Ariel International Fund
Ariel Global Fund

As of June 30, 2023

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International & Global Equities

Performance (%)

				Annualized			
	QTR	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel International Fund							12/30/2011
AINTX Investor Class	**1.52**	**7.00**	**4.77**	**3.12**	**1.89**	**3.95**	**4.51**
AINIX Institutional Class	**1.62**	**7.14**	**5.02**	**3.39**	**2.15**	**4.21**	**4.76**
MSCI EAFE Net Index	2.95	11.67	18.77	8.94	4.39	5.41	6.52
MSCI ACWI ex-US Net Index	2.44	9.47	12.72	7.23	3.52	4.75	5.53
Additional Indexes							
MSCI EAFE Value Net Index	3.15	9.28	17.40	11.34	2.93	4.15	5.32
MSCI ACWI ex-US Value Net Index	2.95	8.26	12.19	10.43	2.66	3.70	4.49
Ariel Global Fund							12/30/2011
AGLOX Investor Class	**3.32**	**7.65**	**7.41**	**8.05**	**5.69**	**6.85**	**7.55**
AGLYX Institutional Class	**3.38**	**7.79**	**7.69**	**8.33**	**5.96**	**7.12**	**7.82**
MSCI ACWI Net Index	6.18	13.93	16.53	11.00	8.10	8.76	9.54
Additional Indexes							
MSCI ACWI Value Net Index	2.98	4.25	9.95	11.82	5.16	6.19	7.29

Ariel International Fund returned +1.52% for the second quarter, trailing the MSCI EAFE and MSCI ACWI ex-US Indices, which rose +2.95% and +2.44% respectively. Ariel Global Fund advanced +3.32%, behind the MSCI ACWI Index's +6.18% gain in the quarter.

Our investment approach encountered several headwinds this quarter as growth stocks significantly outpaced value names. The MSCI ACWI Growth Index surged +9.19% during the quarter, while the MSCI ACWI Value Index only returned +2.98%. Moreover, high-momentum shares emerged as market favorites, driving the MSCI ACWI, ACWI ex-U.S., and EAFE Momentum Indices to advance +4.00%, +4.28%, and +4.52%, respectively. Risk strategies were top performers across our primary benchmarks, contradicting our risk-aware stock-picking style. These factors challenged our international and global portfolios. Over the past six months, the tech-heavy Nasdaq Index experienced an astounding +32% rise, marking its best first-half gain since 1983. However, skyrocketing returns were primarily confined to a few tech companies and did not accurately reflect the realities of the broader market.

A Mismatch in Policies and Actions

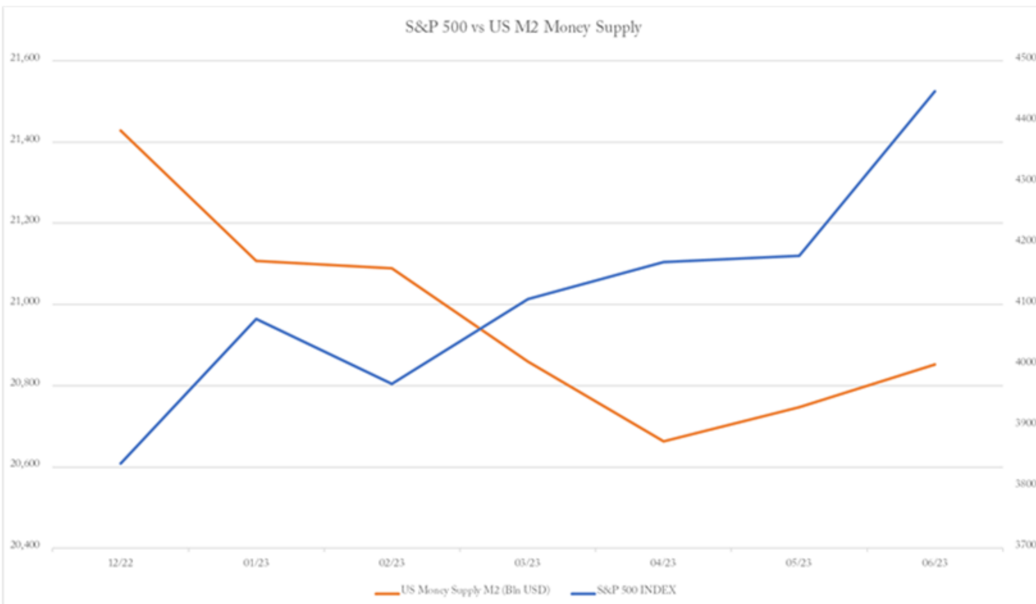
After the Silicon Valley and Signature Bank debacles, the U.S. Federal Reserve implemented a new Bank Term Funding Program (BTFP). This program allowed depository institutions to exchange devalued Treasury bonds and other securities for cash at their original higher value. The primary objective of the BTFP was to safeguard banks, credit unions, and other financial entities from potential bank runs. However, the BTFP injected excess liquidity into the economy, just as the Fed had tightened the money supply to combat inflation over the last year.

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Performance data current to the most recent month-end for the Funds may be obtained by visiting our website, arielinvestments.com.

In June, outstanding Bank Term Funding Program loans were over $100 billion, the highest level since the March banking turmoil. Furthermore, Reserve balances, representing the most significant liability on the Fed's balance sheet, surged by approximately $278 billion in the last three months.[1] These actions inadvertently supported investments in speculative assets such as growth companies and cryptocurrencies but did so at the expense of fundamentals. For instance, Bitcoin suffered a loss of -60% over the last year but surged by +83% in the first half of 2023.

Figure 1 below illustrates a significant increase in the U.S. money supply since April. In our view, the Fed's efforts to contract monetary policies reversed course last quarter. Since 1950, the economy has witnessed 14 interest rate hike cycles—11 of which included a recession after the Fed funds rate peaked. Moreover, a financial crisis ensued after each tightening period. The 1970s experienced the Penn Central and Franklin National Bankruptcies. In the 1980s, the Latin American Debt and U.S. Savings and Loan Crises occurred. By the late 1990s, the Long-term Capital Management Collapse and Asian Debt Calamity shocked the markets. Finally, the 2008-2009 Great Financial Crisis and the 2019 repo market meltdown were also preceded by fiscal tightening.[2] History has shown us that further contractionary measures this year could trigger a downturn.

Figure 1: S&P 500 Index vs. M2 Money Supply – December 31, 2022 – June 30, 2023



Source: Bloomberg.

A Concentrated Market

On June 8, the stock market officially entered bull market territory. However, only a few companies and sectors have driven the recent rally. In the first half of 2023, Information Technology, Communication Services, and Consumer Discretionary holdings disproportionately outperformed across the MSCI ACWI Index. Meanwhile, Energy and Utilities shares underperformed. This quarter, the top 1% of names in the MSCI ACWI accounted for +76% of the total portfolio return. As referenced in Figure 2 on the next page, the S&P 500, MSCI EAFE, and MSCI ACWI ex-US Indices also demonstrated a similar performance trend, skewed to mega-cap technology stocks.

The concentration of gains in a few companies created an illusion of broad-based outperformance. The five largest stocks in the S&P 500 (**Apple, Inc., Microsoft Corporation**, **Alphabet Inc.**, **Amazon.com, Inc**., and **Nvidia Corporation**) contributed +78% of the total gain year to date.[3] The market would have remained relatively flat without these extraordinary returns. This reality highlighted the disparity between the success of a handful of businesses and the lackluster performance of the rest of the market. To put this into perspective, the median stock in the S&P 500 Index experienced a +3% increase this year.[4]

[1] The U.S. Federal Reserve. Monetary Policy Report. June 16, 2023.
[2] Lenore Elle Hawkins, "Will We See a Recession This Year? What History Tells Us," Nasdaq.com, June 29, 2023, https://www.nasdaq.com/articles/will-we-see-a-recession-this-year-what-history-tells-us, Accessed July 10, 2023.
[3] Lauren Solberg, "5 Charts on the Super Concentrated Stock Market," Morningstar, Inc., June 8, 2023, https://www.morningstar.com/markets/5-charts-about-super-concentrated-stock-market, Accessed July 10, 2023.
[4] Jonathan Ponciano, "Best And Worst Investments Of 2023: Bitcoin And Tech Stocks Surge As Oil Tumbles," *Forbes*, July 3, 2023, https://www.forbes.com/sites/jonathanponciano/2023/07/03/best-and-worst-investments-of-2023-bitcoin-and-tech-stocks-surge-as-oil-tumbles/?sh=7272d7d93acb, Accessed July 12, 2023.

This number starkly contrasts with the impressive +16% total return of the S&P 500 in the same period. The average investor would have witnessed more modest gains without the contribution of these high performers. Also, such narrow leadership raises the risk of a market correction if these select stocks falter.

Figure 2
Top

	ACWI	ACWI ex US	EAFE	SP500
1%	76%	57%	30%	55%
5%	105%	129%	81%	89%
10%	119%	167%	115%	100%

Bottom

	ACWI	ACWI ex US	EAFE	SP500
1%	-12%	-40%	-14%	-4%
5%	-25%	-73%	-35%	-11%
10%	-31%	-91%	-48%	-16%

3/31/2023-6/30/2023

Lose the Battle to Win the War

Our deliberate underweight in Technology and Industrial stocks negatively impacted Ariel International Fund. Furthermore, our overweight in recession-resilient sectors such as Consumer Staples and Health Care, and Utilities contributed to Ariel Global Fund's underperformance. As active investors, we consciously deviate from benchmarks in our quest for value. As such, we have avoided the expensive U.S. market while leaning into undervalued opportunities in Europe and Emerging Markets.

We believe the factors that hindered us this year will pivot in our favor once the effects of excessive monetary and fiscal stimulus abate. We are not out of the woods yet on inflation or a recession. As a result, we prefer to own business models and balance sheets that have the strength to cushion the blow from such macro pressures. Albert Einstein once said, *"The person who follows the crowd will usually go no further than the crowd."* While our contrarian approach has hurt us recently in a speculative market, we expect it will help us when fundamentals take center stage.

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 and exchange-traded funds (ETFs) 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 Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and the Funds' 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.

As of September 30, 2022, Ariel International Fund's Investor Class and Institutional Class had gross annual expense ratios of 1.28% and 0.93%, respectively. As of September 30, 2022, Ariel International Fund's Investor Class and Institutional Class had annual net expense ratios of 1.13% and 0.88% respectively. As of September 30, 2022, Ariel Global Fund's Investor Class and Institutional Class had gross annual expense ratios of 1.30% and 0.94%, respectively. As of September 30, 2022. Ariel Global Fund Investor Class and Institutional Class had net annual expense ratios of 1.13% and 0.88%, respectively. Currently, expense ratio caps of 1.13% for the Investor Class and 0.88% for the Institutional Class of these Funds are in place to waive fees and reimburse certain expenses that exceed these caps. Ariel Investments, LLC (the Adviser) is contractually obligated to maintain these expense ratio caps through 9/30/24.

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 6/30/23, Ariel International Fund did not hold any of the companies referenced. As of 6/30/23, Ariel Global Fund held the following position referenced: Microsoft Corporation 8.15%.

Each Fund's primary index is the first one listed below each respective Fund'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. Its 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 EAFE Momentum Index is based on MSCI EAFE Index, its parent index, which includes large and mid cap stocks across 21 Developed Markets (DM) countries excluding the US and Canada. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover. The inception date is December 11, 2013. 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. The MSCI ACWI ex-US Momentum Index is based on MSCI ACWI ex-US, its parent index, which includes large and mid cap stocks across 22 Developed Markets (DM) countries excluding the US. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover. The inception date is December 11, 2013.

The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The inception date is May 31, 1990. The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 25 Emerging Markets (EM) countries. Its inception date is December 8, 1997. The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries* and 24 Emerging Markets (EM) countries. Its inception date is December 8, 1997. The MSCI ACWI Momentum Index is based on MSCI ACWI, its parent index, which includes large and mid cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. It is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum, while maintaining reasonably high trading liquidity, investment capacity and moderate index turnover. The inception date is February 15, 2013.

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.

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