Ariel investments

Performance (%) as of December 31, 2023	QTR	1-Year	Annualized 3-Year	5-Year	10-Year	Since Inception
Ariel Focused Value						03/31/2005
Gross of Fees	**10.91**	**7.72**	**5.96**	**10.35**	**6.84**	**6.99**
Net of Fees	**10.73**	**7.03**	**5.28**	**9.64**	**6.15**	**6.13**
Russell 1000® Value Index	9.50	11.46	8.86	10.91	8.40	7.66
S&P 500® Index	11.69	26.29	10.01	15.69	12.03	9.89

Dear Clients and Friends: In the fourth quarter of 2023, the Ariel Focused Value Composite outperformed its primary benchmark, the Russell 1000 Value Index, returning +10.91% gross of fees (+10.73% net of fees) versus +9.50%. Value stocks continued to trail growth stocks in the quarter and for the full year. In the fourth quarter, the Russell 1000 Value Index's +9.50% increase trailed the Russell 1000 Growth Index, which rose +14.16%. In 2023, the Large Cap Growth Index beat its value counterpart by a remarkable +31.22%—earning +42.68% versus +11.46% for the Russell 1000 Value. As noted in previous letters, Ariel Focused Value has a strong emphasis on value stocks and has consistently traded at a lower multiple of projected earnings than even the value index. While our strong value bias has been intentional and strategic, it has undoubtedly been a performance headwind relative to our benchmark and the broader market. As such, we are pleased to have outperformed during another quarter of relative weakness in value shares.

The Fed's Market

At Ariel, we are bottom-up stock pickers. We invest when short-term factors drive a company's stock price well below our calculation of its intrinsic value. While we do not think we (or anyone else for that matter) can consistently predict short-term macroeconomic factors, a macro consensus can create investment opportunities. In 2023, many believed hawkish monetary policy designed to end inflation would spark a recession. An inverted yield curve (with six-month treasury bills higher than 10-year treasury bonds) was said to be an "unfailing" predictor of an economic slowdown. Indeed, some Federal Reserve board members seemed intent on engineering a slowdown to cool an "overheated job market." The stock prices of cyclical companies dropped, and their price/earnings multiples compressed. This was a major contributor to the underperformance of value indices, which are heavily weighted in Financial, Energy and Consumer Discretionary companies often considered sensitive to economic downturns.

Early in 2023, short-term investors became fixated on prospects for a recession brought about by higher interest rates. The 10-year Treasury yield reached 5% on October 23rd. Some of our favorite companies were hit hard. For example, **Goldman Sachs, Inc. (GS)** shares traded below book value and **Mohawk Industries Inc. (MHK)**, a home carpeting and flooring company, sold for less than 8x earnings.

Meanwhile, the price/earnings ratio of **Bank of America Corporation (BAC)** hit 7.6x on October 27th. Approximately halfway through the quarter, the market showed once again why investing based on short-term happenings is dangerous. As investors became more optimistic about the prospects for a soft economic landing, the 10-year Treasury yield fell from 5% in October to less than 4% at year-end.

Pundits went from predicting rates would be "higher for longer" to making calls on rate cuts as inflation showed promising improvements. Some members of the Fed, including its Chair, acknowledged the need to follow lower inflation with lower interest rates. Short-term sentiment changed, not the long-term value of stocks.

In response, Goldman's shares surged +34% from late October to the end of the year and +15% for the full year. **Snap-On Inc. (SNA)** stock price increased +16.22% from its October low to year-end. Mohawk rallied +35% from its 52-week low after being down -25% in October for the year-to-date.

ZimVie, Inc. (ZIMV) was our largest positive contributor. On December 18th, the company announced it had entered into an agreement to sell its spine business to HIG investors for $375 million. ZimVie had previously been spun off from Zimmer Biomet Holdings in 2022. The company is engaged in two distinct lines of business: products that treat pathologies for the spine and dental products, including implants. We believe the sale was good for shareholders. The stock jumped +50% on the announcement day and +90% for the year.

ZimVie has gone from being an out-of-favor small-cap value stock with a modest growth outlook and a diversified business strategy, to a focused, dental implant company representing an attractive acquisition target. The company has a strong management team focused on driving shareholder value. Given the big move, ZimVie no longer sells at a steep discount to its intrinsic worth, and we are reducing our position accordingly.

Our worst performers during the quarter were **APA Corporation (APA)**, formerly known as Apache, Inc., **BorgWarner, Inc. (BWA)** and **The Western Union Company (WU).** APA Corp. was hurt by falling oil prices, which declined in 2023 for the first time since 2020. Projections for cashflows from APA's large discovery off the coast of Suriname were also modestly disappointing. In our view, APA shares are cheap, trading at approximately 6x its forward earnings.

Sentiment around BorgWarner ebbed and flowed during the year. The spin-off of Borg's internal combustion engine business now trading as **PHINIA Inc. (PHIN)** was favorably received. The restructuring enabled BorgWarner to focus on the high growth market for electric vehicles ("EVs"). Unfortunately, demand for EVs has been soft despite generous government incentives. Meanwhile, PHINIA's traditional hybrid and ICE systems are not declining as fast as some EV bulls predicted. We would have preferred the two companies stay together. At this point, both companies have price/earnings multiples below 10x. In addition to this value, we believe there is pent-up demand for new automobiles, particularly in North America.

Finally, Western Union fell -7.8% during the quarter. The company has reported negative sales growth over the last several years, and investors are increasingly focused on competition from digital payment competitors such as PayPal and Venmo. Trading at less than 7x our estimate of next year's earnings, we thought (and still think) a sale of the company to private equity investors was likely, while also acknowledging growth expectations were too optimistic.

In our opinion, the significant year-end rally in U.S. share prices took the value stocks we favor from "very attractively priced" to "fairly priced." At the end of the third quarter, our portfolio was selling at a 32% discount to its private market value. Today, after the fourth quarter market move, Ariel Focused Value trades close to our 10-year average at a 23.9% discount—not particularly high, not notably low. As long-term investors, an average discount is not a signal to exit the stock market. But it can be an indication that the overall U.S. equity market is not the "table-pounding buy" it was at various times in 2023.

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

Sincerely,

Charles K. Bobrinskoy

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Vice Chairman

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.

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 Focused Value Composite (representative portfolio) held the following positions referenced: Goldman Sachs Group, Inc. 6.39%; Snap-On, Inc. 6.35%; APA Corporation 5.17%; Mohawk Industries, Inc. 4.51%; Bank of America Corporation 4.34%; PHINIA, Inc. 3.33%; Western Union Company 3.27%; BorgWarner, Inc. 3.23% and ZimVie, Inc. 2.51%. 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. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term growth and higher sales per share historical growth. The inception date of the Russell 1000® Growth Index 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.