging Markets (EM) Index rose +7.86% as U.S. interest rate expectations were moderated and the U.S. dollar (USD) weakened. Emerging markets excluding China performed well, returning +13.03% for the three-month period. Taiwan and Korea benefited from strength across the technology value chain. India rallied on strong domestic growth and improving prospects of the current pro-business government in upcoming elections. With inflation falling, Brazil's central bank continued to lower rates, which helped its companies outperform.

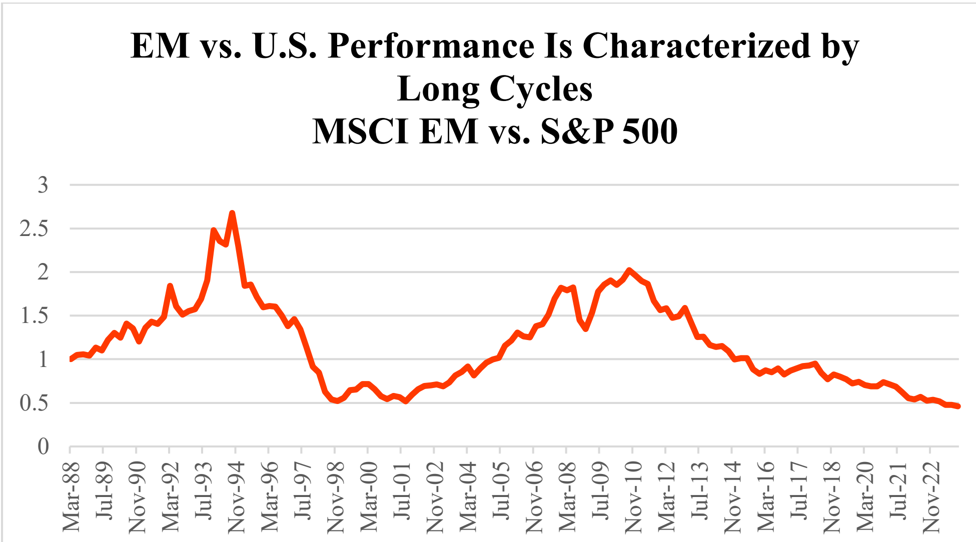
China was the exception to this trend, losing -4.24% during the quarter, as concerns surrounding the country's growth outlook and real estate sector slowdown pressured share prices downward. For now, the market continues to ignore attractive valuations of Chinese stocks that are expected to generate double-digit earnings growth.

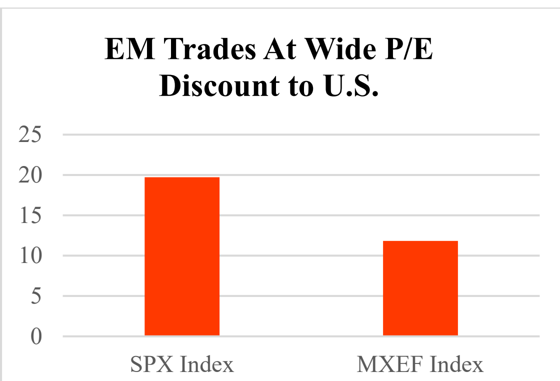
We believe emerging markets are on the cusp of a new upcycle after prolonged underperformance relative to the S&P 500 Index. The inaugural Ariel Emerging Markets Value Composite was launched last April and closed the year with a +10.81% gain gross of fees (+10.12% net of fees), outperforming the MSCI EM Index, which rose +6.86% over the same period. We believe low valuations and accelerating earnings growth create a great opportunity for our high-conviction EM strategy.

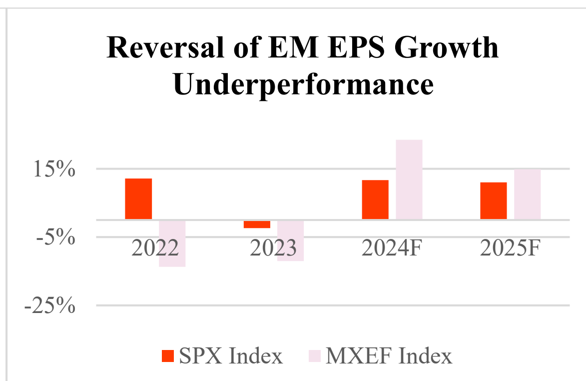
EM Outperformance Will Be Led by Strong Relative Earnings Growth

The bull case for investing in the asset class has become even more compelling. At 11.8x 2024 earnings, the MSCI EM Index is substantially cheaper than the S&P 500, which trades at 19.7x. This gap is large by historical standards and highlights the disconnect between deeply discounted stocks and the improving outlook for emerging markets. Over the next two years, EM earnings are expected to grow +19% annually compared to only +11% for the S&P 500. This would be a meaningful reversal from the recent past when large amounts of fiscal stimulus in developed markets and slower emergence from COVID lockdowns for EM enabled S&P 500 earnings to outpace EM.

A weaker dollar and falling interest rates should also benefit emerging markets equities by raising EM earnings in USD terms and providing greater flexibility for EM central banks to lower rates. Meanwhile, emerging markets are expected to sustain 4% growth, while the U.S. is forecasted to slow to 1.3%.







Source: Bloomberg

The cyclical and valuation case for EM looks stronger than in recent history. Given large economic inefficiencies, scarcity of capital, and underutilized human resources in many parts of EM, the return on incremental investment is often multiples of the return in the developing markets. For example, a new highway in emerging markets that connects inland farming to ports enables a virtuous economic development cycle. Access to ports leads to better product pricing. Higher pricing enables fertilizer investments as well as equipment that yields higher crops. Larger crops move agrarian labor to better-paying manufacturing jobs that benefit from global supply chains connected to local populations.

This transformational growth allows EM countries to rise from low- to mid-income. South Korea, Taiwan, China, and many Eastern European countries have experienced this type of wealth creation transformation. Today, a new set of countries is on the same trajectory. With global companies focusing on nearshoring and supply chain diversification, EM growth should be buoyed by expanding global manufacturing hubs in ASEAN (Association of Southeast Asian Nations), India, parts of Eastern Europe, and Mexico. To this point, strong foreign direct investment, exports, and manufacturing have allowed Vietnam to double its USD gross domestic product (GDP) per capita in only 11 years.

While our newly incepted Ariel Emerging Markets Value Composite outperformed the MSCI EM Index for the year, we lagged during the fourth quarter. The 291 basis points net of fees underperformance in the EM value portfolio was driven by (1) **First Quantum Minerals**, a copper miner with assets in Panama and Zambia, and (2) our Chinese and Vietnamese holdings.

In the case of First Quantum, a court ruling forced the company to halt operations at its Cobre Panama mine. This facility represents half of First Quantum's EBITDA (earnings before interest, tax, depreciation and amortization). While significant, we believe the market overreacted to this event. Cobre Panama is a key employer representing 4% of the country's GDP. The mine's safety and environmental records are strong. Given the economic consequence of closure, we think the 80% probability of a permanent shutdown currently priced into the stock is too pessimistic. There are strong incentives to find a solution to reopen the mine, especially after a May 2024 presidential election may put new leadership in office.

With China, we are exhibiting the core tenet of Ariel Investments: active patience. Our Chinese holdings have strong business models and robust, double-digit earnings growth outlooks. These shares also trade at a meaningful discount to their global peers and own history. When today's pessimism eases, we expect top-line growth, lower costs, and better product mixes to accelerate earnings and boost share prices.

In the third quarter, Vietnamese electronics and food retailer **Mobile World** outperformed but languished in the last quarter of the year after reporting weaker sales and margins. We added to our position as the stock waned. We believe the company will continue to gain share in a rapidly growing market where modern retail is still a small fraction of the overall retail landscape. With a growing Vietnamese economy, lower interest rates, and an improving job market, Mobile World is poised for strong earnings growth as consumer spending increases.

Positioning and Outlook

We see many distinct opportunities across different countries and sectors, all supported by our contrarian perspective, deep research, and focus on catalysts that will ignite our stocks. This is precisely why we are acquiring names others are abandoning in China. With the 60% decline in new housing, we think the worst of the real estate correction is behind the country. The consumer retains the capacity to spend more while the government refocuses on stimulating capital investments. As economic momentum turns in the next 6 to 12 months, we believe market sentiment will also turn. In the meantime, leading e-commerce franchises like **Alibaba** and **JD.com** are trading at heavily discounted valuations of 7-9x forward P/E multiples despite evidence of improving margins and growing top line.

While global investors chasing high growth are paying huge premiums in India, we are buying similar growth rates at much more reasonable prices in the ASEAN tigers, particularly in Vietnam, the Philippines, and Indonesia. Historically, the Indian market traded at a modest premium to the ASEAN tigers, but today, India trades at a 75% premium. As developed market economies slow and investors refocus on EM for better growth, the ASEAN region, with 5-6% real economic growth and low valuations, should attract capital and thereby drive market returns.

In these regions, the Financial and Information Technology sectors look attractive. As such, our largest Financial exposure is in **KB Financial Group** and **Hana Financial Group**—two Korean banks representing 9% of our portfolio. Korean banks have significantly transformed over the past decade by reducing risk in their loan books, rebuilding capital reserves, and provisioning and improving return on equity. Today, Korean banks are earning their cost of capital and are poised to return more earnings to shareholders. And yet, the stocks trade at only 0.35x book value, which suggests considerable upside.

In Information Technology, an upturn in the semiconductor cycle would benefit our holdings in **SK Hynix**, **Taiwan Semiconductors**, **King Yuan Electronics**, **Lotes**, and **United Microelectronics**. Our largest position is memory producer, SK Hynix in Korea. The memory industry is in the early stages of a recovery after cuts in capital expenditures and production in 2023.

We are excited about our EM prospects over the coming years and our portfolio, which represents a 7.87x price to forward earnings, 1.09x price to book, and 14.72% return on equity. We remain laser-focused on discovering new opportunities while monitoring all the factors that affect our current holdings.

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

Sincerely,

Henry Mallari-D'Auria
Chief Investment Officer
Global and Emerging Markets Equities

Investments in non-U.S. securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving non-U.S. economies, markets, political systems, regulatory standards, 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 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.

As of 12/31/23, the Ariel Emerging Markets Value Composite (representative portfolio) held the following positions referenced: SK Hynix, Inc. 7.81%; KB Financial Group, Inc. 5.18%; Taiwan Semiconductor Manufacturing Company, Ltd. 5.08%; Hana Financial Group, Inc. 4.23%; Alibaba Group Holding, Ltd. 3.96%; King Yuan Electronics Company, Ltd. 2.48%; Lotes Company, Ltd. 1.90%; JD.com, Inc. 1.65%; Mobile World Investment Corporation P-Note 1.21%; United Microelectronics Corporation 0.92%; First Quantum Minerals, Ltd. 0.42% and Mobile World Investment Corporation 0.40%. As of 12/31/23, the Ariel Emerging Markets Value ex-China Composite (representative portfolio) held the following positions referenced: Taiwan Semiconductor Manufacturing Company, Ltd. 8.46%; SK Hynix, Inc. 7.08%; KB Financial Group, Inc. 4.89%; Hana Financial Group, Inc. 4.37%; King Yuan Electronics Company, Ltd. 3.03%; United Microelectronics Corporation 1.91%; Lotes Company, Ltd. 1.76%; Mobile World Investment Corporation P-Note 1.14%; Mobile World Investment Corporation 0.47% and First Quantum Minerals, Ltd. 0.43%.

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.

Investors cannot invest directly in an index. The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,377 constituents, the index coves approximately 85% of the free float-adjusted market capitalization in each country. Inception of this benchmark was January 1, 2001.

The MSCI Ariel Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 24 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Inception of this benchmark was December 8, 1997. MSCI Emerging Markets ex-China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. Its inception date is March 9, 2017.

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 company's 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.