Ariel Mid Cap Value

Quarter Ended June 30, 2024

The bull market powered through the second quarter fueled by investor enthusiasm for artificial intelligence (AI) themed stocks. This narrow, momentum-driven, rally helped the S&P 500 eke out a modest gain, even as Mid- and Small-Cap companies declined. The resulting bifurcation has been extreme, as the non-AI companies in the S&P 500 Index lost 1.2%.[1] This limited market breadth likely reflects weakening economic growth and inflation in the U.S. With many investors cautiously optimistic the Federal Reserve will successfully engineer a soft landing, interest rate cuts may be at hand in the coming months. Still, the turmoil surrounding the U.S. election is becoming a new focal point. Although uncertainty is high and volatility will likely remain elevated, we view these risks as short-term noise within the context of our long-term investment horizon. Against this backdrop, the Ariel Mid Cap Value Composite dropped -6.19% gross of fees (-6.42% net of fees) in the quarter, underperforming both the Russell Midcap Value and Russell Midcap Indices, which returned -3.40% and -3.35%, respectively.

Several stocks in the portfolio had solid returns in the quarter. Shares of oil services company, **Core Laboratories, Inc. (CLB)**, increased following a top- and bottom-line earnings beat. Strong international demand for laboratory services and completion diagnostic solutions boosted results. Although the macro environment remains volatile and U.S. onshore drilling and completion activity is expected to remain flat year-over-year, management is projecting international growth from projects in the Middle East, Asia Pacific and West Africa. Meanwhile, the company remains laser focused on generating positive free cash flow, reducing debt and improving its return on invested capital.

Shares of global investment bank, **Goldman Sachs Group, Inc. (GS)**, also rose in the period following solid earnings results, highlighted by strength in fixed income, currencies and commodities (FICC) as well as equities trading and better-than-expected investment banking fees. Meanwhile, GS continues to successfully execute on its strategic initiatives to improve the overall return of the company. It is right sizing headcount and narrowing its ambitions in consumer strategy through divestitures and working to improve profitability in Platform Solutions by 2025. With the possibility of increased capital requirements from its regulators, GS plans to reign in buybacks over the short-term but maintain its dividend. Looking ahead, we continue to view the near and long-term outlook for Goldman as attractive, given favorable business trends, continued positive momentum on strategic initiatives and active expense/capital management programs.

Additionally, shares of waste management services provider **Stericycle, Inc. (SRCL)** accelerated following the announcement of the company's agreement to be acquired by Waste Management, Inc. (WM). The transaction is expected to close in the fourth quarter, subject to stockholder and regulatory approval.

In contrast, shares of retail drugstore operator, **Walgreens Boots Alliance, Inc. (WBA)**, underperformed following an earnings miss and significant reduction to full year guidance, largely due to continued weakness in its U.S. retail business. In response, management announced a multi-year plan for the U.S. business to reduce the retail footprint, invest in the customer experience, align the retail and healthcare businesses for enhanced go-to-market capabilities and simplify the healthcare portfolio. Meanwhile, the company continues to execute on its cost savings initiatives to optimize profitability and is using excess capital to prioritize the sustainability of its operations and balance sheet. Over the medium-term, we expect a re-rating in shares as WBA's new CEO rebuilds the leadership team and earns credibility by executing on previously articulated strategic imperatives as well as margin expansion, debt reduction and an improvement in free cash flow.

Charles River Laboratories International, Inc. (CRL), which provides products and services to the drug discovery and research marketplace also declined. Its shares traded lower alongside peers due to a more cautious funding environment for early-stage research and development programs. Nonetheless, CRL delivered a solid earnings beat, highlighted by top-line growth in both the research models and services (RMS) and manufacturing solutions segments, partially offset by weakness in discovery and safety assessment (DSA). Additionally, management reiterated full year guidance and noted early signs of a DSA recovery. While it will take time for proposal activity and funding to translate into new DSA bookings and revenue generation, CRL believes the

[1] Sindreu, Jon. "The Second Quarter Split the Market." *The Wall Street Journal*, July 1, 2024, p. B9.

fundamentals for the biopharmaceutical industry remain intact. Meanwhile, we expect the global focus on scientific innovation will continue to drive solid demand for CRL's research models and services, with underlying growth trends supporting margin expansion. CRL is also investing in its scientific capabilities for cell and gene therapies, which we believe will further enhance long term value creation for shareholders.

Lastly, toy manufacturer, **Mattel, Inc. (MAT)**, traded lower on mixed quarterly earnings results. We believe this market response runs counter to the company's solid business fundamentals. Although the top-line came in lighter than expected in a weaker retail environment, the company expanded margins and generated strong free cash flow. In our view, MAT remains an undervalued company with resilient consumer demand for toys such as Barbie®, Hot Wheels® and Disney Princesses®, as well as an attractive opportunity for future film and TV projects.

Also in the quarter, we initiated a position in former holding **Middleby Corporation (MIDD)**, which is a leading food equipment manufacturer. While the shares have been under pressure due to the challenging macro-backdrop and related concerns around new restaurant openings, we view these headwinds as transient. Longer term, MIDD's differentiated brands and focus on innovation should enable the company to benefit from secular demand for more automation and efficiency in the food service industry.

We did not exit any positions in our mid cap portfolio during the period.

AI-themed stocks continue to dominate markets this year. Escalating geopolitical tensions, the potential timing of the Fed pivot and 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.

Meanwhile, we remain focused on the underlying fundamentals and opportunities market dislocations can provide to long-term, actively patient investors. 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 mid-cap companies is more risky and volatile than investing in large cap companies. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. The portfolio 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.

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 6/30/24 the performance (net of fees) for the Ariel Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +0.72%, +6.47%, and +5.75%, respectively. For the period ended 6/30/24 the performance for the Russell Midcap Value Index and the Russell Midcap Index for the 1-, 5-, and 10-year periods was +11.98%, +8.49%, and +7.60%, and +12.88%, +9.45%, and +9.04%, 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 Mid Cap Value Composite differs from its primary benchmark in that it has fewer holdings and more concentration in fewer sectors.

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 6/30/24, Core Laboratories, Inc. constituted 3.1% of the Ariel Mid Cap Value Composite (representative portfolio); Goldman Sachs Group, Inc. 4.3%; Stericycle, Inc. 1.3%; Walgreens Boots Alliance, Inc. 1.4%; Charles River Laboratories International, Inc. 3.2%; Mattel, Inc. 3.2%; and The Middleby Corporation 1.0%. 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 Mid Cap Value Composite.

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 Midcap® Value Index measures the performance of the mid-cap value segment of the

U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is February 1, 1995. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is November 1, 1991. 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.

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SLOW AND STEADY WINS THE RACE