Ariel investments

Quarterly Commentary

Ariel Fund

Quarter Ended March 31, 2025

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 Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2025, the average annual returns of Ariel Fund (Investor Class) for the 1-, 5-, and 10-year periods were -3.35%, +16.42%, and +6.04%, respectively.

Given the significant downturn since the quarter ended, we are closely monitoring the turn of events and assessing the situation daily. As we write, the commentary below reflects our current thinking in this ever-changing landscape.

Most major U.S. indices ended the first quarter of 2025 in the red, with investors fleeing to safety as optimism for another year of U.S. outperformance driven by economic momentum and the new administration's pro-business stance was quickly replaced by tariff fears and policy uncertainty. The Magnificent Seven[1], which drove most of the markets gains over the last three years, led the decline, falling nearly -15%. Value bested growth and large caps held up better than their small cap brethren. International equity markets, led by Europe and China, surged—delivering their strongest quarterly outperformance versus the U.S. in 15 years. Meanwhile, deteriorating confidence and apprehension about a global trade war is fueling recession fears. While Wall Street sits on edge and markets remain erratic, we are actively leaning into the volatility by judiciously acquiring the downtrodden shares of quality companies whose value should be realized over the long term. Against this backdrop, Ariel Fund declined -8.00% in the quarter, falling shy of both the Russell 2500 Value and Russell 2000 Value indices, which returned -5.83% and -7.74%, respectively.

Several stocks in the portfolio had strong returns in the quarter. Shares of entertainment company, **Paramount Global (PARA)**, rose during the period. The company entered 2025 with healthy operating momentum at Paramount+, with strong year-over-year engagement growth driven by its original programming and sports offerings. As such, Paramount+ remains on track for domestic profitability this year, with global profitability likely in 2026. Meanwhile, declining linear TV viewership and related pressure on advertising from ratings erosion remain headwinds. Although the Skydance transaction is expected to close in the near term, some investors are concerned the merger may remain in FCC purgatory. Whether the deal is approved or not, we believe the underlying value of the company's proprietary content and media assets is not reflected in its current share price.

Shares of global leader in for-profit education, **Adtalem Global Education (ATGE)**, also jumped following a top- and bottom-line quarterly earnings beat driven by accelerating new student enrollment growth and a subsequent raise to fiscal year 2025 guidance. Revenue per student and margins at Chamberlain and Walden also came in significantly better than expected. Meanwhile, we remain encouraged by management's solid execution of remediation initiatives at the medical and veterinary schools, where revenue growth outperformed and total enrollment trends are improving. Although regulatory uncertainty within the U.S education landscape remains, we view ATGE as well insulated, if not a beneficiary of potentially less onerous government scrutiny. Longer term, we believe ATGE's strong fundamentals, quality programs, free cash flow generation and sturdy balance sheet are attractive. As the number one grantor of nursing degrees in the U.S. and the largest producer of African American MDs, PhDs and nurses in the country, we remain confident ATGE will benefit from the healthcare worker shortage in the U.S.

Additionally, leading manufacturer of consumer food products, **J.M. Smucker Co. (SJM)** traded higher over the period. While sales came in below expectations, a significant

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[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).

SLOW AND STEADY WINS THE RACE

bottom-line beat and subsequent raise to its FY25 EPS outlook boosted shares. While Hostess remains under pressure, management reiterated its long-term sales target, with near-term focus on stabilizing revenue. The company is implementing a five-pillar plan to improve the brand with marketing investments. Looking ahead, we believe SJM's portfolio of iconic and emerging foods brands, coupled with its broad-based innovation and productivity agenda, supports an attractive total shareholder return opportunity.

By comparison, U.S. direct-to-consumer pool and spa care services company, **Leslie's Inc. (LESL)**, detracted from performance this quarter on mixed earnings results. Green shoots began to emerge on the top-line as positive sales were offset by increased spend on the transformation strategy. The new executive leadership team is reevaluating pricing, optimizing inventory and implementing customer loyalty programs. Although investors remain on the sidelines, we believe early progress on these initiatives will yield efficiency improvements. While we have been deeply disappointed with this investment, we are optimistic the new efforts will positively impact the business and position the company for long-term success. In our view, LESL's current valuation reflects extreme pessimism, which is unwarranted given the company's loyal client base, vertically integrated supply chain, scale advantage and seamless customer experience.

Manufacturer and developer of laboratory equipment and biological testing, **Bio-Rad Laboratories Inc. (BIO)**, also declined over the period after the National Institutes of Health (NIH) announced significant cuts to its internal funding structure. Management also issued disappointing guidance on continued softness in the biopharma and academic research segments as well as uncertainty in the funding environment. Despite the challenging backdrop, we believe the company offers a solid financial profile, including recurring revenue streams and rising operating profit margins.

Lastly, shares of live entertainment, media and technology company, **Sphere Entertainment Co. (SPHR),** came under pressure as some investors took profits on solid earnings performance. In our view, this share price action runs counter to the company's strong business fundamentals. Looking ahead, we expect financial results will continue to ramp up as SPHR scales its concert residencies, secures additional marquee sporting events and reaches higher venue utilization across show types. Advertising, sponsorship and suite revenue should provide additional upside. Meanwhile, international expansion beyond Abu Dhabi remains a priority. In our view, the experiential immersive venue in Las Vegas and its franchise opportunities as well as the company's two regional sports and entertainment networks present a meaningfully underappreciated long-term opportunity.

Also in the quarter, we initiated two positions in the leisure and travel industry, cruise ship operator, **Norwegian Cruise Line Holdings Ltd. (NCLH)** and global health and wellness provider onboard cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)**. Shares of both companies traded meaningfully lower on investor concerns around a deterioration in consumer sentiment and related softening in discretionary spend due to the economic slowdown. A potential new tax on cruise lines also weighed on NCLH's shares. In our view, these risks are currently priced in and present an attractive entry point. Notably, consumer demand and booking trends remain strong and both companies continue to deliver robust earnings growth. Looking ahead, NCLH remains focused on right sizing its cost base and improving margins to further improve its foundation for sustainable and profitable growth. And OSW's management continues to work to strengthen its balance sheet by paying down debt and returning capital to shareholders through buybacks and dividends.

By comparison, we successfully exited global cruise vacation company, **Royal Caribbean Group (RCL)** as the name grew beyond the upper limit of Ariel Fund's capitalization range in the quarter.

Concerns for slower growth, higher inflation and mounting tail risks amidst tariffs fears and policy uncertainty continue to stoke recessionary fears. Still, the U.S. labor market remains on solid footing and balance sheets of U.S. financial institutions and households are generally in good shape. We are cautiously optimistic that these factors could protect against a severe downturn. Meanwhile, values are abundant when the investment environment feels the most uncomfortable. With 42 years of experience, we are trained and battle-tested for these moments. We believe bear markets and oversold stocks create ripe buying opportunities for long-term, patient investors. We are diligently evaluating the collapsing prices of stocks on our watchlist versus the long-term value embedded in these companies. In times like these, we believe the worst-case scenario gets priced in providing a margin of safety[2] to buy and hold our favorite companies with confidence as the market digests the uncertainty. Despite the sell-off, our holdings are statistically cheap—trading at a

[2] Attempting to purchase a stock with a margin of safety does not protect investors from the loss of their investment, volatility associated with stocks, declining fundamentals, external forces, or our incorrect assumptions.

significant discount to their private market values (PMV)[3]—also known as intrinsic worth. In the past, dislocations of this magnitude have often served as a prelude to the most robust recoveries.

Ariel Fund Benchmark Update Effective February 1, 2025: The Russell 2000® Value Index is replacing the Russell 2500™ Index as a secondary benchmark for Ariel Fund because it more closely aligns with certain market sectors in which Ariel Fund invests.

Investing in small- and mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel 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, 2025, the Fund's Investor Class shares had an annual expense ratio of 1.00%.

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 3/31/25, Paramount Global constituted 3.7% of Ariel Fund; Adtalem Global Education, Inc. 4.5%; J.M. Smucker Company 4.4%; Leslie's, Inc. 1.3%; Bio-Rad Laboratories, Inc. 3.0%; Sphere Entertainment Company 3.2%; Norwegian Cruise Line Holdings, Ltd. 1.2%; OneSpaWorld Holdings, Ltd. 1.0% and Royal Caribbean Cruise 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 Fund.

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 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with relatively lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is July 1, 1995. Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios, lower forecast growth and lower sales per share historical growth. Its inception date is June 1, 1993. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is June 1, 1990. 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.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary prospectus which contains this and other information about the funds offered by Ariel Investment Trust, call us at 800-292-7435 or visit our website, arielinvestments.com. Please read the prospectus or summary prospectus carefully before investing. Distributed by Ariel Distributors LLC, a wholly-owned subsidiary of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

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[3] Discount to Private Market Value is the percentage discount the portfolio trades at relative to Ariel Investments' internal estimate of the portfolio's private market value (PMV). There is no guarantee that companies we invest in will achieve our PMV or projected future earnings.