

Ariel investments

Performance (%) as of March 31, 2025

Annualized

	QTR	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Fund						11/06/1986
ARGFX Investor Class	-8.00	-3.35	0.63	16.42	6.04	10.39
ARAIX Institutional Class	-7.93	-3.03	0.95	16.78	6.36	10.50
Russell 2500™ Value Index	-5.83	-1.47	2.27	16.66	6.84	10.36
Russell 2000® Value Index	-7.74	-3.12	0.05	15.31	6.07	9.60
Russell 2500™ Index	-7.50	-3.11	1.78	14.91	7.46	10.17
S&P 500® Index	-4.27	8.25	9.06	18.59	12.50	10.87
Ariel Appreciation Fund						12/01/1989
CAAPX Investor Class	-6.94	-4.94	0.14	13.56	4.93	9.58
CAAIX Institutional Class	-6.85	-4.62	0.45	13.91	5.25	9.71
Russell Midcap® Value Index	-2.11	2.27	3.78	16.71	7.61	10.72
Russell Midcap® Index	-3.40	2.59	4.61	16.28	8.82	10.91
S&P 500® Index	-4.27	8.25	9.06	18.59	12.50	10.40

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.

Memorandum

TO: Clients and Friends of Ariel Investments

FROM: Melody Hobson, Co-CEO and President

DATE: April 14, 2025

RE: Portfolio Management in Times of Market Turmoil
1Q25 Client Letter for Ariel Fund and Ariel Appreciation Fund

During this market sell off, we know our clients and friends have many questions and want to hear from our portfolio managers directly. To that end, the following represents an edited conversation about the current environment held on April 11th. The participants were John W. Rogers, Jr., Tim Fidler, Ken Kuhrt and John Miller—colleagues with over 123 years of collective experience at Ariel.

Melody Hobson (MH): How do you practically approach your work during this kind of market disruption?

John Rogers (JR): When markets sell off, we know groupthink takes over and people become overly fearful. When everyone believes the only direction is down, we can use our expertise to buy bargains with conviction. For 42 years now, we've been taking advantage of these fear laden periods.

In these environments, I still start each day by reading—but with a focus on any information that is new and strikes me as material. As portfolio managers, we are meeting as often as needed—as recently as late last night—to identify stocks that have fallen the most relative to reasonable expectations. Practically, I am pushing for every analyst to identify at least two names that have dropped to extremely cheap levels beyond what makes sense.

Fortunately, we have great access and have been able to get C-suite executives on the phone in the midst of the chaos to discuss the impact of tariffs on their businesses. So, in addition to reading and meeting as a portfolio management team, I am on the phone following up on ideas and gathering information.

MH: What is on your mind in these periods, Ken?

Ken Kuhrt (KK): The market is having incredibly sharp reactions to every piece of news and speculation that's hitting the wire. Rather than becoming fixated on what incremental piece of news is shifting market perceptions, we must look past the noise. It is important to step back and make sure we're buying the type of business where the next tweet doesn't make or break the business model and that we have an adequate margin of safety¹ with solid balance sheets. We want to see predictability in our businesses over longer periods of time.

So, as we're seeing the market shocks right now, we're not trying to guess down to the percent in terms of tariffs in every country. Instead, we speak to management teams to better understand who controls their own destiny, who controls their supply chains, what dictates their business model over time and who simply must

¹ 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.

react to today's environment. When there's noise, when there's uncertainty in the marketplace, staying true to our philosophy and process and staying really focused on the type of company we're looking for is critical. We must consciously disconnect our emotions from the price volatility. While the market is reacting, our job is to stay focused on the fact patterns. Facts are reflected in our calculations of intrinsic value. Market swings allow us to be more tactical about using a longer time horizon to our advantage.

MH: Tim, as Director of Research, what are you doing?

Tim Fidler (TF): On the one hand, our process is like breathing, regardless of the environment. That said, our history clearly demonstrates dislocations are our chance to act. New ideas as well as our purchases and sales result from the market's stress. We know the market usually overshoots pretty dramatically. We also know the short run will look a lot worse than the long run and that drives our decision making. So, in some respects our actions and process are the same, except with greater urgency and speed in decision making. Extreme volatility pushes us to do everything from management meetings to channel checks more rapidly than normal.

That said, we know crises unfold and progress over time. For that very reason, we start with stocks we already own and know extremely well. We also pull names off the shelf that we have been watching—companies that we've wanted to own and may finally have a chance to buy. And then, sometimes completely new names appear that we didn't anticipate. The last opportunity set requires more research and therefore a longer time frame.

John Miller (JM): I immediately recirculate articles from Warren Buffett and other great value investors to underscore the key tenets of our philosophy for the whole team—especially the younger analysts. We also consider that there may be new dynamics and bring in experts to get their thoughts to determine if anything changes the intrinsic value of the names we own. In recent weeks, we have invited professors to come in to discuss the proposed and implemented tariffs.

MH: Ken, you talk about being unemotional, do you feel any anxiety?

KK: Always a little bit, but not much. We are human after all. These things can wear on you. But our team has been together for decades and we've lived through things like this before. We know what we need to do to move forward. A critical part of how we execute is based on the fact that JR has created an environment where he expects us to be contrarian. That's how we outperform over a long period of time.

MH: As portfolio managers, do your views diverge during this period? Do you have more disagreements or is it easier to agree?

KK: Easier. In this period, we can find companies that check more of the boxes of what we're looking for over a 3-to-5-year time horizon including an adequate margin of safety. In normal markets, sometimes you need to either have a rosier outlook of where the business model is going, or a different perspective in terms of how the balance sheet and capital structure might change over time. But when you get dislocations where fear is rampant, everything goes on sale. The silver lining is that you can find best-in-class companies that are simply caught up in short-term noise and headwinds of either the overall market or a specific sector.

MH: Let's get specific about what you are buying. In a recent letter, you mentioned a focus on the consumer discretionary sector. Give me a name and your rationale.

JM: In the turmoil, investors are underestimating **Sphere Entertainment Co.'s (SPHR)** profitability and cash flow from its upcoming experience shows "The Wizard of Oz at Sphere" and "The Edge." Plus, we see no

signs of a consumer slowdown with real-time demand driving new dates being added to The Eagles, Backstreet Boys and “Postcard from Earth.” Another location in Abu Dhabi as well as future “mini” Spheres should also drive cash flow.

TF: OneSpaWorld Holdings Ltd. (OSW) is the leading provider of onboard spas and wellness centers for the cruise industry with over 90% market share. The company returned to the public markets in 2019 on the eve of the pandemic, and much like the broader leisure space, fought for their corporate lives throughout the Covid crisis—which proved to be a great buying opportunity. Meaningful distress in today’s markets is giving us another chance to accumulate shares of this competitively advantaged business at a discounted price.

KK: Wall Street’s concern about consumer discretionary businesses is ignoring where demand for **Norwegian Cruise Lines Holdings Ltd. (NCLH)** comes from. This is the cheaper alternative to land-based vacations with great tailwinds in the underlying business model. And even adjusting for potential near-term consumer headwinds, this stock is trading below 10x forward earnings and doing all the right things in terms of generating free cash flow. I think it’s being misclassified and is misunderstood.

JR: Madison Square Entertainment Corp. (MSGE) owns the flagship and namesake Madison Square Garden but also Radio City Music Hall, Beacon Theatre and The Chicago Theatre. Its pressured shares are selling at a 47% discount to our private market value estimate² as Wall Street anticipates a recession. Here, we have a tremendous opportunity to own more of a truly unique asset with a substantial margin of safety provided by its irreplaceable New York City location, the stability of its Knicks and Rangers anchor tenants along with the underlying value of its prestigious real estate assets.

MH: That is a clear recap of what we are buying. What are we selling?

JR: We’re paring back on stocks that have held up best in this sell off.

MH: That seems counterintuitive.

JR: Those decisions come down to relative valuations. We would rather own more of a world-class brand like Norwegian which is selling at a 56% discount to our private market value estimate than great businesses like **Prestige Consumer Healthcare, Inc. (PBH)** and/or **Adtalem Global Education (ATGE)** that are trading close to full value at a 10% discount and 5% discount, respectively.²

MH: Tim, what do you do to reduce the possibility of being really wrong?

TF: First and foremost, you take the risk of financial distress off the table. One thing we've learned over the years is that truly good businesses are resilient. They can take a lot of shocks. They can take a lot of pain and damage over the short run. They generally heal themselves and cure over time. So, the first rule is to be sure they live long enough to get to that point. Another form of insurance against a stock picking mistake is to know the balance sheet never puts the franchise at risk.

KK: Yeah. You need this combination of a solid company with its stable moat that you can count on to handle the shocks and weather the storm, combined with a stable balance sheet that you don't have to worry about. If headwinds drag on longer than you would like, you cannot worry about any impairment of capital. Our margin of safety means we should be buying a stock at such a cheap price that even if we get some of our expectations wrong, there's still a lot of room in terms of potential upside because we are buying at such deep, deep

² Private market value calculations are as of April 10, 2025.

discounts to the fundamental value of the underlying businesses.

MH: How many new names are you considering right now?

TF: A handful. We always have a list of names we want to buy. But first, as we mentioned, we work with the names we already own and where we can move quickly. We're always in a constant state of trying to be ready. Should the market turn around and recover 20% from here, that work just goes back on the shelf. On the other hand, should it fall 20% next week, we might be buying four names at once.

MH: Does this feel like the Crash of 1987, the Financial Crisis of 2008, the Covid crisis in 2020 or something completely different?

KK: This is a difficult time that does not feel like the other tough periods. In the past, the market had a problem that it was trying to figure out and fix. With Covid, the job at hand was to get the economy restarted. In 2008, the job was to restore liquidity and stability to financial markets. The challenge with the current environment is there is a new shock every day. The shocks are coming from different angles and are random. Uncertainty grows because there is no clear and single job to "fix."

From a valuation gap perspective, 2008 was the worst period. Our portfolios had never been cheaper—their private market values reached nearly a 50% discount to intrinsic worth. When I looked this morning, our small cap portfolios were selling at over a 40% discount. That's very cheap by normal standards, but not as extreme as the pain of the Financial Crisis. Although there is no way to know how much worse it might get, it will eventually get better.

MH: Is there anything that keeps you up at night in this kind of environment?

TF: I worry more about the world than what we're doing. Past sell offs were bounded by more rationality. Even though there was uncertainty, this is different. The drivers of the shocks this time are unlike anything we have seen before. A stroke of a pen can literally reverse what just happened the day before. So, the speed in which the damage can occur, and the speed in which the damage can reverse is unlike anything we've ever seen.

JR: Of course, the swings are uncomfortable, I can sleep at night because I have lived through other bad moments in the markets. Each time, you build resiliency and hone even better instincts. I know the more volatile things are, the more opportunity at hand, the more money can be made. The key is patience and discipline.

MH: How does it end?

JR: Storms always end. A bias towards quality companies and stable balance sheets is how you win in the long run.

KK: People trying to guess the next trend, guess the next movement, are really going to wear themselves out in this tactical environment. All the noise and dislocation will just continually create opportunities for us to either upgrade the quality of the companies we own within sectors or rotate to names that we think have intriguing risk/rewards as well as an adequate margin of safety for the longer term.

JM: Ultimately, this is a great time to be a value investor—to be able to get your hands dirty and buy for the long-term.

MH: Yet, Miller, you recently decided to take an early retirement package after 35 years at Ariel. How do you feel about that decision in this current environment?

JM: Annoyed! These are the times when I show up as a soldier. But after such a long tenure, retiring is the best decision for me right now. My wife, Gina, agrees. Working here has been a wonderful experience. Ariel provided an open-door environment for me to learn. To better understand companies, I was encouraged to read as much as I could, to travel anywhere I needed to go and to talk to as many people as possible. My knowledge expanded dramatically, from attending business school at the University of Chicago while a young analyst, to simply being surrounded by so many smart people. To that point, I will most miss the teamwork and collegiality. I loved every opportunity to be able to walk down to Ken's office, to Tim's office, to Sabrina's office, to ask them questions not only about their portfolio companies, but to have them help me better understand mine.

I was taught to stay focused on the long term and encouraged to think independently. JR expects us to be different. Contrary views and non-consensus investment recommendations are protected and ultimately help the firm deliver strong performance—which is the ultimate goal.

JR: After 35 years together, it is going to feel strange coming to the office without John Miller here with us. He has been an exemplary teammate. Three and a half decades later, he is still learning and questioning. He has never been satiated or satisfied. He has always done the work and been accountable. No excuses. From our clients' standpoint, we will maintain the relationships John built and continue to relentlessly train the next generation of analysts to do the same.

We have all worked together as a battle-tested team for a long time now. We believe in a common philosophy and are executing it. By challenging each other, we get better. Miller has always served up the value investing truths. Although he is leaving, his distinct voice has been hard wired into our work.

MH: That's a good point. You have literally worked together for decades. What keeps you all here?

KK: Very few firms approach the market the way we do. We get to work with a team of investors who are smart, disciplined and driven. Even on tough days, it is a fun job to apply a philosophy that JR created 42 years ago. Yes, as the markets evolve, there are new challenges and opportunities, but the basic rules of investing stay the same.

MH: When it really doesn't go well, how do you handle disappointment?

JR: If you are in this job, you know there will be times when you will get things wrong. Like a baseball player, sometimes you will strike out. Still, those instances drive us to execute better. We always do a postmortem on a disappointing stock. We go back and re-read our work to figure out what we should have done differently or better. We seek to understand by looking backward—in depth—because we don't want to repeat mistakes.

MH: Tim, what should our clients expect during this volatile period?

TF: We firmly believe that to beat the market, you must look different than the market. In times of excessive volatility, our differences mean we can underperform. It's a residual of the process. It's not a fault of the process per se. We're trying to take advantage of the emotion in the market. In so doing, we are not going to time things perfectly or buy every stock at the bottom. As we do our work, we know things may not get better

tomorrow or next quarter, but further out, rationality always returns. Stocks trade on fundamentals and always iterate back towards intrinsic value. That's our guiding principle.

JR: It would be great if we could give a perfect prediction on volatility, or tracking error, or whatever measure, but many metrics don't square with our process. Our agnosticism allows us to exploit opportunities and make money over time. So, our kind of contrarian, value investing requires patience. In the end, our four-decade long history shows patience wins.

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 (Head Regulatory Counsel and Chief Compliance Officer) 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.

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 companies is riskier and more volatile than investing in large-cap companies. The intrinsic value of the stocks in which the Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and their 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 Ariel Fund's Prospectus as of February 1, 2025, the Investor Class and Institutional Class had an annual expense ratio of 1.00% and 0.69% respectively. Per the Ariel Appreciation Fund's Prospectus as of February 1, 2025, the Investor Class and Institutional Class had an annual expense ratio of 1.14% and 0.83%, respectively.

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 Fund's position size, if any, in the above holdings was Sphere Entertainment Company 3.16%; OneSpaWorld Holdings, Ltd. 1.03%; Norwegian Cruise Line Holdings, Ltd. 1.19%; Madison Square Garden Entertainment Corporation 4.26%; Prestige Consumer Healthcare, Inc. 3.69% and Adtalem Global Education, Inc. 4.54%. As of 3/31/25, Ariel Appreciation Fund's position size, if any, in the above holdings was Sphere Entertainment Company 2.03%; OneSpaWorld Holdings, Ltd. 1.24%; Norwegian Cruise Line Holdings, Ltd. 2.02%; Madison Square Garden Entertainment Corporation 2.40%; Prestige Consumer Healthcare, Inc. 0.00% and Adtalem Global Education, Inc. 0.00%.

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. The 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.

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. 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 relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). Its inception date is January 1, 1987.

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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.

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