

Ariel 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 Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2024, the average annual returns of Ariel Fund (investor class) for the 1-, 5-, and 10-year periods were +15.55%, +8.76%, and +8.31%, 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 Fund advanced +6.41% in the quarter, ahead of the Russell 2500 Value Index's +6.07% gain but slightly trailing the +6.92% return posted by the Russell 2500 Index.

Some holdings in the portfolio advanced considerably this quarter. Shares of live entertainment, media and technology company, **Sphere Entertainment Co. (SPHR)** jumped during the period. SPHR's first full quarter of operating results were robust. Revenue and margins beat expectations driven by the strong performance of the Sphere's experience show, Postcard from Earth, sellout crowds at the U2 concerts and a highly profitable takeover of the Sphere by F1. Additionally, events such as the Consumer Electronics Show and Super Bowl in Las Vegas, are expected to aid advertising and sponsorship revenues from the Exosphere (the Sphere's exterior). Meanwhile, the CEO purchased a significant number of shares, underscoring his confidence in the company as well as its ability to secure global franchise partners for future Sphere models. Although the Las Vegas venue will take some time to reach its full potential, the company is well on its way to having events 365 days a year including concert residencies, marquee sporting and corporate events, and Sphere Experience exhibits. In our view, the Sphere's new experiential immersive venue and the company's two regional sports and entertainment networks present a long-term

opportunity, which remains meaningfully underappreciated at current trading levels.

Manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK)** also increased 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 a compelling discount to our estimate of private market value.

Additionally, **Madison Square Garden Entertainment Corp. (MSGE)**, shares advanced in the quarter following a robust earnings beat, driven by an increase in the number of concerts held at MSGE's venues, strong demand for the *Christmas Spectacular* and higher per-event revenues. Notably, management raised full year 2024 guidance and reiterated its outlook to achieve a low-double-digit percentage increase in event bookings. With marquee assets such as New York's Madison Square Garden, Radio City Music Hall, Beacon Theatre and The Chicago Theater, we believe MSGE is well positioned to capitalize on strong demand for live entertainment. In our view, MSGE's assets generate stable cash flow that should enable deleveraging. At current levels, the company is trading at a significant discount to our estimate of private market value.

By comparison, entertainment company, **Paramount Global (PARA)**, traded lower in the quarter as linear Pay TV pressures including shifts in viewership, subscriber erosion, softer ad revenues and continued losses in its streaming business presented headwinds. Despite the negative price action, management expects the consolidated company to deliver significant earnings growth in 2024 and reach Paramount+ domestic profitability in 2025. Meanwhile, PARA remains laser focused on optimizing its cost base while improving monetization for its streaming business, which



should drive free cash flow in 2024 and beyond. After many calls with management we have a high degree of confidence that the value of Paramount's proprietary content remains meaningfully underappreciated at current trading levels. However, recent rumors regarding merger talks that forego competitive bidding in favor of an exclusive discussion with Skydance, where the control premium would differentiate the financial position of a single shareholder over all other shareholders is averse to the fair market value of the company. This action along with a new proposal for changes at the board level have heightened our concerns around the company's ability to act on behalf of all shareholders.

Shares of global leader in for-profit education, **Adtalem Global Education (ATGE)**, tumbled when the publication of a short report accusing the company of being at risk of losing some federal funding was picked up by a major news outlet. Management moved up its earnings release to publicly address the "inaccuracies and misleading conclusions," noting there is "no existential threat" to the business or federal funding. Meanwhile, the fundamentals of the business remain robust, underscored by a top-and bottom-line earnings beat, significant margin expansion and an acceleration in new student enrollment growth. As the number one grantor of nursing degrees in the U.S. and the largest producer of African American MDs, PhDs and nurses in the country, we remain confident ATGE will benefit from the healthcare worker shortage in the U.S.

Lastly, global dental manufacturing company, **Envista Holdings Corp. (NVST)**, declined on mixed earnings results and disappointing full year guidance implying a step-down in profitability. The company is navigating heightened investments, sanctions in Russia and pricing pressures in China due to volume-based procurement (VBP) reimbursement, as well as a weakening environment in North America for large dental equipment and implants. Meanwhile, NVST is in search of a new CEO and CFO creating another business distraction and further uncertainty. Shares are likely range bound for the next couple of quarters until a new leadership team is installed and NVST works through its challenges. We are deeply disappointed with this investment. After reassessing the name, we have concluded that the company has multiple opportunities to drive upside over the long-term. We believe NVST will benefit from its rich research and development pipeline, several new products in high-growth dental segments, facility consolidation and previous IT investments. At current levels, we believe the downside is priced in. We are now evaluating the upside return potential with shares trading at a significant discount to our estimate of private market value.

We did not initiate any new positions in the quarter, however we successfully sold out of tool manufacturer, **Snap-on Incorporated (SNA)** to take profits as shares reached our estimate of private market value.

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 small- and mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Fund is often concentrated in fewer sectors than its benchmarks, and its 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 the Fund's Prospectus as of February 1, 2024, the Fund's Investor Class shares had an annual expense ratio of 0.99%.

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, Sphere Entertainment Co. constituted 4.3% of Ariel Fund; Mohawk Industries Inc. 4.1%; Madison Square

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).



Garden Entertainment Corp. 4.1%; Paramount Global 3.3%; Adtalem Global Education 4.0%; Envista Holdings Corp. 2.7%; and Snap-on 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 Fund.

Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

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 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. 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



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