

Ariel Appreciation Fund

Quarter Ended September 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 Appreciation Fund may be obtained by visiting our website, arielinvestments.com. For the period ended September 30, 2025, the average annual returns of Ariel Appreciation Fund (Investor Class) for the 1-, 5-, and 10-year periods were +7.26%, +11.55% and +8.13%, respectively.

U.S. equities advanced meaningfully in the third quarter, propelled by the Federal Reserve's first rate cut of the year, robust corporate earnings growth, and broadening market participation. Investor enthusiasm for artificial intelligence continued to drive outsized gains in technology, particularly among the Magnificent Seven¹, while small caps outperformed as capital rotated into undervalued segments of the market. Despite persistent concerns around tariffs, inflation, and labor market softness, the macro backdrop remained supportive. GDP growth proved resilient, and both consumer spending and core inflation held steady, reinforcing the bullish narrative. Although lingering policy and geopolitical risks may contribute to heightened volatility, investor sentiment remains upbeat; and we continued to view macroeconomic developments through the lens of our long-term investment horizon. Against this backdrop, Ariel Appreciation Fund advanced +9.51% in the quarter, strongly outperforming the Russell Midcap Value Index's +6.18% gain and the +5.33% return posted by the Russell Midcap Index.

Several stocks in the portfolio delivered solid returns in the quarter. Supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** was the top contributor in the quarter driven by strong earnings and a subsequent raise in guidance. Organic revenue, EBITDA and adjusted EPS all exceeded expectations. The company also finalized its agreement with Honeywell, eliminating future financial obligations under their indemnification arrangement. In our view, REZI remains undervalued, with long-term growth supported by rising demand for connected smart home solutions and continued product innovation.

Live entertainment, media and technology company, **Sphere Entertainment Co. (SPHR)** also advanced over the period, supported by strengthening business fundamentals and demand for *The Wizard of Oz*, which continues to outperform

expectations. We expect financial results will keep ramping as Sphere scales its concert residencies, launches the capital-light 'Sphere Network' of smaller immersive venues domestically and drives higher utilization across show types. We also anticipate incremental upside from advertising, sponsorship, and suite revenue. Additionally, international expansion plans beyond Abu Dhabi remain a strategic priority. Separately, SPHR owns a 33% stake in Madison Square Garden Entertainment (MSGE). The U.S. Department of Transportation announced preliminary plans to redevelop Penn Station in NYC, where Madison Square Garden is located. While the implications for MSG Entertainment are still unclear, the redevelopment could highlight the underappreciated value of its real estate and air rights. In our view, Sphere's Las Vegas venue and its scalable franchise potential represent a compelling long-term opportunity that remains meaningfully undervalued.

Additionally, **Knowles Corporation (KN)**, a leading provider of audio components and precision electrical devices, rose on the back of strong quarterly results. Demand remains healthy across key markets, with the Precision Devices segment returning to growth as channel inventories normalized and improved operational efficiency aided margins. The company also returned capital to shareholders through share repurchases. Longer-term, we believe KN remains well-positioned to benefit from its focus on niche, market-leading positions in hearing health and precision devices.

Alternatively, **CarMax, Inc. (KMX)**, a leading used and wholesale vehicle auction operator, was the largest performance detractor during the period, following disappointing earnings resulting from lower unit sales and increased loan loss provisions. Management cited normalized demand after customers sought to buy in advance of potential tariffs last quarter. The rise in provisions was concentrated in

¹ The Magnificent Seven include Nvidia, Alphabet, Meta Platforms, Microsoft, Tesla, Apple and Amazon.com.



pandemic-era loans, which have underperformed, while newer vintages are tracking in-line with expectations indicating the credit deterioration is largely contained. We view the weakness as cyclical, reflecting broader macroeconomic and industry volatility rather than structural concerns. As the market share leader in used vehicles, we believe CarMax's scale and omnichannel capabilities position it well for long-term growth once conditions stabilize.

Toy manufacturer **Mattel, Inc. (MAT)** also traded lower on mixed earnings, which were impacted by timing shifts in retailer order patterns due to tariff uncertainty while consumer demand remained healthy. Despite macro headwinds, gross margins expanded and EPS topped consensus, reflecting continued progress on profitability initiatives. While 2025 guidance was set slightly below initial expectations, management still expects revenue growth and market share gains. With resilient point of sale, disciplined cost control and active buybacks, we believe the quarter highlights operational momentum. Mattel's ability to monetize its IP through future media projects supports our view that shares remain undervalued.

Lastly, global provider of payment processing and financial services technology solutions, **Fiserv, Inc. (FI)** declined during the quarter amid investor concerns over increased competition and slowing growth. We believe much of the softness reflects weaker non-Clover U.S. small/medium business (SMB) trends and tough comparisons in Argentina. However, we expect organic growth to reaccelerate, led by strength in the enterprise segment. Clover remains well positioned in the \$3 trillion+ U.S. SMB market, supported by strong software capabilities. FI's broader fintech portfolio—including card issuing, digital banking, and embedded finance for clients like DoorDash and Walmart—offers exposure to secular growth drivers. The company continues to generate strong free cash flow and return capital via buybacks. We believe near-term concerns are overstated and view FI as a compelling opportunity to own a leading fintech platform with durable growth potential.

Also in the quarter, we initiated a position in **Prestige Consumer Healthcare Inc. (PBH)**, a marketer and distributor of over-the-counter pharmaceutical products. The company has a strong track record of innovation and strategic acquisitions to address unmet consumer needs. Since an acquisition in 2017, PBH has focused on deleveraging the balance sheet through free cash flow. As the company continues to address customer-need through innovation, we expect earnings growth to drive multiple expansion.

By comparison, we successfully sold out of global investment bank, **Goldman Sachs Group, Inc. (GS)**, as the name grew beyond the upper limit of Ariel Appreciation Fund's

capitalization range in the quarter. Additionally, **Paramount Skydance Corporation (PSKY)** experienced strong price appreciation, prompting us to realize gains once the stock reached our estimate of its private market value.

As we enter the fourth quarter, U.S. markets are delicately balancing elevated valuations against a backdrop of emerging macroeconomic headwinds. The Federal Reserve's recent rate cut and possibility of further easing provides a measure of support, even as signs of moderating consumer demand and softening labor market dynamics suggest slowing growth. Yet, the underlying resilience of the U.S. economy and continued strength in corporate earnings remain constructive. Investor sentiment continues to be buoyed by AI-driven momentum, though risks tied to market concentration, policy uncertainty, and the ongoing government shutdown may contribute to heightened volatility. In this environment, we remain measured, deliberate, and actively patient—ready to capitalize on dislocations with a long-term lens. Our pro-cyclical positioning reflects bottom-up conviction in undervalued businesses rather than macroeconomic forecasts. We see compelling value in small-cap equities and select cyclicals, many of which are trading at historically attractive levels. Consensus earnings projections suggest the Russell 2000 Index may outpace the Russell 1000 Index over the next two years², with small caps currently trading at one of the steepest discounts to large caps since the dot-com era.² As the performance gap narrows, we believe our positioning is well-aligned to capture the upside.

Investing in mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Appreciation 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.

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.

Per the Fund's Prospectus as of February 1, 2025, the Fund's Investor Class shares had an annual expense ratio of 1.14%.

As of 9/30/25, Resideo Technologies, Inc. constituted 2.6% of Ariel Appreciation Fund; Sphere Entertainment Company

² Source: FactSet Market Aggregates



3.4%; Knowles Corporation 3.1%; CarMax, Inc. 1.6%; Mattel, Inc. 3.1%; Fiserv, Inc. 1.9%; Prestige Consumer Healthcare, Inc. 2.0%; Goldman Sachs, Inc. 0.0% and Paramount Skydance 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 Ariel Appreciation Fund.

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

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is February 1, 1995. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is November 1, 1991. Russell® is a trademark of London Stock Exchange Group, which is the source and owner of the Russell Indexes' trademarks, service marks and copyrights. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes or underlying data and no party may rely on any Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. The S&P 500® Index is widely regarded as the best gauge of large-cap U.S. equities. It includes 500 leading companies and covers approximately 80% of available U.S. market capitalization. Its inception date is March 4, 1957.

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