

As of September 30, 2023

Performance (%)	Annualized						
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Fund							11/06/1986
ARGFX Investor Class	-7.15	2.12	14.56	12.45	3.73	7.50	10.37
ARAIX Institutional Class	-7.08	2.35	14.91	12.80	4.05	7.83	10.48
Russell 2500™ Value Index	-3.66	1.95	11.34	13.33	3.99	6.95	10.29
Russell 2500™ Index	-4.78	3.59	11.28	8.39	4.55	7.90	10.12
S&P 500® Index	-3.27	13.07	21.62	10.16	9.92	11.92	10.46
Ariel Appreciation Fund							12/01/1989
CAAPX Investor Class	-6.48	-0.08	14.95	10.82	4.16	6.38	9.73
CAAIX Institutional Class	-6.38	0.18	15.32	11.18	4.50	6.73	9.85
Russell Midcap® Value Index	-4.46	0.54	11.05	10.99	5.18	7.92	10.51
Russell Midcap® Index	-4.68	3.91	13.45	8.10	6.38	8.99	10.67
S&P 500® Index	-3.27	13.07	21.62	10.16	9.92	11.92	9.93

Dear Fellow Shareholder: Three-quarters of the way into the year, two separate and distinct versions of the stock market are playing out. The big companies comprising the S&P 500 Index have posted double-digit returns, driven by very narrow tech stock leadership, while small companies have been sidelined. To this point, *The Wall Street Journal* notes, “The Russell 2000 Index remains in a bear market since peaking in late 2021 and has lagged behind the large capitalization Russell 1000 by 13 percentage points this year.”¹ The Federal Reserve’s monetary policy is principally responsible for this stark performance differential. To tame inflation not seen in four decades, the Fed has rapidly increased interest rates over the last 20 months. Many remain concerned these efforts to manage a slowdown will trigger a recession. These fears intensified once the Fed conceded that rates—now at a 22-year high—would need to be “higher for longer.” In a recessionary scenario, smaller companies tend to be more economically sensitive than their larger cap brethren, especially big tech, which are now viewed as defensive businesses that can grow through any economic cycle. Hence, the cloud looms over the small and mid-cap benchmarks—with their value counterparts even more chastened.

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.

¹ Spencer Jakob. “It’s Almost Time to Buy Small Caps.” *The Wall Street Journal*. October 11, 2023. Page B14.

Against this backdrop, our own interest rate-sensitive names, particularly those that are housing-related, penalized our results during the third quarter. And yet, our year-to-date returns remain compelling versus our indices—particularly our primary value benchmarks. As higher mortgage rates have negatively impacted new home sales in recent months, companies like mortgage servicer, **First American Financial (FAF)**; generator maker, **Generac Holdings Inc. (GNRC)**; and pool provider, **Leslie's, Inc. (LESL)** have traded down in anticipation of ongoing weakness. While housing affordability may be upended by Fed monetary policy in the near term, we believe a continuing housing shortage in the U.S. must ultimately be addressed. As new home sales normalize, we expect our oversold housing names to recover.

Fear and Loathing in Las Vegas

Someone once said, “Every problem can be an opportunity.” Herein lies the essence of value investing. Those of us who look for mispriced securities seek to determine if a distressed stock price represents a temporary setback or a permanent barrier. To that point, since its public company debut, **Sphere Entertainment Company (SPHR)** has been one of our most contrarian holdings whose compounding problems created a great buying opportunity that is beginning to pay off.

Sphere is a stock born in angst. This past April, long-time holding **Madison Square Garden Entertainment Corp. (MSGE)** continued a multi-year transformation by splitting into two companies. Madison Square Garden Entertainment houses the world-renowned Madison Square Garden and Radio City Music Hall, among other noted venues. Sphere Entertainment Company owns the new state-of-the-art Sphere in Las Vegas as well as the regional sports network MSG Networks. At the end of March, the combined company traded at a 43% discount to our estimate of its private market value. Executive Chairman and CEO James Dolan believed separating the businesses into two publicly traded entities would allow investors to value them properly. We agreed and still hold both in our various domestic portfolios.

The pre-market spinoff sentiment for MSGE was higher because of the cash flow generation of its renowned assets. By contrast, investors were negative about SPHR. Jim Dolan’s “pet project” was a fully immersive entertainment concept facing significant cost overruns. The building is the largest spherical structure in the world and can even be seen from space. It is so immense that the entire Statue of Liberty could fit inside. It holds up to 20,000 people and boasts the biggest LED screen in the world—measuring more than three football fields. The Sphere’s sound system, comprised of 160,000 speakers, is said to make every seat “the best seat in the house.” Solar power provides 70% of its energy.

The structure’s original \$1.2 billion estimated cost announced in May 2019 was revised upward *five* times—ultimately coming in at \$2.3 billion or 92% over budget. This price tag left Wall Street aghast. Doubt turned to revulsion.

We, too, were initially skeptical of management’s unbridled enthusiasm for the Sphere—that is, until we visited a one-fourth-sized “mockup” of the structure outside of Los Angeles, toured the Las Vegas construction site at various stages of completion, and did the math. We do not invest in hope. Our experience and expertise convinced us of the uniqueness of the concept and the possibility that an instant icon could be created.

We were also intrigued by the bonus cash flow that could be generated by the building itself. The so-called “exoskeleton”—or skin of the structure—is a programmable LED screen available for advertising and could perhaps become the largest billboard ever created. We believed that in success, the building could be replicated in other areas of the world enabling costs to be amortized to generate higher returns. Lastly, the stock was cheap.

The major bear cases were (are):

- SPHR would not be able to sell off its hospitality subsidiary, TAO Group, in tough market conditions. *Update: They did and secured a nice price as well.*
- They would flip the switch and the building would not light up. *Update: It did.*
- There would be a massive share overhang from the spin-off as investors chose to divest SPHR and hold MSGE. *Update: That did happen, but ultimately, an asset or company trades back to intrinsic value after the initial supply/demand conditions settle. The overhang allowed us to accumulate cheaper SPHR shares as investors were dumping them and benefitted MSGE which we used to fund those purchases.*
- The economic value of the Sphere is closer to the initial \$1.2 billion cost estimate versus the actual final \$2.3 billion cost. *Update: This may prove true, but the current market implied value of the Sphere is closer to the initial cost. At one point, the actual traded market implied value of the Sphere was below the initial cost, which we viewed as a dramatically bearish assessment.*
- The business model to build new Spheres suggests years of capital intensive, low return misery. *Update: Management has been clear that any future Sphere development will employ a capital-light strategy whereby the construction cost risk and capital outlay are assumed by another party.*

SPHR closed at \$25.61 a share on April 21, 2023, its first day of trading as a stand-alone company. In less than a month, the stock had drifted down to a \$21.53 low. Even against conservative assumptions, this price tag was deeply discounted in our view. Then, as word of the inaugural U2 residency and the building's breakthrough innovations began to spread, fear and loathing quickly turned to enthusiasm and anticipation. *The Washington Post* proclaimed, "The Duomo. The Pantheon. The Superdome. The Sphere."² Shares jumped +11% after the building, and U2 opened to rave reviews in late September, closing out the quarter at \$37.16—a +69% increase from its spring inception price.

Despite early successes, we continue to debate the investment by reference checking every aspect of the opportunity—from its staying power to its ability to replicate. Although we have taken some profits as shares have run up, we continue to hold the name as SPHR trades at a 35% discount to our private market value estimate as we write.

Our Ariel View

From where we sit, a recession is not guaranteed—although a world of “polycrises” is amplifying risk. Two terrible wars, congressional dysfunction, a looming government shutdown as well as an ever-worsening situation at the border point to escalating dangers to the global economy. As bottom-up stock pickers, we do not make macroeconomic prognostications and cannot predict what *will* happen. Still, if a recession does unfold, we continue to believe it would be mild when one considers the enduring strength in consumer confidence, labor markets, wages, and overall economic growth.

Despite our more sanguine view, worst-case scenarios are being priced into large swaths of the market as well as our portfolios. Having just passed a massive stress test (the pandemic) and sitting with a portfolio priced for the bad state of the world, we believe our ever-growing margin of safety³ will serve us well. We also take solace in knowing smaller companies tend to rebound strongly from economic slowdowns. In fact, “[o]ver the past 11 recessions, a small-cap stock index maintained by MSCI has beaten large caps in the 12 months after a recession was declared every time, leading them by 16.51 percentage points on average.”⁴

² Maura Judkis. “In Vegas, the only thing to Sphere is Sphere itself.” *The Washington Post*. October 11, 2023. Online.

³ 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.

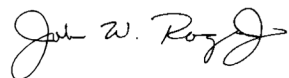
⁴ Spencer Jakab. “It’s Almost Time to Buy Small Caps.” *The Wall Street Journal*. October 11, 2023. Page B14.

Portfolio Comings and Goings

During the quarter, in Ariel Fund, we added marketer and distributor of over-the-counter pharmaceutical drugs and products, **Prestige Consumer Healthcare Inc. (PBH)**, which has a history of innovation and acquisitions to meet unmet consumer needs. We did not eliminate any names. Nor did we initiate or exit any positions in Ariel Appreciation Fund this quarter.

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

Sincerely,



John W. Rogers, Jr.
Chairman and Co-CEO



Mellody Hobson
Co-CEO and President

Investing in small- and mid-cap stocks is more risky and volatile than investing in large-cap stocks. 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 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.

Per Ariel Fund's Annual Report for the year ended September 30, 2022, Ariel Fund's Investor Class and Institutional Class shares had an annual expense ratio of 0.98% and 0.67% respectively.

Per Ariel Appreciation Fund's Annual Report for the year ended September 30, 2022, Ariel Appreciation Fund's Investor Class and Institutional Class shares had an annual expense ratio of 1.10% and 0.79% respectively.

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 9/30/23, Ariel Fund held the following positions referenced: Madison Square Garden Entertainment Corporation 3.81%; Sphere Entertainment Company 3.08%; Generac Holdings, Inc. 2.61%; Prestige Consumer Healthcare, Inc. 2.41%; First American Financial Corporation 2.28% and Leslie's, Inc. 2.54%. As of 9/30/23, Ariel Appreciation Fund held the following positions referenced: Madison Square Garden Entertainment Company 2.40%; Generac Holdings, Inc. 2.35%; First American Financial Corporation 2.02% and Sphere Entertainment Company 0.80%.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index.

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.

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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.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary prospectus which contains this and other information about the funds offered by Ariel Investment Trust, call us at 800-292-7435 or visit our website, arielinvestments.com. Please read the prospectus or summary prospectus carefully before investing. Distributed by Ariel Distributors LLC, a wholly-owned subsidiary of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.