Ariel International Developed Markets / Emerging Markets

Quarter Ended March 31, 2024

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, the Ariel International DM/EM Composite traded up +5.21% gross of fees (+5.01% net of fees) in the period, ahead of both its primary and secondary benchmark, MSCI ACWI ex-US and MSCI ACWI ex-US Value Indices, which returned +4.69% and +3.40%, respectively.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. The Ariel International DM/EM bottom-up strategy is overweight Consumer Discretionary, Financials, Utilities, Health Care and Communication Services. The portfolio is meaningfully underweight Industrials, Energy and Information Technology, and lacks exposure to Materials and Real Estate. At the sector level, our Consumer Discretionary, Financials and Consumer Staples holdings were the largest source of positive attribution. By comparison, our investment choices within Communication Services and Information Technology, as well as our overweight within Utilities were the greatest performance detractors during in the quarter.

Japanese auto manufacturer, **Subaru Corporation**, outperformed over the period, following healthy earning 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.

New position, German-based automotive manufacturing company, **Daimler Truck Holding AG (DTG)**, also 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.

Additionally, global pharmaceutical and healthcare company, **GSK plc.**, jumped during the period following a top-line beat driven by strong vaccine sales and an upward revision in long-term sales guidance. Although risks around the Zantac litigation remain a concern, we believe GSK should generate sustainable growth and margin expansion as the company transitions its Pharma pipeline towards specialty medicines and vaccines. Furthermore, the company's robust balance sheet provides the scope for bolt-ons, which has the potential to drive additional growth.

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.

Leading electric utility in Spain, **Endesa S.A.** also underperformed 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.

Finally, new holding within the portfolio, Japanese video game publisher, **Bandai Namco Holding Inc.**, declined in the quarter on the announcement of larger than expected game impairments and subsequent downward revision in full year guidance. We think earnings for the digital gaming segment have bottomed and expect the division to return to growth over the next fiscal year given Bandai's healthy pipeline and improved standards for greenlighting new video games. 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 initiated six new positions during 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 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 also 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.

And as mentioned previously, we established positions in German-based automotive manufacturing company, **Daimler Truck Holding AG** and Japanese video publisher, **Bandai Namco Holdings, Inc.**

Meanwhile, we exited thirteen 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**; processor, producer, and seller of cigarettes and other tobacco products, **KT&G Corporation**; Japanese manufacturer and seller of compact motors, **Mabuchi Motor Co. Ltd.**; German reinsurer, **Munich Re**; Japanese

entertainment developer **Nintendo Co. Ltd**; Italian midstream energy company, **Snam SpA**; UK wealth management company, **St. James's Place plc**; and security and derivatives exchange, **Singapore Exchange Ltd**.

To pursue higher conviction opportunities and pair 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: manufacturer and seller of pharmaceutical products, **Ono Pharmaceutical Company, Ltd.**; Luxembourg based media company, **RTL Group SA**; maker of health, hygiene, post-natal and home products, **Reckitt Benckiser Group PLC**; and China based air travel ticketing company, **TravelSky Technology Ltd.**

We also exited **iShares MSCI ACWI ex U.S. ETF** to deploy the cash to compelling equity investments.

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 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 within the strategy may never be recognized by the broader market. The strategy is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

Past performance does not guarantee future results. Performance results are shown net of the highest management fee charged to any client in the Composite during the performance period. Net returns reflect performance returns after the deduction of advisory fees and transaction costs and assume the reinvestment of dividends and other earnings. For the period ended 3/31/2024, the performance (net of fees) of the Ariel International (DM/EM) Composite for the 1-, 5-, and 10-year periods were +10.86%, +5.07%, and +3.99%, respectively. For the period ended 3/31/2024, the performance for the MSCI ACWI ex US Index and the MSCI ACWI ex US Value Index for the 1-, 5-, and 10-year periods were +13.26%, +5.96%, +4.25% and +15.34%, +5.35%, and +3.20%, respectively. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. A complete fee schedule is available upon request and may also be found in Ariel Investments LLC's Form ADV, Part 2. Returns are expressed in U.S. dollars. Current performance may be lower or higher than the performance data quoted. The Ariel International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex US, because: (i) the Composite has fewer holdings than the benchmark and (ii) the Composite will at times invest a portion of its assets in the U.S.

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

As of 3/31/2024, Subaru Corporation constituted 5.9% of the Ariel International (DM/EM) Composite (representative portfolio); Daimler Truck Holding AG 3.3%; GSK plc 3.7%; Baidu, Inc. 3.4%; Endesa S.A. 4.2%; Bandai Namco Holdings Inc. 2.1%; Aptiv PLC 2.0%; JD.com Inc 1.2%; Siemens AG 1.8%; Stellantis NV 2.9%; Admiral Group PLC 0.0%; KT&G Corp 0.0%; Mabuchi Motor Co Ltd 0.0%; Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen 0.0%; Nintendo Co Ltd 0.0%; Ono Pharmaceutical Co Ltd 0.0%; RTL Group SA 0.0%; Reckitt Benckiser Group PLC 0.0%; Singapore Exchange Ltd 0.0%; Snam SpA 0.0%; St James's Place PLC 0.0%; TravelSky Technology Ltd 0.0%; and iShares MSCI ACWI ex U.S. ETF 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 the Ariel International (DM/EM) Composite.

Indexes are unmanaged. An investor cannot invest directly in an index. 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. 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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