Ariel Mid Cap Value

Quarter Ended December 31, 2024

Markets worldwide defied expectations in 2024 led by the dominating performance of mega-cap technology stocks known as the "magnificent seven.[1]" Even though gains have been concentrated, the results of the U.S. election, strong earnings momentum and a robust labor market drove bullish sentiment. This ebullience extended beyond the equity market: gold delivered its best year since 2010, bitcoin more than doubled and the U.S. dollar neared a 20-year high. Meanwhile, uncertainty surrounding the new U.S. administration's policies and the Federal Reserve signaling slower than anticipated easing in the year ahead drove small cap issues sharply lower in December. Although uncertainty and volatility are likely to remain elevated, the patient investor knows "stock prices trade on fundamentals. And when those solid fundamentals shine through, share prices rise.[2]" Against this backdrop, the Ariel Mid Cap Value Composite delivered 0.00% gross of fees (-0.14% net of fees) for the quarter, outpacing the Russell Midcap Value Index's -1.75% return, but falling short of the Russell Midcap Index's +0.62% gain. Over the trailing one-year period, the Ariel Mid Cap Value Composite advanced +7.71% (+7.14% net of fees), underperforming both the Russell Midcap Value Index and the Russell Midcap Index which returned +13.07% and +15.34%, respectively.

Several stocks in the portfolio had solid returns in the quarter. Global investment bank, **Goldman Sachs Group, Inc. (GS)** outperformed on a robust quarterly earnings beat, highlighted by strength across its investment banking, trading and asset management segments. Meanwhile, the U.S. election has been widely viewed as a positive catalyst across the industry. Investors expect the incoming administration to emphasize deregulation and exhibit a greater openness to business combinations compared to the prior regime. Hence, management's positive commentary around the operating momentum of its core franchises, an improving M&A outlook and the resilience of the U.S. economy sent shares higher.

Leading global financial franchise **Northern Trust Corporation (NTRS)** also advanced following the delivery of strong quarterly earnings results, highlighted by increasing trust fees, solid net interest income growth and margin expansion. Meanwhile, the newly appointed executive leadership team is taking actions to position the firm for profitable growth and greater operational efficiency while continuing to serve the evolving needs of its client base. In our view, NTRS remains a trusted name offering diversified products in a favorable industry with high barriers to entry. We believe Northern's 135-year track record highlights its strength and stability of navigating macroeconomic volatility with a conservative, operating approach.

Additionally, alternative asset manager, **Carlyle Group Inc. (CG)**, traded higher over the quarter with the U.S. election widely viewed as a positive catalyst across the industry. Investors expect the incoming administration to emphasize deregulation and exhibit a greater openness to business combinations compared to the prior regime. Hence, management's positive commentary around the expectation for increased capital market activity, fee-related earnings growth, private equity fund appreciation as well as returning capital to shareholders via buybacks sent shares higher. At current levels, we believe CG trades at a healthy discount to our private market value estimate.

Alternatively, shares of **Stanley Black & Decker (SWK)** traded lower on mixed earnings results. Although organic revenue growth declined on lower sales volumes, solid cost containment drove a bottom-line beat. Meanwhile, SWK's transformation initiatives remain on track. The company delivered margin expansion by realizing savings from sourcing initiatives, productivity improvements and cost efficiencies. Though the macroeconomic backdrop remains challenging, management is cautiously optimistic lower interest rates will drive consumer demand. We have conviction in SWK's experienced executive management team

[1] The "Magnificent Seven" are the largest stocks in the S&P 500 Index driving market performance: Apple Inc. (AAPL), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA) and Tesla, Inc. (TSLA).

[2] Hobson, Mellody and John W. Rogers Jr. "What the Stock market Taught Us This Year: Don't Fall for These Investing Traps." *Wall Street Journal*, 5 December 2023.

and think the balance sheet is well positioned to weather the storm.

Madison Square Garden Entertainment Corp. (MSGE) was another underperformer in the quarter. Despite the delivery of strong earnings results, shares traded lower following a reduction to fiscal 2025 adjusted operating income guidance. The revision was driven by unique circumstances surrounding concert tour cancellations and higher costs associated with bringing sponsorship sales in-house. Nonetheless, 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. Additionally, new sales and renewal activity in the company's hospitality business remains robust. MSGE recently announced multi-year sponsorship deals with Lenovo, its subsidiary Motorola Mobility, the Department of Culture and Tourism-Abu Dhabi, as well as a multi-year extension of its sponsorship deal with Verizon. In our view, MSGE's portfolio generates stable cash flow that should enable further deleveraging. At current levels, the company is trading at a significant discount to our estimate of private market value.

Lastly, marketing communication company, **Interpublic Group of Companies, Inc. (IPG)** weighed on results over the period. IPG reported an earnings miss primarily due to several significant recent account losses. Subsequently, Omnicom (OMC) announced plans to acquire IPG in an all-stock deal. We believe this strategic combination will create value for both groups of shareholders by combining highly complementary data and technology platforms as well as enabling new offerings.

We did not initiate or exit any positions in the quarter.

We believe the U.S. economy looks healthy and expect corporate profits to prove resilient. Although interest rates will likely settle at a higher structural level compared to the past decade and potential policies around tariffs and immigration present uncertainty, we think market friendly policies such as tax cuts and deregulation should support the broadening of the market beyond the Magnificent Seven. Once the performance gap between mega-cap stocks and smaller company counterparts narrows, our portfolios should be rewarded. We strongly believe the disciplined investor that stays the course and consistently owns differentiated businesses with solid competitive positioning and 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. For the period ended 12/31/24 the performance (net of fees) for the Ariel Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +7.14%, +7.57%, and +6.76%, respectively. For the period ended 12/31/24 the performance for the Russell Midcap Value Index and the Russell Midcap Index for the 1-, 5-, and 10-year periods was +13.07%, +8.59%, and +8.10%, and +15.34%, +9.92%, and +9.63%, respectively. Ariel Composite Net of Fees returns are calculated by deducting: (1) for the period from inception to December 31, 2013, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from January 1, 2014 onwards, the actual monthly advisory fee (on an asset-weighted basis) accrued for the accounts in the composite, using the fee rates in place as of the most recent calendar quarter-end. Gross returns do not reflect the deduction of advisory fees. Client returns will be reduced by advisory fees and such other expenses as may be incurred in the management of the account. Advisory fees are described in Part 2 of Ariel's Form ADV. Returns assume the reinvestment of dividends and other earnings. 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 12/31/24, Goldman Sachs Group, Inc. constituted 3.5% of the Ariel Mid Cap Value Composite (representative portfolio); Northern Trust Corporation 3.6%; Carlyle Group, Inc. 2.9%; Stanley Black & Decker, Inc. 2.0%; Madison Square Garden Entertainment Corporation 2.1%; and Interpublic Group of Companies, Inc. 2.9%. 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