Ariel investments

| Performance as of June 30, 2025 (%) | | | | Annualized | | | |
|---|---|---|---|---|---|---|---|
| | QTD | YTD | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
| **Ariel Emerging Markets Value** | | | | | | | 04/30/2023 |
| **Gross of Fees** | **10.03** | **13.59** | **11.70** | **-** | **-** | **-** | **16.06** |
| **Net of Fees** | **9.85** | **13.09** | **10.66** | **-** | **-** | **-** | **14.97** |
| MSCI EM Net Index | 11.99 | 15.27 | 15.29 | - | - | - | 13.82 |
| Additional Indexes | | | | | | | |
| MSCI EM Value Net Index | 10.02 | 14.77 | 12.66 | - | - | - | 13.38 |
| **Ariel Emerging Markets Value ex-China** | | | | | | | 05/31/2023 |
| **Gross of Fees** | **18.69** | **15.96** | **7.09** | **-** | **-** | **-** | **18.66** |
| **Net of Fees** | **18.40** | **15.37** | **5.97** | **-** | **-** | **-** | **17.42** |
| MSCI EM ex-China Net Index | 16.53 | 14.53 | 9.39 | - | - | - | 15.25 |

*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:** For the second quarter ended June 30, 2025, the MSCI EM Index rose +11.99% and the MSCI EM ex-China Index surged +16.53%, with equity markets strong globally and particularly in Taiwan and South Korea. The Ariel Emerging Markets Value Composite trailed both indices, returning +10.03% gross of fees (+9.85% net of fees). Meanwhile, the Ariel Emerging Markets Value ex-China Composite outperformed with a robust +18.69% gross of fees (+18.40% net of fees) gain.

Global equity markets rallied in the aftermath of April's U.S. "Liberation Day" tariff announcements, as investors gained confidence that economic outcomes would be less harmful than initially feared. Technology stocks also rallied on revised enthusiasm for Artificial Intelligence (AI), as earlier concerns faded on continued deployment. Taiwan's equity market was one of the strongest globally, driven by the tech recovery. South Korean equities also saw strong gains, helped by technology stocks as well as growing excitement for corporate governance reforms under a new government. By contrast, China's equity market lagged in the quarter, as economic momentum stalled, and price competition intensified across several major industries.

## AI Brought to You by EM

To travel to the heart of the AI revolution that is spawning breakneck technological change around the world, you don't need to set foot in Silicon Valley, or anywhere else in the U.S. Instead, you can make your way to Hsinchu, Taiwan—home of the only company in the world that manufactures the advanced semiconductors required to run AI applications, **Taiwan Semiconductor Manufacturing Company, Ltd.** (TSMC). Without TSMC, and numerous other leading companies in Emerging Markets providing much needed hardware, there would be no AI.

Global financial markets have been quick to recognize AI's transformative potential. Over the past two years, leading AI chip designer, Nvidia, has ballooned to a $4 trillion market cap. CoreWeave, a cloud service provider focused on AI applications, has vaulted from a start-up, to IPO, to an $80 billion valuation in June. Meanwhile, major U.S. tech firms have been spending record amounts on data centers and venture capital is aggressively investing in the space. Throughout the business world, AI tops strategic priorities and investor messaging.

In the context of so much attention and capital flow, we think Wall Street is overlooking the degree to which EM domiciled tech companies are leading the AI evolution, as we believe they are poised to earn a bigger share of the profit pool than past tech cycles.

TSMC is a prime example. Long the world's leading semiconductor foundry, the company's technological edge in producing the most advanced processors with the best combination of performance, reliability and cost has made it more critical than ever to its customers. Nvidia's graphics processing units (GPUs) are created exclusively by TSMC, as are #2 player AMD's as well as the custom AI processing chips designed in-house by Google, Amazon, Meta and Microsoft. Despite the risks of relying so heavily on a single supplier, there is nowhere else to turn. Only three companies worldwide remain in the industry, and TSMC’s competitors, Samsung and Intel, are struggling to compete and have been restructuring their foundry operations. Although some may be concerned that TSMC’s edge will narrow over time, recent evidence shows it widening. Besides, no company has ever caught up in advanced semiconductor manufacturing after falling meaningfully behind. For the foreseeable future, nearly every advanced AI application in the world looks likely to run on TSMC-produced processors.

South Korea's **SK Hynix, Inc.** has also emerged as an indispensable part of the AI value chain. The company is one of three major producers of memory semiconductors, which enable data retention to supplement processing chips like the ones TSMC produces. In recent years, SK Hynix established leadership in high-bandwidth memory (HBM), the version of memory required for AI applications, with a 50%+ market share and competitive advantages over peers racing to catch up. AI applications are voracious consumers of memory, using ever-larger memory volumes to handle their exponentially rising parameter and operation counts. For example, Nvidia’s roadmap calls for 16 stacks of 1,024GB HBM in its 2027 product launch, up from 8 stacks of 288GB in 2025. As a result, SK Hynix has leadership positioning in an HBM industry burgeoning from $4 billion in 2023 to a projected $41 billion in 2025 and $83 billion in 2027. Even if its memory peers reduce the technological gap in HBM, the strong industry tailwind should boost SK Hynix’s cash flow for years to come.

The beauty of the AI opportunity for TSMC and SK Hynix is that it is agnostic to which companies or platforms emerge as winners downstream. The list of companies competing to have the best AI models is long, and the models themselves are evolving rapidly, making it hard to predict who wins. Moreover, the future economic model of AI applications remains guesswork. How much of the ultimate value will be captured by AI model creators, cloud computing platforms or data owners? For TSMC and SK Hynix, those questions are mostly academic. If there is demand for AI tools, it will require advanced semiconductors. And they are among a handful of companies with a long track record of profitably producing them.

TSMC and SK Hynix may be two of the best-positioned companies for the AI build-out and represent large portfolio positions. But there are numerous other beneficiaries in Emerging Markets. Taiwan and South Korea have extensive tech hardware industries and an interdependent group of companies across the complex supply chain required to produce AI data centers. This spans from components such as printed circuit boards (PCBs) and power supply units (PSUs), to semiconductor package equipment and testing, as well as system-level assembly.

The complexity and interconnectedness of this supply chain makes it hard to replicate. Despite the U.S. government's strategic imperative to onshore leading-edge semiconductor manufacturing, and willingness to spend considerable sums to do so, it is ultimately relying on the existing Asia-based leaders, including TSMC and SK Hynix. Their decades-long R&D and know-how cannot be duplicated. And while these companies have become solutions providers for U.S. policymakers with their major onshore capacity plans, they continue to rely heavily on their existing Asia-based supply chain partners.

Finally, other attractive technology stocks where AI is less central to the investment thesis, but still a source of potential upside exists in Emerging Markets. Taiwan's **MediaTek, Inc.** is a good example. As one of the two leading designers of chip systems that power smartphones, the company should still grow and see attractive return potential even in a low-growth smartphone market. And yet, an added source of significant upside comes from its opportunity to design custom AI chips for cloud service providers like Google, which could be a major contributor to earnings in the coming years. Even in the less high-tech IT Services industry, Vietnam's **FPT Corporation** can help its customers implement AI tools and manage the resulting complexity, further propelling its existing tailwind as a low-cost provider of quality services.

## Looking Ahead

Like all new tech cycles, the rise of artificial intelligence is sure to be full of surprises. The technology and its economic models are only beginning to take shape. For all the uncertainties, we believe AI's future will be built upon many more semiconductors as well as the leadership of EM companies. Even as economic tailwinds turn more strongly in favor of Emerging Market equities, they are trading at large valuation discounts relative to their developed market counterparts. Against this backdrop, our enthusiasm only grows.

Sincerely,

Henry Mallari-D'Auria
Chief Investment Officer
Global and Emerging Markets Equities

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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, exchange-traded funds (ETFs), and other hedges 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 in which the portfolios invest may never be recognized by the broader market. The portfolios 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.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. 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 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 6/30/25, the Ariel Emerging Markets Value (representative portfolio) held the following positions referenced: Taiwan Semiconductor Manufacturing Company, Ltd. 8.84%; SK Hynix, Inc. 4.38%; MediaTek, Inc. 0.95% and FPT Corporation 1.38%. As of 6/30/25, the Ariel Emerging Markets Value ex-China (representative portfolio) held the following positions referenced: Taiwan Semiconductor Manufacturing Company, Ltd. 14.39%; SK Hynix, Inc. 4.77%; MediaTek, Inc. 1.82% and FPT Corporation 1.34%.

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 Composites. Portfolio holdings mentioned do not represent all holdings purchased or sold for the Composites.

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 coves approximately 85% of the free float-adjusted market capitalization in each country. Inception of this benchmark was January 1, 2001.

The MSCI Ariel 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 December 8, 1997. 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 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.