# Ariel International Fund

## Quarter Ended June 30, 2025

**Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. The investment return and principal value of an investment 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 current to the most recent month-end for Ariel International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended June 30, 2025 the average annual total returns of Ariel International Fund (Investor Class) for the 1-, 5, and 10-year periods were +28.34%, +8.36%, and +5.08%, respectively.**

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, Ariel International Fund advanced +12.57% in the quarter, outperforming both its primary and secondary benchmarks, the MSCI EAFE and MSCI ACWI ex-US indices, which returned +11.78% and +12.03%, respectively.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel International Fund is overweight Consumer Discretionary, Utilities, Information Technology and Communication Services. The portfolio is meaningfully underweight Industrials, Energy and Consumer Staples and lacks exposure to Materials. At the sector level, our stock selection within Information Technology and Financials were the largest sources of positive attribution. By contrast, our Industrials and Cash allocations detracted the most from our performance during the quarter.

New holding, **Lasertec Corporation**, which is a Japan-based niche manufacturer of semiconductor and flat panel display production equipment, was a 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.

Leading food retailer and wholesaler based in the United Kingdom (UK), **Tesco PLC**, also 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.

Additionally, Korea-based leading pure-play producer of memory semiconductor products, **SK Hynix Inc.** 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.

In contrast, 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.

Israel-based provider of products for information technology security, **Check Point Software Technologies Ltd.** also traded lower during the period despite robust earnings, highlighted by a significant beat in product revenues and double-digit billings growth. Consumers are adopting more pillars of Check Point's platform and engaging in larger strategic commitments with Infinity and Quantum Force. Meanwhile, new CEO Nadav Zafrir, expanded the executive team to balance corporate and go-to-market leadership roles as well as bring more attention to customer facing functions. Check Point continues to be an astute steward of capital, pursuing organic growth and utilizing surplus cash to return capital to shareholders. We also like the company's exposure to the fast-growing cloud security market and its industry leading profitability.

Lastly, 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.

In addition to **Lasertec Corporation** discussed above, we initiated five 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 purchased 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 bought **China Mengniu Dairy Company, Ltd.**, one of the largest dairy producers in China. Recently the company has faced industry headwinds due to an oversupply of raw milk. This imbalance has led to falling prices and a loss of market share. As the supply outlook continues to normalize, we expect the market will shift towards a healthier supply-demand balance paving the way for top-line recovery and market share gains. In parallel, we see Mengniu taking steps to improve profitability through various self-help initiatives, including tighter expense management and enhanced supply chain efficiency.

We added **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.

Finally, 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.

By comparison, we successfully exited **Danske Bank A/S**, the Danish banking and financial services company, as well as tobacco maker, **Philip Morris International Inc.** on valuation. In order to pursue more compelling opportunities, we sold security services provider, **Secom Company, Ltd.**, and two car holdings, **Stellantis N.V.** and **Subaru Corporation**.

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.

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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 and exchange-traded funds (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 in which the Fund invests may never be recognized by the broader market. The Fund is often concentrated in fewer sectors than its benchmarks, and its 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 Fund's Prospectus as of February 1, 2025, Ariel International Fund Investor Class had an annual net expense ratio of 1.17% and an annual gross expense ratio of 1.40%. Currently, an expense ratio cap of 1.13% is in place for the Investor Class to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments LLC (the Advisor) is contractually obligated to maintain this expense ratio cap through 1/31/26. The net expense ratio for the Investor Class does not correlate to the Expense Cap due to the inclusion of acquired fund fees and certain other expenses which are excluded from the Expense Cap.

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, Lasertec Corporation constituted 3.0% of Ariel International Fund; Tesco PLC 3.9%; SK Hynix, Inc. 1.1%; Sanofi 4.0%; Check Point Software Technologies, Ltd. 3.2%; JD.com, Inc. 0.6%; Airtac International Group 0.9%; Banco Bilbao Vizcaya Argentaria SA 1.2%; China Mengniu Dairy Company, Ltd. 1.1%; Ebara Corporation 1.9%; Lottomatica Group SpA 1.2%; Danske Bank A/S 0.0%; Philip Morris International Inc. 0.0%; Secom Co., Ltd. 0.0%; Stellantis N.V. 0.0% and Subaru Corporation 0.0%.

A glossary of financial terms provided herein may be found on our website at [www.arielinvestments.com](http://www.arielinvestments.com).

Indexes are unmanaged. An investor cannot invest directly in an index. The MSCI EAFE® Index is an equity index of large and mid-cap representation across 21 Developed Markets (DM) countries around the world, excluding the U.S. and Canada. Its inception date is May 31, 1986. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-US Index is an index of large and mid-cap representation across 22 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI ex-US Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 22 Developed and 24 Emerging Markets 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.

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