

Ariel Investments

	Performance (%) as of March 31, 2025		Annualized			
	QTR	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Focus Fund						06/30/2005
ARFFX Investor Class	-3.88	1.50	0.61	15.37	6.05	5.98
AFOYX Institutional Class	-3.87	1.69	0.85	15.66	6.31	6.16
Russell 1000® Value Index	2.14	7.18	6.64	16.15	8.79	8.01
S&P 500® Index	-4.27	8.25	9.06	18.59	12.50	10.29

Past performance is not indicative of future results. An investment's return and principal value 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 as of the most recent month-end may be obtained by visiting our website, arielinvestments.com.

Dear Clients and Friends: 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 Seven¹, which drove most of the market's 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. Against this backdrop, the Ariel Focus Fund fell -3.88% in the quarter, outperforming the broad market as measured by the S&P 500 Index's -4.27% return, but underperforming the +2.14% gain posted by its primary benchmark, the Russell 1000 Value Index, which benefitted from positive performance across financial holdings, the largest industry weight in the index.

Tariff Turmoil

At Ariel, we pride ourselves on being bottom-up stock pickers and do not attempt to position the portfolio for any particular macroeconomic environment. Not only do we believe it is extraordinarily difficult to accurately make macroeconomic forecasts; we also know it is almost impossible to do so consistently well. Our goal when focusing on recent events and macroeconomic developments is to consider their effect on the long-term intrinsic worth of our holdings over the next five-to-ten years. That said, an understanding of the economic environment is important as we seek to identify quality, undervalued names of consistently growing companies that for some reason are overlooked. As is the case across all industry sectors, we seek holdings possessing unique business models with superior returns on invested capital and sustainable competitive advantages. Despite this emphasis on individual companies, there are periods in which performance of equity markets and our own Ariel portfolios are principally driven by macroeconomic events. 2025 has so far been one of these years.

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).

The new Administration's stance on international trade and tariffs is driving headlines. Performance of industry sectors and individual stocks has been dictated by their perceived exposure to tariffs—stoking fears of a recession. The market's volatility is being driven by uncertainty around the details of these trade policies or even of their goals.

Investors can be divided into two schools of thought: “optimists” who believe the Administration is using the threat of large tariffs to negotiate a reduction in trade barriers in other countries, resulting in a freer and fairer trade environment; and “pessimists” who believe dramatically higher tariffs will result in reduced global trade in the long-run, and inflation and a recession in the short-run.

What makes the tariff proposals so impactful is their potential effect on other economic factors. An increase in tariffs may cause producers to increase prices charged to consumers leading to inflation. The prospect of higher inflation could lead the Federal Reserve to forego expected interest rate cuts or even begin another rate tightening cycle. Higher rates would impact the demand for housing and automobiles as well as alter commercial real estate pricing. They also would affect regional bank net interest margins and bond prices.

In equity markets, it is not usually the absolute nature of new information that drives market reaction. It is the difference between what was expected and what actually occurs that matters. The market's reaction to the Administration's proposed trade barriers was so violent, because the proposals conflicted so markedly with economic consensus.

A New Era of Disruption

The phrase “settled science” has taken on negative connotations in some corners. But to the degree that economics is a “social science,” the benefits of free trade and the dangers of trade protectionism are almost universally accepted within the economics profession. American economists, Milton Friedman and Paul Samuelson disagreed on many things. So do Thomas Sowell and Paul Krugman today. Yet these well-known economists generally agree on the benefits of trade and the dangers of protectionism.

In 1776, Thomas Jefferson wrote the Declaration of Independence. That same year, a Scottish economist named Adam Smith published “The Wealth of Nations” in which he argued tariffs harm the common people by raising prices. Tariffs are often implemented at the behest of businesses trying to establish local monopolies and to avoid lower priced competition. These levies artificially alter investment away from industries in which a host country enjoys competitive advantages and toward sectors where other countries could produce desired products at cheaper prices.

Smith famously showed that Scotland's colder climate would require 30 times the cost to produce wine, as compared to France. Why not import the wine from France at one-thirtieth the cost and invest the saved capital in industries in which Scotland had a competitive advantage, like Scotch?

While Smith is best known for his advocacy of competitive advantage, defenders of free trade have since buttressed his argument by demonstrating the relative unimportance of bilateral trade deficits.

Assume a simple three country model. The U.S. sells computers to Vietnam at prices well below what it would cost the Vietnamese to design and build their own. The U.S. takes the proceeds and purchases coffee from Colombia, again at prices well below what it would cost us to grow our own in greenhouses. Colombia takes the proceeds and purchases athletic shoes from Vietnam. In this example, the U.S. runs a trade deficit with Colombia and a trade surplus with Vietnam. But we Americans are better off than if we had tried to produce all three products ourselves.



Some readers may be unconvinced by Smith's and subsequent economists arguments against trade protectionism. Yet, one point is incontrovertible—investors believe in the benefits of free trade and have expressed their objections to higher tariffs with unmistakable clarity. As we go to press, there is evidence the Administration may have gotten the message. We have not been shy about publicly advocating for the benefits of trade and the dangers of protectionism; and plan to continue to do so.

Portfolio Contributors and Detractors

Gold mining company **Barrick Gold Corporation (GOLD)** was the largest contributor to performance in the quarter, as gold prices soared and investors flocked to safety amidst recession concerns. Strong quarterly earnings results driven by higher gold and copper production further aided shares. Interestingly, GOLD ended the quarter trading at only 11.6x its projected next-twelve-month earnings, which is near the lowest it's been in the last 10 years. The market seems to be betting the price of gold will drop when calm returns; and yet we view this holding as an attractive risk management position with a high earnings yield.

Shares of **Chevron Corporation (CVX)** also traded higher, following news CVX acquired ~5% of Hess Corporation (HES) stock, reflecting confidence in the completion of its long-awaited acquisition. While an arbitration panel is due to consider the case in May, many signs are pointing to a successful merger which would strengthen CVX's long-term performance and enhance its portfolio by adding world-class assets. Additionally, CVX reported a 7% increase in worldwide production with strong performance in the U.S. Permian basin and increased its dividend for the 38th consecutive year. We like to see our portfolio companies repurchase their own stock and Chevron returned a record \$27 billion to shareholders in 2024 through dividends and repurchases.

Additionally, leading manufacturer of consumer food products, **J.M. Smucker Co. (SJM)** advanced over the period. Consumer staples companies generally performed well in the quarter as investors moved to less economically sensitive sectors. Even with the positive performance, we believe Smucker's continues to trade at an attractive valuation. 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, **Resideo Technologies, Inc. (REZI)** was the largest detractor from performance in the quarter. Despite strong quarterly earnings results, shares traded lower on management's relatively cautious market outlook, tariff concerns and higher for longer interest rates. Although 2025 guidance came in above expectations with broad-based growth across product categories and the integration of Snap One synergies running ahead of schedule, management did not disclose the potential impact tariffs could have on the business. That said, the company believes price increases, inventory positioning and running factories at different utilization rates can help mitigate near-term pressure. As we go to press, REZI remains one of our most attractively priced stocks with a price earnings ratio of 7.2x our estimate of forward earnings.

Manufacturer and developer of laboratory equipment and biological testing, **Bio-Rad Laboratories, Inc. (BIO)**, also traded lower after the National Institutes of Health (NIH) announced significant cuts to its internal funding structure. Additionally, management 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.



Finally, global leader in enterprise software, **Oracle Corporation (ORCL)**, declined alongside the broader technology sector due to macroeconomic uncertainty and in particular, the near-term prospects for artificial intelligence investment (AI) spending. As a result, ORCL reported weaker than expected quarterly earnings results. Nonetheless, management expects double-digit growth for fiscal 2026 and 2027, citing significant demand for its cloud and AI capabilities. This supports our view that ORCL's positioning as the leading provider of database software and cloud-based infrastructure is entrenched, making it a key beneficiary of global demand for generative AI development.

Sincerely,



Charles K. Bobrinsky
Vice Chairman

As part of our long-term succession plan, in late February we offered colleagues who are 55 years or older and have more than 10 years of service the opportunity to take an early retirement package that would allow participating team members to work with Ariel on a scheduled transition plan. Eight colleagues informed us by the April deadline that they intended to accept the early retirement offer, with exit dates spanning through calendar year 2026. Of these, 3 of our 23 Senior Vice Presidents are participating: John Miller (Co-Portfolio Manager of Ariel's Small/Mid Cap Value portfolios and Portfolio Manager of Ariel Fund) will officially depart on May 1st; Cheryl Cargie (Head Domestic Trader) will leave us in the third quarter of 2025; and Wendy Fox (Chief Compliance Officer and Head Regulatory Counsel) will retire in 2026.

With 35 years at the firm, John Miller is our longest tenured teammate after our founder, John Rogers. Miller—as we call him—is a passionate value investor with an insatiable appetite for information. Working alongside co-portfolio managers on his strategy, Miller's departure will be seamless as John Rogers and Ken Kuhrt continue their efforts managing Ariel Fund. Moving forward, John Rogers and Ken Kuhrt will be co-portfolio managers on all Ariel Small/Mid Cap Value strategies. Cheryl has been a skilled and calm presence for 30 years at Ariel. For 15 of those years, she has worked alongside Jill Gracia who is deeply steeped in the very best trading practices. Jill will work with our three-member Global trading team under the ongoing direction of Nichole Graveen, our Head of Operations. Against the backdrop of 20 years of tremendous service, Wendy's longer transition period allows us to thoughtfully and methodically recruit her successor.

These developments are normal in the maturation of any firm, and we have worked to ensure orderly transitions. Like the senior leaders who retired in the past, we do not anticipate any business disruptions. The other five individuals leaving Ariel are no less important, but are not as senior. From the mailroom to portfolio management, our gratitude runs deep.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small- and mid-cap companies is more risky and volatile than investing in large-cap companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified portfolio. The Fund is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors



underperform the overall stock market.

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 expressed views will come to fruition or any investment will perform as described.

As of 3/31/25, Ariel Focus Fund held the following positions referenced: Barrick Gold Corporation 3.17%; Chevron Corporation 4.76%; J.M. Smucker Company 6.26%; Resideo Technologies, Inc. 4.56%; Bio-Rad Laboratories, Inc. 3.20% and Oracle Corporation 4.01%. The 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 Focus Fund.

Per the Ariel Focus Fund's Prospectus as of February 1, 2025, the gross expense ratio for the Investor Class and Institutional Class was 1.18% and 0.87%, respectively. Effective February 1, 2014, Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel Focus Fund's total annual operating expenses to 1.00% and 0.75% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2026. Prior to February 1, 2014, the Expense Cap was 1.25% of net assets for the Investor Class and 1.00% of net assets for the Institutional Class.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. The inception date of this benchmark is January 1, 1987. Russell® is a trademark of the 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.

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.

