

Ariel Focus Fund

Quarter Ended March 31, 2024

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. 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. Performance data current to the most recent month end for Ariel Focus Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2024 the average annual returns of Ariel Focus Fund (investor class) for the 1, 5, and 10 year periods were +14.54%, +8.38%, and +6.44%, respectively.

U.S. indices continued to exceed expectations in the first quarter. Investor enthusiasm around artificial intelligence (AI), resilient corporate earnings growth, falling inflation and expectations for interest rate cuts this year drove a broad-based rally. While momentum was the largest driver of performance across size and style, all sectors in the S&P 500, except real estate, posted gains. Fears of a recession have been replaced with optimism and bullish market sentiment. Such turns in market psychology and economic forecasts highlight the challenges of market timing and the importance of taking a long-term view. Although exuberance, particularly for AI-themed mega-cap stocks may eventually prove to be excessive, the patient investor knows stock prices trade on fundamentals. Against this backdrop, Ariel Focus Fund advanced +7.45% in the quarter, trailing the +8.99% return posted by Russell 1000 Value Index and the +10.56% gain of the S&P 500 Index.

Manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK)** advanced during the quarter. Although consumer demand and pricing remains muted due to a challenging macro backdrop, cost savings and productivity initiatives, along with lower input costs more than offset these difficulties. In our view, MHK's healthy balance sheet and success managing through economic cycles position the company to benefit from long-term growth in residential remodeling, new home construction and commercial projects. At current levels, MHK is trading at compelling discount to our estimate of private market value.

Manufacturer of premium fuel and electrical systems, **Phinia Inc. (PHIN)** also traded up in the period on solid earnings results and a positive full year 2024 outlook. Healthy consumer pricing, new business wins across all end markets, ongoing weakness in electric vehicles, growth in light vehicle original equipment and strong cost controls, more than offset disappointing commercial vehicle sales in China. Meanwhile, management continues to prioritize capital returns to shareholders via buybacks and dividends. Looking ahead, we expect PHIN to deliver sustainable, profitable growth and

significant cash generation as it captures operational efficiencies, exits agreements with its former parent company BorgWarner Inc. and also expands its industrial and aftermarket customer base.

Additionally, supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** advanced following a top- and bottom-line quarterly earnings beat. Despite a challenging macro environment and slower turnover in the housing market, stabilizing order rates and gross margin expansion aided share price appreciation. Additionally, management continues to return capital to shareholders through buybacks. In our view, the company's best-in-class brand and vast distribution network create a narrow moat around the business resulting in high market share across its product portfolio. We believe REZI's earnings potential is underappreciated and will be driven by a secular preference for more connected smart home solutions.

There were a few notable performance detractors in the quarter. Shares of producer and marketer of crop nutrients, **Mosaic Co. (MOS)**, declined in the period, as weaker than expected phosphates and fertilizer volumes as well as higher raw material and production costs weighed on the bottom-line. Management reiterated expectations for tight global grain and oilseed markets in 2024 and believe growers will continue to be incentivized to maximize yields by applying fertilizers. Meanwhile, MOS is focused on cost discipline, free cash flow generation and paying down debt, while continuing to return significant capital to shareholders through buybacks. Given management's disciplined approach towards capital allocation, we continue to believe the company is well positioned from a risk/reward standpoint.

Oil and natural gas explorer, **APA Corporation (APA)**, also traded lower in the quarter following an earnings miss. Weaker than expected production guidance and an upcoming increase in capital investment weighed on investor sentiment. Additionally, the company's pending acquisition of Callon Petroleum Company, which stands to enhance the scale of APA's existing Delaware Basin assets and appears accretive



to key financial metrics in late 2024 and beyond, is still being digested by investors. Nonetheless, APA continues to deliver strong well performance in the Permian Basin and express confidence in its Suriname development, as it continues to work with TotalEnergies to complete a plan for the oil hub. Management remains focused on free cash flow generation and returning capital to shareholders.

Lastly, gold mining company, **Barrick Gold Corporation (GOLD)** fell in the period. Although GOLD delivered in-line earnings results, as higher prices offset lower gold and copper volumes as well as increased costs, investors were disappointed with management's outlook for full year 2024. GOLD guided to flat production year-over-year driven by lower-than-expected output due to a delayed permit at the Nevada Gold Mines and mechanical issues at Pueblo Viejo. Management remains laser focused on upgrading its mining operations and broadly improving efficiencies amid today's rising prices for precious metals. The company also continues to prioritize capital returns to shareholders via dividends and a recently announced share repurchase program.

Also in the quarter, we initiated a position in **Core Laboratories NV (CLB)**, which provides reservoir description and production enhancement services to the oil and gas industry. In response to a recently difficult operating environment amplified by geopolitical tensions, management announced prudent enhancements to an existing cost reduction plan, which help CLB achieve its free cash flow targets and reduce debt levels. Longer-term we expect current challenges will continue to abate allowing this asset light business to deliver modest growth in reservoir description. The market's focus on near-term disruptions allowed us to initiate a position in Core Labs at a substantial discount to our calculation of the company's private market value and an attractive multiple of forward earnings.

We also repurchased former holding and leading manufacturer of consumer food products, **J.M. Smucker Co. (SJM)** after the market reacted negatively to the company's recent acquisition of snack-maker Hostess. In our view, iconic brands produce consistent returns on stable consumer demand. After several years of inflationary pressures, SJM's disciplined management team has successfully been able to pass through higher pricing to cover increased costs. Meanwhile, SJM generates relatively high levels of free cash flow, which allows it to deploy cash between business growth initiatives (brand investment, business expansion, and M&A) and shareholder return programs (dividend increases and share repurchases).

By comparison, we successfully exited bar-code manufacturer, **Zebra Technologies (ZBRA)** as shares approached our estimate of private market value. We also eliminated direct-to-consumer pool and spa care services company, **Leslie's Inc. (LESL)**, for more compelling opportunities.

While Wall Street's newly dubbed "fab four"¹ have dominated the rally in recent months, their concentration and elevated valuations remain highly influential on overall market performance. Escalating geopolitical tensions, the potential timing of the Fed pivot, as well as the outcome of the upcoming U.S. Presidential election also pose risks. As the bull market climbs the proverbial "wall of worry," we consider macroeconomic developments and recent headlines within the context of our long-term investment horizon. We continue to be cautiously optimistic and believe the underlying strength of corporate profits will prove resilient. Consumers are still spending, unemployment remains low and the balance sheets of U.S. financial institutions and households are generally in good shape. As rates begin to subside in 2024 and beyond, we think the gap between mega-cap stocks and their small to mid-cap counterparts will narrow, fortified by consumer confidence, sticky wages, as well as slowing, yet steady long-term economic growth. Meanwhile, we stand ready to take advantage of any pull backs. We strongly believe the disciplined investor that stays the course and consistently owns differentiated, quality business models with robust balance sheets will deliver superior returns over time.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small and mid cap companies is riskier and more volatile than investing in large cap companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified investment. The Fund is often concentrated in few sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

As of February 1, 2024, Ariel Focus Fund Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.16%. Currently, an expense ratio cap of 1.00% is in place for the Investor Class to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments LLC (the Advisor) is contractually obligated to maintain this expense ratio cap through 1/31/25. The net expense ratio for the Investor Class does not correlate to the Expense Cap due to the inclusion of acquired fund fees and

¹ The "Fab Four" are the largest stocks in the S&P 500 Index driving market performance: Amazon.com, Inc. (AMZN), Meta Platforms Inc. (META), Microsoft Corp. (MSFT) and NVIDIA Corp. (NVDA).



certain other expenses which are excluded from the Expense Cap.

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. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 3/31/24, Mohawk Industries Inc. constituted 5.7% of Ariel Focus Fund; Phinia Inc. 4.0%; Resideo Technologies, Inc. 4.7%; Mosaic Co. 3.2%; APA Corporation 4.7%; Barrick Gold Corporation 3.0%; Core Laboratories NV 2.7%; J.M. Smucker Co. 1.8%; Zebra Technologies 0.0%; and Leslie's Inc. 0.0%. Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of Ariel Focus Fund.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

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.

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.



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