

Ariel International 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 International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2024 the average annual total returns of Ariel International Fund (Investor Class) for the 1-, 5, and 10-year periods were +10.17%, +3.85%, and +2.97%, 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 International Fund advanced +5.55% in the quarter, lagging the +5.78% gain of its primary benchmark, the MSCI EAFE Index, but ahead of the +4.68% return of its secondary benchmark, the MSCI ACWI ex-US index.

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

Several stocks in the portfolio had strong returns in the quarter. Japanese auto manufacturer, **Subaru Corporation**, outperformed 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.

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.

Another new holding, multinational automotive manufacturing company, **Stellantis N.V. (STLA)**, which was formed from the merger of Fiat Chrysler Automobiles and the French PSA Group, also outperformed in the quarter on strong earnings results. The deal synergies are lowering overall operating expenses and contributing to healthy free cash flow generation. This improved liquidity has prompted company management to increase 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.

There were a few notable performance detractors in the quarter. New holding within the portfolio, Japanese video game publisher, **Bandai Namco Holding Inc.**, declined 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.

Germany-based kidney dialysis services and products provider, **Fresenius Medical Care AG** also traded lower in the quarter, despite solid organic sales growth and the delivery of a bottom-line earnings beat. In our view, the new management team is making progress as they expect to generate mid-single digit earnings growth in 2024 and reach their net debt to adjusted EBITDA target range by year end. Even assuming high rates of both uptake and effectiveness of glucagon-like-peptide-1 (GLP-1) drugs, we believe the overall impact on dialysis volumes will be small in the near-to-medium term. We also think the cardio protective effects of the GLP-1 class may enable patients to live longer, thereby increasing the overall size of the end-stage renal disease incidence pool.

Finally, leading electric utility in Spain, **Endesa S.A.** 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.

We initiated seven 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 divestiture 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 also 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.

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

Lastly, we bought **Vanguard FTSE Developed Markets ETF** as a cash alternative during the month.

In contrast, we exited nine positions in the quarter.

We eliminated 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**; Japanese manufacturer and seller of compact motors, **Mabuchi Motor Co. Ltd.**; Japanese entertainment developer **Nintendo Co. Ltd.**; and derivatives exchange, **Singapore Exchange Ltd.**

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**; manufacturer and seller of pharmaceutical products, **Ono Pharmaceutical Company, Ltd.**; China based air travel ticketing company, **TravelSky Technology Ltd.**; UK wealth management company, **St. James's Place plc**; and leading mobile telecommunications company, **Telefónica Brasil SA.**

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.

Per the Fund’s Prospectus as of February 1, 2024, Ariel International Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.29%. 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, Subaru Corporation constituted 6.2% of Ariel International Fund; Daimler Truck Holding AG 3.9%; Stellantis N.V. 4.5%; Bandai Namco Holdings Inc. 2.9%; Fresenius Medical Care AG 4.2%; Endesa S.A. 3.3%; Aptiv PLC 2.7%; JD.com Inc 1.3%; Siemens AG 2.1%; Stellantis NV 4.5%; Vanguard FTSE Developed Markets ETF 0.2%; Admiral Group PLC 0.0%; Mabuchi Motor Co Ltd 0.0%; Nintendo Co Ltd 0.0%; Ono Pharmaceutical Co Ltd 0.0%; Reckitt Benckiser Group PLC 0.0%; Singapore Exchange Ltd 0.0%; St James's Place PLC 0.0%; Telefonica Brasil SA 0.0%; and TravelSky Technology Ltd 0.0%.

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 EAFE® Index is an equity index of large and mid-cap representation across 21 Developed Markets (DM) countries around the world, excluding the U.S. and Canada. Its inception date is May 31, 1986. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. Its inception date is December 8, 1997. 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



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