Ariel investments

Quarterly Commentary

Ariel Emerging Markets Value ex-China

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 positive trade talks provided a supportive backdrop 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 ex-China Composite jumped an impressive +18.69% gross of fees (+18.40% net of fees), outperforming the MSCI EM ex-China Index's +16.53% 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.

Conversely, shares of **Power Grid Corporation of India Limited**, the country's leading power transmission company, traded lower following lackluster earnings results as some projects have been pushed out into the future. However, given the decades long execution of these large projects, the overall impact of the shift in timing should be minimal. More importantly Power Grid continues to benefit from India's brisk economic growth, secular demand for electricity and transmission as well as shift towards renewable energy.

Wizz Air Holdings Plc, a Hungarian ultra-low-cost airline provider also declined on disappointing quarterly earnings results, as positive pricing was neutralized by higher costs. Management then guided to slightly higher unit costs in fiscal full year 2026—despite double-digit capacity growth—further spooking investors. Nonetheless, we remain constructive on the investment. Although Wizz Air's solid competitive positioning in Central and Eastern Europe remains intact, shares are trading at a depressed valuation. We think some of the recent cost inflation is related to its older aircraft. Many of the company's newer models are offline due to required unscheduled maintenance on Pratt and Whitney Geared Turbofan (GTF) engines. In the meantime, Wizz Air should continue generating positive free cash flow which will support paying down debt and position the company for a meaningful earnings recovery as engine availability normalizes and operational leverage kicks in.

Lastly, shares of financial technology firm, **Kaspi.kz Joint Stock Company**, traded lower in the quarter. Near-term macroeconomic and regulatory headwinds led management to reduce its full year 2025 guidance. Despite these challenges, we believe Kaspi remains a compelling investment opportunity, due to its market leadership, robust customer engagement and strategic growth initiatives. The company maintains dominant market positions comprising nearly the entire adult population of Kazakhstan—14.9 million active monthly users. Strategic acquisitions can further bolster Kaspi's growth, notably the planned acquisition of Uzbekistan's payments platform Humo and Rabobank A.Ş in

SLOW AND STEADY WINS THE RACE

Turkey. Once closed, Kaspi's addressable market will increase from 20 million to over 100 million people. With these strategic initiatives effectively positioned to capitalize on regional digitalization trends and increasing financial inclusion, Kaspi is well-prepared to navigate current macro pressures and regulatory challenges, providing attractive upside potential as these temporary headwinds subside.

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 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 based electronics and food retailer, **Mobile World Investment Corporation** and South Africa-based 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 ex-China Composite for the 1-year and since inception on 5/31/2023 was +5.97% and +17.42%, respectively. For the period ended 6/30/2025, the performance for the MSCI EM ex-China Net Index over the 1-year and since inception of the Ariel Emerging Markets Value ex-China Composite on 5/31/2023 was +9.39% and +15.25%, 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 ex-China Composite differs from its benchmark, the MSCI EM ex-China 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 4.8% of the Ariel Emerging Markets Value ex-China Composite (representative portfolio); KB Financial Group, Inc. 5.1%; Lojas Renner SA 2.9%; Power Grid Corporation of India, Ltd. 3.0%; Wizz Air

Holdings plc 0.6%; Kaspi.KZ JSC 1.1%; Grupo Mateus SA 1.2%; SK Square Co., Ltd. 1.0%; Barloworld Ltd. 0.0%; LG Innotek Co., Ltd. 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 ex-China 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. MSCI Emerging Markets ex-China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. Its inception date is March 9, 2017. 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.