Ariel Global

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 the MSCI ACWI and S&P 500 to the brink of bear market territory. Yet, after the initial plan was put on "pause," equities staged a remarkable recovery. Investor enthusiasm for artificial intelligence (AI) themed stocks and robust corporate earnings results drove global and U.S. indices to new all-time highs. European equities outperformed as a strong euro boosted purchasing power and lifted investor sentiment. Japan also recorded strong gains, while China posted a modest rebound. Yet, beneath the surface, capital flows continued to signal a shifting investment landscape. A weaker dollar, resilient commodities and renewed appetite for emerging markets and European stocks are reshaping portfolios. Investors with a mix of U.S. equities, international exposure and hard assets appear to be better cushioned against elevated risks, including tariffs and geopolitical concerns. While near term volatility may persist, we remain confident that our portfolio companies can navigate through uncertainty. Against this backdrop, the Ariel Global Composite increased +8.09% gross of fees (+7.94% net of fees) in the period underperforming the +11.53% gain posted by the MSCI ACWI Index but outpacing the MSCI ACWI Value's +5.84% return.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. The Ariel Global bottom-up strategy is overweight Health Care, Utilities, Consumer Discretionary and Communication Services, meaningfully underweight Information Technology, Industrials and Consumer Staples, as well as lacks exposure to Energy and Materials. At the sector level, our avoidance of Energy and stock selection among Consumer Staples were the greatest contributors to returns, while currency forwards, Consumer Discretionary and Industrials holdings were the largest performance detractors.

Leading food retailer and wholesaler based in the United Kingdom (UK), **Tesco PLC**, advanced during the period with continued market share gains. Although increased price competition resulted in management lowering full year 2026 guidance, Tesco remains focused on utilizing its scale to protect and grow market share. In our view, Tesco has a good track record of navigating difficult markets and should continue to benefit from alternative revenue streams such as Marketplace and Retail Media.

New holding, **Lasertec Corporation**, which is a Japan-based niche manufacturer of semiconductor and flat panel display production equipment, was another top contributor over the period. A recent pullback in the stock following order cuts, product inspection delays and concerns about the threat of new competitors provided an attractive entry point. Following our initiation, improving investor sentiment lifted shares as Lasertec remains the only company with commercialized inspection systems that use extreme ultraviolet lithography (EUV) light sources. Management also reiterated their expectation for an order recovery in 2026 with the number of specific projects increasing and visibility in the outlook improving. Moreover, we believe Lasertec's process control intensity is nearing an inflection as the business shifts towards high volume manufacturing. Notably, the company's actinic patterned mask inspection (APMI) tool also provides a cheaper alternative to advanced semiconductor materials lithography (ASML). We think this in combination with an expansion of EUV processes in semiconductor production offers significant upside over the long-term.

Korea-based leading pure-play producer of memory semiconductor products, **SK Hynix Inc.** also traded higher following robust quarterly earnings results. Strong AI driven demand for high bandwidth memory (HBM) products as well as a recovery in commodity memory prices 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.

Alternatively, China-based e-commerce company, **JD.com**, Inc. declined during the quarter primarily due to concerns surrounding the company's aggressive expansion into the highly competitive food delivery business. Specifically, the magnitude of 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. Although the valuation remains attractive and the core business is doing well, we have trimmed the position to reflect our emerging concerns.

New holding, **China Mengniu Dairy Company, Ltd.**, one of the largest dairy producers in China, also traded lower over the period. Recently an oversupply of raw milk has led to falling prices and a loss of market share. Despite this near-term challenge, we expect a healthier supply-demand balance will pave the way for top-line recovery and market share gains. In parallel, Mengniu will work to improve profitability through various self-help initiatives, including tighter expense management and enhanced supply chain efficiency.

Lastly, French pharmaceutical company, **Sanofi** underperformed during the period, primarily due to renewed concerns over potential U.S. tariffs on European pharmaceutical imports. While the company continues to demonstrate strength in its drug pipeline, mixed results from Phase 3 candidate Itepekimab in recent chronic obstructive pulmonary disease (COPD) clinical trials further weighed on shares. At its current valuation, we believe Sanofi's immunology pipeline is underappreciated and are awaiting clinical Phase 3 outcomes in Amlitelimab for atopic dermatitis. Additionally, we remain optimistic in the growth trajectory of Dupixent.

In addition to **Lasertec Corporation** and **China Mengniu Dairy Company Ltd.** discussed above, we initiated seven new positions in the quarter.

We added **AirTAC International Group**, a Taiwan-based pneumatic equipment manufacturer. Pneumatic systems are an attractive power output and given Chinese stimulus, we expect growing demand from electronics, auto and battery, as well as general industrials to trend higher. Notably, AirTAC has been steadily gaining share in the region through its direct sales efforts, new SKU launches, lower prices and improving product quality. Taken together, we expect these competitive advantages will yield attractive long-term earnings growth.

We bought Spain-based global commercial bank **Banco Bilbao Vizcaya Argentaria SA (BBVA)** which operates the largest bank in Mexico and has leading franchises across South America and Turkey. We expect loan growth in Mexico to be driven by market share gains, low levels of leverage and the potential near shoring of US production. We also favor BBVA's exposure to Turkey and its attractive age demographics. Falling inflation and a reduction in the policy rate in the country should help revenues prosper. A potential merger between BBVA and Banco Sabadell would also unlock significant value via market share gains, cost synergies and scale in product offerings as well as technological investments. Even though BBVA offers a superior return-on-equity relative to peers, at current levels shares are trading at a meaningful discount.

We purchased **Ebara Corporation**, a Japan-based manufacturer of industrial and semiconductor-related equipment. We believe Ebara's Precision Machinery division is well positioned to benefit from a near-term recovery in memory wafer fab equipment (WFE) spending, particularly in NAND. Longer term, the adoption of hybrid bonding should increase demand for Ebara's chemical mechanical planarization (CMP) tools. Lastly, we favorably view the new management team's plan to narrow its margin gap with peers through operating leverage, expanding its service mix and optimizing its global footprint.

We added **First Solar, Inc. (FSLR)**, a U.S.-based photovoltaic solar technology and manufacturing company. As the only US based solar module manufacturer of scale, we believe the company stands to benefit from growing AI power demands as well as "America First" energy policy tailwinds. As of today, FSLR is sold out through 2026. However, as the final Inflation Reduction Act rules become clearer, we believe FSLR's contract wins should accelerate, particularly as developers seek to secure as much capacity as possible to pre-qualify modules for subsidies before they expire.

We initiated a position in the leading gaming operator in Italy, **Lottomatica Group SpA**. The company operates top brands such as GoldBet, Better, BetFlag, Lottomatica, and Planetwin365 and seeks to broaden its player base by scaling the business model via an omnichannel approach. With online migration gaining momentum, Lottomatica is growing its competitive advantage by building out its in-house tech stack and cross-brand AI platform. These initiatives are designed to improve operational efficiency, and customer engagement while supporting scalable growth. The recent award of a new Italian online gaming concession is expected to be a significant catalyst, enabling market consolidation and increasing market share. With Italy's online gaming penetration well below the average of comparable European markets (33% versus 60%), we believe Lottomatica is well positioned to capitalize on the sector's digital transformation and long-term growth potential.

We also bought **Walt Disney Company (DIS)**, the storied entertainment conglomerate whose businesses span media networks, film studios, theme parks, cruise ships and consumer products. A recent pullback in the stock provided an attractive entry point. In our view, growth in Disney+ subscribers, higher average revenue per user (APRU), margin expansion in the streaming segment and greater license sales amid successful releases will result in substantial operating income growth, bolstering the company's overall margins and free cash flow generation.

Finally, we added **Zimmer Biomet Holdings, Inc. (ZBH)**, maker of hips and knees. The company has struggled to maintain market share following its 2015 acquisition of Biomet, but we expect new product launches to deliver mid-single digit top-line growth over the next three-to-five years. In success ZBH should experience incremental revenue and earnings growth as well as margin expansion.

Meanwhile, we successfully exited biopharmaceutical company, **AbbVie, Inc.**, French banking and financial services company, **BNP Paribas SA** and banking and insurance services company, **KBC Group NV** on valuation.

In order to pursue more compelling opportunities, we eliminated our positions in smartphones maker, **Samsung Electronics Company, Ltd.**; agriculture machinery manufacturer, **CNH Industrial NV**; **Stellantis N.V.**, the auto company; and **Subaru Corporation**, the Japan-based car maker.

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

While corporate earnings have largely remained resilient, mounting margin pressures and signs of consumer fatigue are surfacing, especially across discretionary sectors. Meanwhile, market leadership remains highly concentrated in a narrow group of mega-cap technology stocks, heightening the risk of abrupt reversals if sentiment cools. Against this backdrop, thoughtful active management can deliver significant value. Our international and global holdings currently trade at compelling valuations relative to their growth prospects, while maintaining the financial strength needed for operation resilience. We believe our focus on companies with solid balance sheets, durable earnings, and more diversified exposure will prove defensive and be the key differentiator to outperforming 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 Global Composite for the 1, 5, and 10-year periods were +18.53, + 10.83% and +8.07%, respectively. For the period ended 6/30/2025, the performance for the MSCI ACWI Index and the MSCI ACWI Value Index for the 1, 5, and 10-year periods were +16.17%, +13.65% and +9.99% and +15.62%, +12.99% and +7.30%, respectively. Ariel Composite Net of Fees returns are calculated by deducting: (1) for the period from inception to December 31, 2013, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from January 1, 2014 onwards, the actual monthly advisory fee (on an asset-weighted basis) accrued for the 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 Global Composite differs from its benchmark, the MSCI ACWI (All Country World 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, Tesco plc constituted 3.0% of the Ariel Global Composite (representative portfolio); Lasertec Corporation 1.9%; SK Hynix, Inc. 1.0%; JD.com, Inc. 1.4%; China Mengniu Dairy Company, Ltd. 1.7%; Sanofi 2.4%; Airtac International Group 1.1%; Banco Bilbao Vizcaya Argentaria SA 1.0%; Ebara Corporation 1.9%; First Solar, Inc. 2.7%; Lottomatica Group SpA 1.0%; Walt Disney Company 1.0%; Zimmer Biomet Holdings, Inc. 1.3%; AbbVie Inc. 0.0%; BNP Paribas S.A. 0.0%; CNH Industrial NV 0.0%; KBC Group N.V. 0.0%; Samsung Electronics Co., Ltd. 0.0%; Stellantis N.V. 0.0% and Subaru 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 Global Composite.

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

Indexes are unmanaged. An investor cannot invest directly in an index. The MSCI ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001.The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. Its inception date is December 8, 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 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.