Ariel investments

Quarterly Commentary

Ariel Emerging Markets Value

Quarter Ended June 30, 2025

The second quarter of 2025 was a period of extremes. Stocks tumbled in early April as the "Liberation Day" tariff announcement pushed global indices to the brink of bear market territory. Yet, after the initial plan was put on "pause," equities staged a remarkable recovery. Notably, emerging market equities outperformed their developed market peers. Taiwan and South Korea markets rallied as enthusiasm for technology and artificial intelligence (AI) stocks improved. The South Korean market was also boosted by changes in corporate governance regulations that would strengthen shareholder rights. Meanwhile, weakness in the U.S. dollar, monetary easing in emerging economies and encouraging trade talks between the U.S. and China provided a supportive setting for developing countries. While elevated levels of risk, such as tariffs and geopolitical concerns may result in more near-term volatility, we believe our companies are well-positioned to navigate uncertainty. Against this backdrop, the Ariel Emerging Markets Value Composite advanced +10.03% gross of fees (+9.85% net of fees), trailing the MSCI EM Index's +11.99% return.

Korea-based semiconductor manufacturer, **SK Hynix Inc.** was the top contributor to performance in the quarter. Strong AI driven demand for high bandwidth memory (HBM) products as well as rising spot market prices for memory were key highlights. Furthermore, the company is gaining market share in high-content server-grade dynamic random access memory (DRAM) modules and solid state drives (SSDs). With its entire 2025 HBM supply sold out and Nvidia as a key customer, SK Hynix solidified its leadership in the AI memory market. Looking ahead, we expect SK Hynix will continue to be a prime beneficiary of the very strong memory cycle thereby supporting profit expansion as well as robust book value growth.

Korea's largest financial company in terms of assets and customer base, **KB Financial Group Inc.**, also advanced during the period, supported by strong earnings and renewed investor confidence following the April release of its Value-up Program progress report. The update highlighted improvements in shareholder returns and governance, reinforcing the market's positive outlook on the initiative. With the company's continued efforts to enhance shareholder returns, we believe it is well-positioned to narrow the valuation discount relative to its global peers.

Additionally, Brazilian apparel company, **Lojas Renner S.A.**, traded higher during the quarter. The company reported strong earnings results highlighted by greater than expected retail revenue growth and margin expansion. Notably the ramp up of the company's new distribution center is augmenting inventory management which is leading to high store productivity and lower markdowns. Furthermore, an improving credit book is showing better asset quality and resumed growth.

In contrast, China-based e-commerce company, **JD.com, Inc.** declined during the period primarily due to concerns surrounding the company's aggressive expansion into the highly competitive food delivery business. Specifically, the size of the investment and incremental return on the initiative remains unclear. Meanwhile, the core e-commerce business continues to deliver strong results highlighted by double-digit top line growth and margin expansion. Despite the attractive valuation and strength of the core business, we have trimmed the position to reflect our emerging concerns.

Developer and manufacturer of electric two-wheel (E2W) vehicles, **Yadea Group Holdings Ltd.** also detracted from performance during the quarter. Relative to other trade-in categories like home appliances and consumer electronics, E2W trade-in subsidies did not boost industry demand as much as investors anticipated. Nonetheless, we expect consolidation will support share gains for Yadea, as new national standards have presented significant challenges to smaller players in the E2W market. Additionally, we believe the launch of new products and normalized inventory levels will enhance profitability and earnings per share growth. Notably, we added to shares on weakness during the quarter.

Finally, shares of Chinese auto maker, **Great Wall Motor Company, Ltd.**, traded lower as earnings results missed consensus expectations in the period. Tax and interest rate headwinds tied to auto purchase declines led to weaker demand in Russia, a key foreign market for the company.. Softer domestic sales volumes and higher marketing expenses ahead of the company's new product launches also weighed on near-term results. Nonetheless, management has high visibility for the new auto model cycle and we expect Great Wall's volume and revenue growth to re-accelerate with margins expanding over the remainder of the year.

We initiated two positions in the quarter.

We added **Grupo Mateus SA** which is a food retailer in the northern Brazilian states of Maranhão and Pará. We see attractive opportunities for the company to continue expanding

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its supermarket chain into adjacent territories by leveraging existing logistics infrastructure. Additionally, we believe there is a large opportunity for Grupo Mateus to reduce its working capital, thereby driving free cash flow and improving its valuation. Moreover, Grupo Mateus should benefit from a decline in the cost of capital in Brazil in the coming years.

We also purchased South Korean investment company conglomerate, **SK Square Co. Ltd.** in the quarter. SK Square owns 20% of SK Hynix, the leading Korean memory semiconductor company. Shares are trading at nearly a 50% discount to the company's net-asset-value (NAV). We remain positive on the underlying value drivers for SK Hynix, and also expect the new Korean government's policy objectives to support a continuing reduction in conglomerate valuation discounts like the large one that exists for SK Square.

By comparison, we successfully sold our positions in Vietnam's leading commercial bank, **Military Commercial Joint Stock Bank** and electronics and food retailer, **Mobile World Investment Corporation**, as well as South African conglomerate **Barloworld Ltd.** upon an acquisition offer. Additionally, we exited Korean producer of camera modules for smartphones, **LG Innotek Company Ltd.** in the quarter to pursue more compelling opportunities.

It's impossible to control tariff policies, global trade negotiations or how geopolitics and diverging monetary policy may reverberate across the economic landscape. In times like these, we remain measured, deliberate and actively patient—willing to take advantage of volatility with an eye towards long-term gains.

EM's shares are trading at a wide discount relative to businesses in the developed markets. And yet, we believe corporate earnings growth in developing economies will exceed the earnings growth outlook in advanced economies over the near-to-medium term. Rising productivity, a burgeoning middle class and growing urbanization should boost local demand and economic growth. Additionally, many EM companies are becoming more diligent in their capital allocation policies. They are focusing on capturing efficiencies and increasing returns as well as returning capital to shareholders through dividends and buybacks. Meanwhile, a weaker U.S. Dollar could be further upside over the medium term. Against this backdrop, we strongly believe our emerging markets value portfolios are well-positioned to deliver superior returns 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 6/30/2025, the performance (net of fees) of the Ariel Emerging Markets Value Composite for the 1-year and since inception on 4/30/2023 was +10.66% and +14.97%, respectively. For the period ended 6/30/2025, the performance for the MSCI EM Net Index and the MSCI EM Value Net Index over the 1-year and since inception of the Ariel Emerging Markets Value Composite on 4/30/2023 was +15.29% and +13.82%, and +12.66% and +13.38%, respectively. Ariel Composite Net of Fees returns are calculated by deducting the actual monthly advisory fee (on an asset-weighted basis) applicable to all 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 Emerging Markets Value Composite differs from its benchmark, the MSCI EM Net Index, because the Composite has fewer holdings than the benchmark.

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 6/30/2025, SK Hynix, Inc. constituted 4.4% of the Ariel Emerging Markets Value Composite (representative portfolio); KB Financial Group, Inc. 4.9%; Lojas Renner SA 2.4%; JD.com, Inc. 3.2%; Yadea Group Holdings, Ltd. 3.7%; Great Wall Motor Company, Ltd. 3.0%; Grupo Mateus SA 1.0%; SK Square Co., Ltd. 1.0%; Barloworld Ltd. 0.0%; LG Innotek Co., Ltd. 0.0%; Military Commercial Joint Stock Bank 0.0% and Mobile World Investment Corporation 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 the Ariel Emerging Markets Value Composite.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

Indexes are unmanaged. Investors cannot invest directly in an index. The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,377 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Inception of this benchmark was December 29, 2001. The MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 24 Emerging Markets (EM) countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Inception of this benchmark was January 08, 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 companies' 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.