Ariel Global 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 Global Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2024 the average annual total returns of Ariel Global Fund (Investor Class) for the 1, 5, and 10-year periods were +15.79%, +7.81%, and +6.48%, respectively.

Developed markets continued their upward trajectory in the first quarter. Investor enthusiasm around artificial intelligence (AI), a recovery in bank lending growth, lower energy costs, a pick-up in global manufacturing activity, recent structural reforms in Japan and the near-term prospect of a rate-cutting cycle in both the U.S. and Europe drove a broad-based rally. While growth bested value and large cap issues outperformed their small cap brethren, all sectors in the MSCI ACWI Index, except real estate, logged 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. Meanwhile, we continue to improve our upside capture across our international and global portfolios while remaining laser focused on preserving downside protection. Against this backdrop, Ariel Global Fund traded +7.35% higher in the quarter, trailing the +8.20% gain of its primary benchmark, the MSCI ACWI Index, but ahead of the +6.85% return of its secondary benchmark, the MSCI ACWI Value Index.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel Global Fund is overweight Health Care, Consumer Discretionary, Utilities, Financials and Information Technology, significantly underweight Industrials and Consumer Staples, as well as lacks exposure to Energy and Materials. At the sector level, our Consumer Discretionary holdings and low cash position were the greatest contributors, while our Communication Services and Information Technology holdings were the largest performance detractors.

Leading provider of dialysis services, **DaVita, Inc.** outperformed during the period following a top- and bottom-line earnings beat. DaVita is benefitting from cost saving initiatives, early signs of a normalization in patient growth trends on par with pre-pandemic levels, improved leverage and an aggressive share buyback program. The company also recently announced an expansion of its international operations in Latin America, presenting an attractive long-term growth opportunity. Furthermore, management provided a 2024 financial outlook which is well above consensus and anticipates favorable growth. In our view, we believe the market misunderstands the long-term clinical impact of glucagon-like-peptide-1 (GLP-1s) on dialysis and as such, DaVita currently trades at a significant discount relative to our estimate of its intrinsic value.

Japanese auto manufacturer, **Subaru Corporation**, also increased over the period, following healthy earnings results driven by robust demand in North America and lower raw materials prices. Subaru is also benefitting from a recovery in its global production capabilities as semiconductor chip shortages have begun to subside. We remain focused on Subaru's solid business fundamentals and view its EV roadmap as a long-term opportunity to increase market share.

Additionally, new position, German-based automotive manufacturing company, **Daimler Truck Holding AG (DTG)**, advanced in the quarter. The market's pessimism on the overall magnitude of the industry's cyclical downturn provided us with an attractive entry point in the stock and then DTG delivered a significant earnings beat, highlighted by record margins at Mercedes-Benz, robust free cash flow generation as well as a favorable volume and margin outlook for 2024. In our view, Daimler is the highest quality truck original equipment manufacturer in the industry and we expect it to narrow the multiple gap versus competitor PACCAR. We believe the company's self-help efforts will result in higher margins throughout the cycle, improving Daimler's profitability over the medium term.

Alternatively, several positions weighed on performance. China's internet search and online community leader, **Baidu, Inc.** traded lower alongside Chinese equities as intensifying problems in China weighed on investor sentiment during the period. The company continues to invest heavily in Artificial Intelligence (AI) and recently launched its generative AI, Ernie Bot, aimed at rivaling Open AI's ChatGPT. While monetization of the new technology is largely dependent on regulatory review, we think Baidu should continue to experience margin improvement with the ongoing implementation of efficiency and profitability initiatives. While some investors remain on the sidelines due to uncertainty surrounding China's economic growth, government regulations, and the political rhetoric towards Taiwan, we remain enthusiastic about Baidu's longer-term opportunity for revenue growth and margin expansion across internet search, cloud, autonomous driving, artificial intelligence and online video.

One of the world's largest semiconductor chip manufacturers by revenue, **Intel Corporation**, also underperformed in the period as management provided a disappointing near-term outlook due to ongoing weakness and inventory right-sizing in non-core products. Nonetheless, Intel delivered solid quarterly earnings results, highlighted by a top-line beat driven by upside from the cyclical recovery of personal computers (PCs) and central processing units (CPUs). In our view, the market is overlooking the progress Intel is making to advance its manufacturing process and regain its technology advantage to compete as a top industry supplier. We believe the separation of the design and manufacturing businesses will be a key catalyst in unlocking improved financial performance while also enhancing the competitiveness of the foundry business.

Finally, leading electric utility in Spain, **Endesa S.A.** declined in the period. Earnings came in below expectations mainly due to the negative impact of a provision related to a gas contract arbitration. Broad weakness across the gas sector, driven by lower-than-expected consumption and a decline in prices further weighed down shares. Nonetheless, Endesa reiterated its strategic plan through 2026, which includes expectations for higher gas margins, a 70% dividend payout and an optimistic regulatory environment. In our view, Endesa presents a compelling long-term ESG opportunity, as it works toward shuttering coal capacity and moves forward with a multi-billion-euro investment in renewables to reduce greenhouse gas emissions and lower the cost of power generation.

We initiated nine new positions in the quarter.

We added **Aptiv PLC (APTV)** which designs and manufactures vehicle components and provides electrical/electronic and active safety technology solutions to the global automotive and commercial vehicle markets. We believe the secular trend of electrification and digitization within the automobile industry, coupled with the expansion of Chinese original equipment manufacturers (OEMs), will accelerate demand and drive long-term growth. Additionally, we anticipate APTV will grow earnings per share over the near-term through its divesture of the autonomous driving joint venture, Motional. In our view, the name is currently trading at a significant discount relative to our estimate of intrinsic value.

We purchased Japanese video game publisher, **Bandai Namco Holdings, Inc.** While anime has been highly popular in Japan, Netflix's recent streaming of anime content has expanded its popularity to markets overseas. Bandai is capitalizing on the strong growing demand for the genre through toy and video game sales, a global movie deal as well as the expansion of licensing its intellectual property across merchandise, trading cards and amusement arcades. In our view, the market is currently underappreciating Bandai's diversified growth potential. We see upside in the company's toys and hobby unit and forecast solid free cash flow generation in the years ahead.

We bought American healthcare company, **CVS Health Corporation (CVS)**, following recent concerns related to potential new laws affecting Pharmacy Benefit Managers (PBMs)—intermediaries that negotiate drug prices between insurers and pharmacies—and issues with pricing in its Medicare Advantage plans, a type of health insurance for senior citizens. Shares presented an attractive entry point after the company lowered its 2024 outlook. While investor apprehension regarding the new laws appears to have eased, utilization of Medicare Advantage plans is also stabilizing. Our purchase of CVS reflects our efforts to capitalize on temporary setbacks and secure positions in companies poised for a rebound.

We also added global financial services company, **Capital One Financial Corporation (COF)**. The company is the largest online consumer and commercial bank with a leading position in general purpose and small business credit cards. We view the company as competitively advantaged particularly due to their investment in technology. According to recent reports, COF is also rated as one of the leading banks within Artificial Intelligence (AI). Notably, the company recently announced an acquisition of Discover Financial Services (DFS) which we believe would produce significant long-term earnings accretion. COF will be able to leverage DFS' proprietary payments network, enabling direct interaction with merchants and consumers. This closed loop dynamic should lead to higher volumes of credit card conversions presenting further upside for its shares. At current levels, we view the long-term outlook to be attractive, given favorable business trends, stabilizing delinquency rates within the credit card industry, synergies from the DFS acquisition and COF's enhanced focus on technology.

We initiated a position in China-based technology-driven E-commerce company, **JD.com, Inc.** The brand has long been known across the region as a superior online shopping channel due to its unique first-party model and unparalleled fulfillment service underpinned by JD Logistics. Yet, a challenging macro environment drove shares lower as shoppers began seeking bargains. In response, the company made significant investments in elevating its third-party merchant platform to enhance its variety of product offerings and price competitiveness for consumers. We believe these actions will yield an improved product mix, stronger top-line growth and margin expansion on a go-forward basis.

We bought leading German multinational technology conglomerate, **Siemens AG**. The company's operations encompass automation for manufacturing and processing, smart infrastructure, energy systems, rail technology, and digital healthcare solutions. Although shares have historically been undervalued due to concerns over the complexity of its disparate portfolio of businesses across sectors, we have identified several factors conducive to a potential re-rating. Over the last five years, Siemens has simplified its portfolio into high-quality businesses benefitting from secular growth themes such as energy transition, digitalization and industrial automation. Additionally, the new, shareholder-friendly management team is focused on enhancing free cash flow generation and improving capital allocation, which we view as a key catalyst benefitting the stock longer-term.

We added multinational automotive manufacturing company, **Stellantis N.V. (STLA)**, which was formed from the merger of Fiat Chrysler Automobiles and the French PSA Group in the period. With deal synergies lowering overall operating expenses and contributing to healthy free cash flow generation, management has begun increasing shareholder returns through dividends and share buybacks. Although some investors remain on the sidelines over concerns auto sales and margins have peaked, STLA's average transaction price is growing year-over-year. We think this momentum will continue and expect STLA to deliver double-digit operating profit margin as it further expands its leading position in the Middle East and South America. Furthermore, the company's Leapmotor joint venture presents a unique way to benefit from the strengths of Chinese original equipment manufacturers. Meanwhile, in the current electric vehicle slowdown environment, we believe STLA is best positioned to weather the storm. Management believes it can maintain profitability and is open to rationalizing its 14 brands. STLA seeks to be number one in the commercial vehicle segment by 2027, which comes with high customer stickiness, solid profitability and recurring revenue streams.

We purchased American software company, **Teradata Corporation (TDC)**, which is a provider of business analytic solutions, hybrid cloud products and consulting services. Teradata stands out for its ability to manage and analyze large, complex datasets, with the largest number of concurrent users and lowest cost per query while offering deep analytical insights across various operational data sets. Although the market is focused on near-term setbacks in the company's transformation to a cloud-based computing model, we believe the Teradata's technology advantages, updated cloud offerings, and install base provide for a solid long-term trajectory in an important growth area.

And as mentioned previously, we initiated a position in German-based automotive manufacturing company, **Daimler Truck Holding AG.**

By comparison, we exited ten positions in the quarter.

We exited the following positions on solid performance across our holding period to pursue more compelling opportunities: British property and casualty (P&C) insurer, **Admiral Group PLC**; provider of product-driven information system solutions to major telecommunication companies, **Amdocs Limited**; processor, producer, and seller of cigarettes and other tobacco products, **KT&G Corporation**; tobacco maker, **Philip Morris International Inc. (PM)**; German reinsurer, **Munich Re**; Swiss multinational food and drink processing conglomerate **Nestle S.A.**; and Italian midstream energy company, **Snam SpA**.

To pursue higher conviction opportunities and pare back holdings representing less than 1% of the portfolio so each of our resulting holdings may have more impact, we sold our stakes in the following names: maker of health, hygiene, post-natal and home products, **Reckitt Benckiser Group PLC**; real estate investment trust, **Equity Commonwealth (EQC)**; and China based air travel ticketing company, **TravelSky Technology Ltd**.

As broad optimism continues to prevail, there are cautious undertones. Although market concentrations have their own peaks and troughs, volatility is near historical lows. The mega-cap technology names—whose elevated valuations continue to highly influence overall market performance—appear vulnerable to a correction. Escalating geopolitical tensions, unpredictable monetary policy, 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 expect these uncertainties will likely result in a period of heightened volatility and widening dispersion of returns, creating opportunities for active managers with focused expertise to shine. In our view, higher quality companies with robust balance sheets will be the drivers of future outperformance. Accordingly, we are finding many mispriced stocks where valuation is attractive, profitability less vulnerable and balance sheets remain strong.

Investments in non-U.S. securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving non-U.S. economies, markets, political systems, regulatory standards, 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 Fund invests may never be recognized by the broader market. The 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.

As of February 1, 2024, Ariel Global Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.36%. Currently, an expense ratio cap of 1.13% 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 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 3/31/2024, DaVita, Inc. constituted 4.4% of Ariel Global Fund; Subaru Corporation 3.4%; Daimler Truck Holding AG 2.1%; Baidu, Inc. 2.8%; Intel Corporation 3.0%; Endesa SA 1.9%; Aptiv plc 1.5%; Bandai Namco Holdings, Inc. 1.6%; CVS Health Corporation 2.2%; Capital One Financial Corporation 1.8%; JD.com, Inc. 1.2%; Siemens AG 1.7%; Stellantis NV 1.9%; Teradata Corporation 1.5%; Admiral Group PLC 0.0%; Amdocs Ltd. 0.0%; Equity Commonwealth 0.0%; KT&G Corp. 0.0%; Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen (Munich Re) 0.0%; Philip Morris International Inc. 0.0%; Reckitt Benckiser Group PLC 0.0%; Snam SpA 0.0%; and TravelSky Technology Ltd 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 Global Fund.

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

Indexes are unmanaged. An investor cannot invest directly in an index. The MSCI ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. 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. 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 company's 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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SLOW AND STEADY WINS THE RACE