Ariel International Developed Markets

Quarter Ended March 31, 2025

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.

The first quarter of 2025 tested the long-held belief in "American exceptionalism." After reaching record highs in January, U.S. markets struggled as the new administration's pro-business policies were quickly replaced by tariff fears and policy uncertainty. The Magnificent Seven[1], which drove most of the market's gains over the last three years, led the decline, falling nearly 15% as America's leadership in Artificial Intelligence (AI) came into question. International equity markets surged delivering their strongest quarterly outperformance versus the U.S. in 15 years. Meanwhile, defensive sectors delivered standout gains, and capital inflows into European markets reached their highest levels in a decade. Chinese equities emerged as an unexpected bright spot for investors as well-publicized technological breakthroughs rekindled investors' interest in the Chinese internet and technology sectors. While market volatility may persist in the near term, decades of investing have shown us that periods of disruption often create compelling opportunities. As disciplined, long-term investors, we remain confident that our portfolio companies are well-positioned to navigate this uncertain environment. Against this backdrop, the Ariel International (DM) Composite advanced +11.85% gross of fees (+11.67% net of fees) in the quarter, ahead of both the MSCI EAFE and MSCI EAFE Value indices, which returned +6.86% and +11.56%, respectively.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. The Ariel International (DM) bottom-up strategy was overweight Consumer Discretionary, Utilities, Financials and Information Technology. The portfolio was meaningfully underweight Industrials, Energy, Consumer Staples and Health Care and also lacked exposure to Materials. At the sector level, our stock selection within Consumer Discretionary, Information Technology and Health Care was the largest source of positive attribution. By comparison, our Consumer Staples and Communication Services holdings were the greatest performance detractors during the quarter.

Japanese video game publisher, **Bandai Namco Holdings, Inc.** traded higher following robust quarterly earnings results highlighted by strength across the digital home console business as well as the toys and hobby segments. Their latest title, *Dragon Ball: Sparking! ZERO* surpassed market expectations and was a key driver of earnings growth. Subsequently, management raised full year guidance and provided a three-year outlook inclusive of an enhanced shareholder payout policy.

Israeli-based provider of products for information technology security, **Check Point Software Technologies Ltd.** also advanced on solid quarterly earnings results, highlighted by a significant beat in product revenues and double-digit billings growth. Consumers are adopting more pillars of Check Point's platform and engaging in larger strategic commitments with Infinity and Quantum Force. Meanwhile, new CEO Nadav Zafrir, expanded the executive team to balance corporate and go-to-market leadership roles as well as bring more attention to customer facing functions. Check Point continues to be an astute steward of capital, pursuing organic growth and utilizing surplus cash to return capital to shareholders; and we like the company's exposure to the fast-growing cloud security market and its industry leading profitability.

Leading European telecommunications services operator, **Orange SA** outperformed during the quarter following strong quarterly earnings results and subsequent raise to full-year guidance. The company has a dominant market presence in France and Spain and is expanding operations in the Middle East and Africa (MEA). We continue to believe rational price increases across these markets and declining capital intensity as the company completes its fiber rollout will support long-term revenue and free cash flow growth.

In contrast, leading food retailer and wholesaler based in the United Kingdom (UK), **Tesco PLC**, declined over the period

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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).

after one of its competitors, Asda, announced plans to restore its market share by reducing prices. Nonetheless, Tesco continues to gain share through its improved pricing and value proposition. In our view, Tesco has the ability to maintain its leading position while continuing to benefit from alternative revenue streams such as Marketplace and Retail Media.

Marketing communication company, **Publicis Groupe SA**, also traded lower due to investor concerns over a macro slowdown driven by the announcement of reciprocal tariffs. Additionally, the weak outlook reported by one of its peers, WPP plc, further weighed on shares. We believe this price action runs counter to the company's solid fundamentals. Notably, Publicis delivered top- and bottom-line results ahead of expectations and remains well-positioned to sustain its solid earnings growth momentum in 2025. We also believe the company's unified digital platform and unique technology offerings present a compelling opportunity to provide more effective advertising experiences at scale through advanced identity, demographic, behavioral and transactional data analysis.

Finally, multinational automotive manufacturing company, **Stellantis N.V.** detracted from results. Despite successful inventory destocking, the imposition of 25% tariffs on imported vehicles and auto parts drove shares sharply lower. This scenario, which we identified as the worst-case outcome since last November's election, has now materialized. While we continue to like the company's strong global footprint and commitment to industry leading profitability, operational excellence, and strategic foresight, we are cautious about the sustainability of the auto supply chain under this new tariff regime. As such, we are closely monitoring the name for further developments.

We initiated three new positions in the quarter.

We purchased renewable energy and utility services provider, **Algonquin Power & Utilities Corporation**. We believe newly hired CEO, Rod West, will improve operations faster than Wall Street's expectations. We see a high likelihood that the Missouri State Bill 4 (SB 4) legislation passes, which includes several modifications and provisions related to utilities in the state. This is a positive catalyst for shares, as it's expected to facilitate more timely recovery of capital spent by utilities.

We also added **Bank Negara Indonesia**, which is one of the four largest banks in Indonesia. The bank has been repositioning its portfolio by phasing out expensive deposits and writing off higher risk assets while being selective on new loan origination with the help of a new standardized credit scoring system. Meanwhile, the bank is delivering modest earnings growth on higher quality loans and lower cost deposits. We see room for net-interest-margin expansion and an improvement in return-on-equity from current levels. We also believe the company has a long runway to increase penetration within the enterprise and commercial banking segments, particularly with initiatives aimed at gaining large customers across the social/public services, manufacturing and utilities sectors. Additionally, given the country's improving macroeconomic outlook, we expect a greater portion of the economy will become fully banked as the middle class continues to grow.

Finally, we bought Italian bank, **Intesa Sanpaolo SpA**. The company is laser-focused on organic growth and maximizing shareholder value by concentrating on its existing operations and client base. The bank's robust profit guidance for 2025 and beyond is primarily driven by asset inflows, growth in fees and insurance as well as cost control measures. This outlook supports the potential for high double-digit return-on-tangible-equity (ROTE) which could yield a re-rating. In our view, Intesa Sanpaolo is well-positioned to pursue its return targets, as well as give back capital to shareholders via dividends and share repurchases over the long-term.

By comparison, we successfully exited Italian bank, **Banca Monte dei Paschi** on valuation. To pursue more compelling investment opportunities, we also sold out of China's internet search and online community leader, **Baidu, Inc.**, leading electric utility across Asia, **CLP Holdings Ltd**, leading electric utility in Spain, **Endesa S.A.**, Finnish telecommunications and consumer electronics company, **Nokia Oyj** and Italian midstream energy company, **Snam SpA**.

The U.S. administration's recent tariff announcements triggered an immediate shift in investor sentiment away from U.S. mega-cap technology companies toward less cyclical, defensive stocks. With persistent inflation concerns and signals pointing to a broader global economic slowdown, we anticipate continued market volatility and price dislocations. However, thoughtful active management can deliver significant value in this environment. Our international and global holdings currently trade at compelling valuations relative to their growth prospects, while maintaining the financial strength needed for operational resilience. We believe these fundamental characteristics—disciplined capital allocation, pricing power, and strategic positioning—will be the key differentiators to outperform over the long run.

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. For the period ended 3/31/2025, the performance (net of fees) for the Ariel International (DM) Composite for the 1, 5, and 10- year periods were +13.73%, +8.94%, and +4.69%, respectively. For the period ended 3/31/2025 the performance for the MSCI EAFE Index and the MSCI EAFE Value Index for the 1, 5, and 10-year periods were +4.88%, +11.77%, and +5.39% and +12.85%, +14.77%, and +5.06%, 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 International (DM) Composite differs from its benchmark, the MSCI EAFE Index, 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. and emerging markets.

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 3/31/2025, Bandai Namco Holdings Inc. constituted 4.6% of the Ariel International (DM) Composite (representative portfolio); Check Point Software Technologies Ltd. 5.0%; Orange SA 3.9%; Tesco PLC 3.9%; Publicis Groupe SA 3.3%; Stellantis N.V. 1.5%; Algonquin Power & Utilities Corporation 1.4%; Bank Negara Indonesia Persero Tbk PT 1.0%; Intesa Sanpaolo SpA 2.5%; Baidu, Inc. 0.0%; Banca Monte dei Paschi di Siena SpA 0.0%; CLP Holdings Ltd. 0.0%; Endesa SA 0.0%; Nokia Oyj 0.0% and Snam SpA 0.0%. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel International (DM) Composite.

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. 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.