

# Ariel Investments

Performance as of June 30, 2025 (%)				Annualized			
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
<b>Ariel International (DM)</b>							<b>12/31/2011</b>
Gross of Fees	13.11	26.52	31.19	14.27	9.87	6.39	7.65
Net of Fees	12.91	26.09	30.35	13.55	9.17	5.80	7.01
MSCI EAFE Net Index	11.78	19.45	17.73	15.96	11.16	6.51	7.68
<b>Additional Indexes</b>							
MSCI EAFE Value Net Index	10.11	22.84	24.24	18.38	14.30	6.05	7.23
<b>Ariel International (DM/EM)</b>							<b>12/31/2011</b>
Gross of Fees	13.17	24.95	28.96	13.91	10.30	6.83	7.97
Net of Fees	13.03	24.64	28.31	13.28	9.69	6.21	7.27
MSCI ACWI ex-US Net Index	12.03	17.90	17.72	13.99	10.13	6.12	6.83
<b>Additional Indexes</b>							
MSCI ACWI ex-US Value Net Index	10.42	19.90	21.42	15.61	13.15	5.70	6.30
<b>Ariel Global</b>							<b>12/31/2011</b>
Gross of Fees	8.09	14.87	19.17	12.28	11.39	8.60	10.00
Net of Fees	7.94	14.56	18.53	11.70	10.83	8.07	9.38
MSCI ACWI Net Index	11.53	10.05	16.17	17.34	13.65	9.99	10.72
<b>Additional Indexes</b>							
MSCI ACWI Value Net Index	5.84	10.88	15.62	13.14	12.99	7.30	8.36

*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](http://arielinvestments.com).*

**Dear Clients and Friends:** The second quarter delivered high drama with global equities rising despite persistent turbulence. Beneath the surface, shifting capital flows and policy actions signaled a changing investment landscape.

U.S. stocks rebounded sharply after an April sell-off sparked by a surprise White House tariff announcement. A swift policy reversal helped erase losses and propelled indices to record levels. However, market leadership remained narrow, with just 13 stocks accounting for more than half of the MSCI U.S. Index return—mostly AI-related large cap growth names that investors believe to be insulated from trade risk. Although U.S. markets posted records, the outlook remains clouded by stretched valuations and global economic uncertainty.

Outside the U.S., a weaker dollar, resilient commodities and renewed interest in European and Emerging Markets equities are driving a broad reallocation. European issues advanced as governments ramped up investments in defense and energy infrastructure to strengthen economic self-reliance. Meanwhile, Chinese shares modestly rebounded from a steep decline triggered by the Liberation Day announcement. Targeted local stimulus helped steady markets, but foreign investors remained cautious given policy unpredictability and geopolitical tensions.

Investors are re-evaluating where growth and resilience will emerge. Entering 2025, earnings growth for international companies and the equal-weighted U.S. market had already begun to converge. The second quarter underscored that while the U.S. remains an important anchor, both opportunities and risks are increasingly global.

The Ariel International (DM) Composite advanced +13.11% gross of fees (+12.91% net of fees), outperforming the MSCI EAFE Index's +11.78% gain. The Ariel International (DM/EM) Composite increased +13.17% gross of fees (+13.03% net of fees), also outpacing the MSCI ACWI-ex U.S. Index's +12.03% return. Although the Ariel Global Composite earned +8.09% gross of fees (+7.94% net of fees) for the quarter, our results trailed the MSCI ACWI Index's +11.53% gain.

Our global results compared favorably to the value benchmark, but the widening gap between value and growth tempered our participation in the broader market rally. Although our underweight in U.S. stocks and its large cap growth darlings contributed to our shortfall, the primary drag came from a few non-U.S. names that faced company-specific challenges. On this point, we trimmed our position in **JD.com, Inc.** as profit pressures caused by the rapid expansion of its food delivery service dampened its share price.

### **Staying Disciplined Amid the Noise**

In the recent months, we have been reminded that fear, excitement and a herd mentality can rapidly move billions of dollars. Some investors steer clear of companies under scrutiny, even when the underlying businesses are solid. These reactions open the door for value investors, like us, who ignore the noise and remain focused on long-term fundamentals. When the controversies that produce negative headlines pressure stock performance, we see an inflection.

At times, rapidly changing conditions require measured portfolio adjustments. To this point, in early April, we saw a risk that deteriorating liquidity in the financial system could pressure the sector and subsequently reduced our financial exposure. As a result, we re-underwrote our portfolios and re-deployed capital across existing holdings and some new ideas.

We bought **Lasertec Corporation**, Japan's global leader specializing in high-precision inspection systems for semiconductor photomasks, wafers and flat panel displays. Out of the gate, the company delivered strong results across our international and global strategies. A sharp pullback related to near term order cuts and operational delays was followed by a strong recovery as investor sentiment was buoyed by renewed sector momentum and recognition of its structural strengths.

We increased our position in **Microsoft Corporation** during a period of price dislocation across U.S. large cap stocks, underpinned by a renewed conviction in the company's ability to monetize its AI leadership.

We exited names where macro headwinds delayed our expected company-specific inflections (i.e., Dutch automaker, **Stellantis N.V.** and Japanese car manufacturer, **Subaru Corporation**) and added to areas showing



clear fundamental improvement (i.e., German industrial conglomerate, **Siemens AG** and French advertising and communications company, **Publicis Groupe SA**).

### Capital One takes a bigger share of “what’s in your wallet.”

Following its \$35 billion acquisition of Discover Financial Services, **Capital One Financial Corporation** has become the first major U.S. bank to own a full payments network. The deal not only expands Capital One’s scale but also unlocks a new strategic asset: the Discover card network itself.

We initiated a position in Capital One in February 2024, ahead of the acquisition announcement. Our analysis of the company and leading indicators gave us conviction that after a challenging mid-2023 marked by credit deterioration, the company was beginning to stabilize delinquencies and charge-offs. In our view, its share price was punished more than fundamentals warranted, driven largely by fears over consumer credit, macro risk and weak sector sentiment.

In mid-May, when the Discover acquisition was completed, Capital One shares surged approximately +15% through the end of the second quarter.

Wall Street has begun to re-rate Capital One’s earnings and significant upside remains. Fundamentals are solid: consumer credit is stable; reserves have improved and quarterly results have beaten expectations. The Discover merger should deliver \$1.5 billion in cost efficiencies and \$1.2 billion in network revenues, boosting adjusted non-GAAP EPS by over 15%.

Owning the Discover payment network enables Capital One to process transactions end-to-end, capturing interchange fees and incremental revenue with every swipe. Banks have long depended on Visa and Mastercard to process credit card transactions, paying interchange fees of 1.5% to 2% per transaction. Surrendering that portion of the value chain has simply been considered the cost of doing business, *until now*.

While credit cards account for a larger share of total spending in dollar terms—thanks to higher average transaction sizes—debit cards dominate in volume, making up approximately 56% of all card transactions. Federal regulations cap the interchange fees large banks can earn from debit card transactions. However, Capital One could benefit from a revenue boost, as these caps do not apply when both the card issuer and the payment network operate under the same corporate umbrella.

Capital One’s digital-first, asset-light model has become even more attractive as it expands into payment networks. The bank is more virtual than peers like Chase and Bank of America but maintains more physical locations than credit card companies like American Express.

While execution risks remain as Capital One moves beyond card issues into payments, we are confident in the management team. The company has a track record of transformative integrations, evolving from a monoline lender into a diversified digital bank over the last two decades. Regulatory oversight and credit cycle pressures also remain but strong reserves and disciplined underwriting position the company well in a shifting consumer finance landscape.

### Looking Ahead

Market volatility has increased, powered less by the typical business cycle and more by abrupt shifts in U.S. economic policy. The pivot toward de-globalization—most notably the use of tariffs to bolster domestic production—has raised concerns about global growth, particularly abroad. Yet early signs suggested a more



nuanced outcome: policies aimed at reinforcing the U.S. economy are prompting adaptive responses in other nations, fueling growth and opening new investment opportunities abroad. In effect, “Little Fires Everywhere” are *beginning to ignite*.

This is a timely moment to revisit allocations to equities outside the U.S. The valuation case for international and emerging market stocks has been clear for some time, but now there is a catalyst. The fires that have been lit are likely to stimulate faster growth than markets expect. As foreign investors reduce U.S. exposure, the non-U.S. portfolios also stand to benefit from sustained dollar weakness.

As always, we appreciate your consideration and welcome any questions that you might have.

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: (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 International (DM) Composite differs from its benchmark, the MSCI EAFE Index, because: (i) the Composite has fewer holdings than the benchmark, (ii) the Composite will invest in Canada, and (iii) the Composite will at times invest a portion of its assets in the U.S. and emerging markets. The Ariel International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex-U.S., because: (i) the Composite has fewer holdings than the benchmark and (ii) the Composite will at times invest a portion of its assets in the U.S. 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 expressed views will come to fruition or any investment will perform as described.

As of 6/30/25, the Ariel International (DM) (representative portfolio) position size, if any, in the above holdings was JD.com, Inc. 0.67%; Lasertec Corporation 3.07%; Microsoft Corporation 0.00%; Stellantis N.V. 0.00%; Subaru Corporation 0.00%; Siemens AG 5.26%; Publicis Groupe SA 3.94% and Capital One Financial Corporation 0.00%. As of 6/30/25, the Ariel International (DM/EM) (representative portfolio) position size, if any, in the above holdings was JD.com, Inc. 1.71%; Lasertec Corporation 2.48%; Microsoft Corporation 0.00%; Stellantis N.V. 0.00%; Subaru Corporation 0.00%; Siemens AG 5.18%; Publicis Groupe SA 3.69% and Capital One Financial Corporation 0.00%. As of 6/30/25, the Ariel Global (representative portfolio) position size, if any, in the above holdings was JD.com, Inc. 1.38%; Lasertec Corporation 1.90%; Microsoft Corporation 6.15%; Stellantis N.V. 0.00%; Subaru Corporation 0.00%; Siemens AG 4.17%; Publicis Groupe SA 3.43% and Capital One Financial Corporation 2.21%.

Investors 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 U.S. and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-U.S. 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-U.S. 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.

The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The inception date is May 31, 1990. The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 25 Emerging Markets (EM) countries. Its inception date is December 8, 1997. 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 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.

