

# Ariel International Developed Markets / Emerging Markets

## Quarter Ended December 31, 2025

Global equities closed 2025 on a constructive note, with fourth-quarter momentum highlighting broad international strength amid moderating inflation, easing financial conditions and resilient corporate earnings. U.S. markets led performance, propelled by mega-cap technology and robust earnings delivery. Europe staged a late-year rally as banks and industrials benefited from peaking interest rates and improving growth expectations, while Japan extended record highs on the back of corporate governance reforms and sustained equity inflows. China, despite softening in the final months, decisively outpaced U.S. equities for the full year—an impressive turnaround from early concerns over trade and policy risk. While geopolitical developments and uneven economic trends will likely continue to influence market dynamics, we remain confident in the ability of our portfolio companies to navigate uncertainty and harness long-term structural growth opportunities. Against this backdrop, our strategies delivered solid absolute returns, underscoring the benefits of our disciplined approach and active positioning. For the quarter, the Ariel International (DM/EM) Composite increased +4.45% gross of fees (+4.32% net of fees), behind the MSCI ACWI ex-US and MSCI ACWI ex-US Value indices, which returned +5.05% and +7.61%, respectively. However, over the trailing one-year period, the Ariel International (DM/EM) strategy jumped +34.98% gross of fees (+34.31% net of fees) ahead of the MSCI ACWI ex-US Index return of +32.39%, but short of the +39.50% gain posted by the MSCI ACWI ex-US Value Index.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. The Ariel International (DM/EM) bottom-up strategy is overweight Communication Services, Consumer Discretionary, Information Technology and Utilities. The portfolio is meaningfully underweight Industrials, Financials, Materials, Health Care and Consumer Staples as well as lacks exposure to Energy. At the sector level, positive stock selection within Industrials and Financials were the greatest contributors to returns. By contrast, our Consumer Discretionary and Materials holdings were the biggest performance detractors during the quarter.

**Lasertec Corporation**, a Japan-based specialist in semiconductor and flat panel display production equipment, delivered strong performance over the period, driven by solid earnings and encouraging management commentary. Operating profit remained robust and management indicated that deal activity is gaining momentum. While full-year 2026

guidance remains unchanged, the competitive environment is stable and leadership anticipates a rebound in demand from mask shops and chipmakers in the coming year. We believe Lasertec is nearing a pivotal inflection point in process control intensity as it transitions toward high-volume manufacturing. A key driver is its launch of high throughput actinic patterned mask inspection (APMI) tool, which enables chipmakers to reduce costs by offering a more efficient method for inspecting patterns during production. Coupled with the continued expansion of extreme ultraviolet (EUV) processes in semiconductor fabrication, we see meaningful long-term upside potential for Lasertec.

**Barclays PLC** shares rose on the back of an earnings beat, caused by strength in investment banking and disciplined risk management. The bank is benefiting from improving market conditions, steady interest income and strategic flexibility through its U.S. consumer business. Meanwhile, management is executing ahead of plan, with progress across corporate banking, consumer lending and investment banking. Efficiency gains and margin improvements are reinforcing profitability, while a clear roadmap for shareholder returns underscores confidence in long-term value creation. With attractive growth prospects and a compelling valuation, we believe Barclays stands out as a well-positioned player in the sector.

Additionally, Korea-based leading pure-play producer of memory semiconductor products, **SK Hynix Inc.** advanced following robust quarterly earnings results, underscored by solid gross margins, fueled by robust pricing and shipments of its high-performance memory products for AI services. We believe the accelerating demand for AI inference workloads represents a powerful, long-term tailwind not just for high bandwidth memory (HBM), where SK Hynix maintains a commanding lead with its key customer Nvidia, but also for high-density NAND solutions. With its leadership in the HBM market and a distinct technological advantage in the emerging High-Bandwidth Flash (HBF) category, we believe SK Hynix is distinctively positioned as a full-spectrum memory provider to capitalize on the next wave of AI infrastructure buildout.

Alternatively, Japanese video game publisher, **Bandai Namco Holdings, Inc.** underperformed this quarter as higher advertising spend for four new network titles and weaker-than-expected sales pressured results. Additionally, several home console launches carried significant upfront costs, further weighing on margins. While these investments hurt



near-term profitability, we think they reflect a strategy to build future growth through an expanded content pipeline.

**Fresenius Medical Care AG**, the Germany-based global leader in kidney dialysis services and products also traded lower on mixed quarterly results. While the company delivered organic growth across all segments, earnings were impacted by continued restructuring and portfolio optimization costs. With profitability trending higher and strong cash generation supporting balance sheet deleveraging, we view Fresenius as attractively positioned from a risk/reward perspective.

Finally, **Sega Sammy Holdings Inc.**, a Japanese holding company specializing in the development of video games and the production of pachinko and pachislot machines declined over the period. This was driven by widening losses and impairments related to past merger and acquisition activity. While the consumer entertainment segment continues to show resilience, these headwinds impacted investor sentiment. As a result, we exited our position to pursue more compelling opportunities.

Also in the quarter, we initiated eleven new positions.

We purchased **Banca Monte dei Paschi di Siena SpA (BMPS)**, a leading Italian banking group. Recent developments have strengthened its investment case, with management outlining a clear strategy that includes a progressive dividend policy, a well-defined integration plan following its acquisition of Mediobanca and a strong capital position. The acquisition of Mediobanca has transformed BMPS into Italy's third-largest banking group, expanding its reach beyond retail and SME banking into corporate and investment banking, wealth management and consumer credit. We believe this diversification enhances its growth potential and positions the group as a more competitive player in the Eurozone. While governance concerns remain a consideration, they are inherent to investing in the Italian banking sector. We believe the bigger opportunity lies in successful integration and potential future consolidation, which could significantly elevate the group's market profile. In our view, the risk-reward outlook is compelling with downside supported by valuation and upside driven by execution and strategic progress.

We bought Spain-based bank, **Banco Santander, SA**. We believe the company is well-positioned for meaningful efficiency gains and stronger profitability as it streamlines operations and reduces costs. Upcoming strategic updates are likely to set more ambitious return targets, which could shift market expectations. Easing monetary conditions in key markets like Brazil may further support margins and reduce credit risk. We also expect healthy capital returns through dividends and buybacks, supported by a strong balance sheet. Overall, we believe Santander offers a compelling mix of

operational improvements, profitability growth and shareholder value creation.

We added **Bank of Ireland Group plc**, one of Ireland's leading banks with a strong presence across retail and commercial banking. The bank benefits from manageable loan growth, healthy margins supported by its funding mix and additional fee income from its leadership in bank assurance. Capital strength provides flexibility, though share repurchases appear conservative relative to its position. Unlike some peers, Bank of Ireland has not undergone significant cost restructuring, which we think presents an opportunity for future efficiency gains. Meanwhile, its UK business remains a drag on returns and could be a candidate for divestment, similar to recent moves by other European banks. Looking ahead, we expect the upcoming Capital Markets Day in early 2026 to offer greater clarity on strategy and execution. Overall, we see a balanced outlook with upside potential tied to operational improvements and strategic decisions.

We initiated a position in **CyberAgent, Inc.**, the operator of the blog media platform Ameba, based on a compelling opportunity for profit recovery and long-term value creation. Our constructive outlook is underpinned by the structural resilience of its core internet advertising business, a recovering gaming segment and the milestone achievement of standalone profitability for its streaming platform, ABEMA. Additionally, the company's newly launched IP strategy is poised to unlock meaningful synergies across the group. At current valuation levels, we believe the market is underappreciating these catalysts, presenting an attractive medium-term upside opportunity.

We purchased **Daikin Industries, Ltd.**, a global leader in HVAC, based on its strong fundamentals and strategic positioning in key markets. The company's diversified revenue base, anchored by its high-margin air conditioning segment, continues to benefit from robust demand in the U.S. and Southeast Asia. Daikin's expansion in commercial and applied products, particularly in the U.S., is driving margin improvement through a growing installed base and aftermarket service income. Despite macro headwinds in China and Europe, we believe Daikin's brand strength, cost discipline and ability to navigate tariffs through pricing and capacity shifts position it well for sustained earnings growth and margin resilience.

We bought **Fortum Oyj**, a European independent power producer with a portfolio concentrated in unregulated hydro and nuclear generation. We see Fortum as one of the most compelling opportunities for upward earnings revisions and potential multiple expansion, particularly as it pursues above market power purchase agreements with data center operators. We view the Nordic region as well positioned for this trend, offering low cost power, naturally cooler climates and strong fiber network infrastructure supporting rapid access to energy.



At the same time, growing affordability concerns in the U.S. are pushing hyperscalers to expand data center development overseas, while geopolitical considerations are driving countries to build out their own domestic data center capacity.

We added **Horiba Ltd.**, a global leader in precision measurement technology with operations spanning automotive, semiconductor, medical, scientific and environmental markets. We believe the company's strength lies in applying five core technologies: gas flow control, infrared measurement, spectroscopic analysis, particle analysis and liquid analysis across its diverse segments—helping Horiba maintain strong market share and grow through strategic acquisitions. In our view, Horiba offers an attractive way to tap into the semiconductor upcycle. Memory chip spending is driving demand for Wafer Fabrication Equipment (WFE), particularly deposition and etch tools; and we think Horiba provides exposure to this trend at a lower cost and without the geopolitical risks tied to China. Beyond semiconductors, we think Horiba's diversified business model adds stability, while margin improvements from a better product mix and turnaround plans for underperforming units create additional upside.

We initiated a position in **Kuaishou Technology**, China's second-largest short-form video platform, with a strong presence in lower-tier cities and rural areas. After successfully building a large and loyal user base, the company is shifting its focus to monetization, primarily through advertising and e-commerce integration. It is also investing in AI-driven video tools, which we believe has the potential to unlock its next phase of growth. AI enhances Kuaishou's ability to recommend content and target ads more effectively, while empowering small businesses to create video ads—something that was previously out of reach for many. We think these innovations will help improve advertiser returns and strengthen Kuaishou's competitive position in China's online advertising market. With a growing share of ad spend, improving margins and a clear path to profitability, we believe Kuaishou is well-positioned for long-term growth.

We bought Brazilian apparel company, **Lojas Renner SA** which designs, develops and sells apparel, footwear and accessories. We believe the company is poised for higher earnings growth given recent investments to capture cost efficiencies and improve its competitive positioning. Notably, we expect the ramp up of its new distribution center to drive greater store productivity, lower markdowns via better inventory management, reduced logistics costs and higher margins. Our favorable outlook is further underpinned by an improving credit book and a less competitive operating environment given recent changes to import taxes.

We purchased **TDK Corporation**, a global leader in electronic components. The company operates across batteries, sensors, passive components and magnetics, giving

it a diversified footprint. While some areas have lagged, we see strong growth potential ahead. Battery technology is advancing with higher density needs and the rise of Edge AI, while demand for passive components like multilayer ceramic capacitors is set to increase as AI adoption accelerates. We also think magnetics remain relevant through storage-related applications. Meanwhile, we believe TDK's active acquisition strategy strengthens its portfolio and think successful execution in these growth areas has the potential to unlock significant value.

Finally, we added specialty chemical company, **Wacker Chemie AG**, because we believe the market is overlooking several catalysts that could materially enhance its earnings power. In polysilicon, we think profitability will improve if the U.S. advances a Section 232 trade action that restricts Chinese imports, while China's new buyout fund—part of its broader effort to curb destructive price competition—aims to consolidate excess capacity and support more rational pricing. We also see upside in the polymer business, driven by early signs of recovery in European residential construction, with building permits rising in Germany and France and potential boosts from German infrastructure stimulus. We also think lower European energy prices, whether from increased U.S. liquefied natural gas flows or easing geopolitical tensions, will further strengthen margins. Finally, we believe Wacker's cost reduction program adds another layer of earnings support.

By comparison, we successfully exited eight positions on valuation: multinational insurance and financial services company, **AXA SA**, global automotive tech and components provider, **Aptiv PLC**, French banking and financial services company, **BNP Paribas SA**, leading market maker in European derivatives, **Deutsche Boerse AG**, Japan-based manufacturer of industrial and semiconductor-related equipment, **Ebara Corporation**, China-based E-commerce company, **JD.com, Inc.**, Brazil-based telecommunications company, **TIM SA** and leading mobile telecommunications company, **Telefónica Brasil SA**.

In addition to selling our position in **Sega Sammy Holdings Inc.**, as mentioned above, we also sold **Vanguard Total International Stock ETF (VXUS)** to deploy cash to pursue more compelling opportunities.

As we move into 2026 and beyond, the investment landscape outside the U.S. is becoming increasingly compelling. Policy alignment, currency dynamics and improving corporate fundamentals are creating fertile ground for growth. With market dispersion rising and leadership broadening beyond U.S. mega-caps, active investors have a bigger runway to uncover businesses where improving returns are not yet fully priced in. In our view, disciplined exposure to international equities offers a more balanced approach to diversification and long-term return potential.



Growth dynamics are shifting. A firmer economic backdrop is fueling revenue expansion, unlocking operating leverage and accelerating balance-sheet repair, particularly for companies tied to domestic demand, infrastructure and capital-spending cycles. Meanwhile, targeted fiscal initiatives across Europe and parts of Asia—spanning energy security, defense, capital projects and industrial policy—suggest these tailwinds are more structural than cyclical.

As fundamentals and valuations realign overseas, we believe the greater risk today lies in remaining structurally underweight international equities rather than increasing exposure. Our international and global portfolios offer attractive valuations relative to growth prospects, while maintaining the financial strength needed for operational resilience. We continue to prioritize companies with robust balance sheets, durable earnings and diversified revenue streams, qualities we believe will be critical to driving outperformance in the years ahead.

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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 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 12/31/2025, the performance (net of fees) of the Ariel International (DM/EM) Composite for the 1-, 5-, and 10-year periods were +34.31%, +8.78% and +7.58%, respectively. For the period ended 12/31/2025, the performance for the MSCI ACWI ex US Index and the MSCI ACWI ex US Value Index for the 1-, 5-, and 10-year periods were +32.39%, +7.91% and +8.41% and +39.50%, +11.87% and +8.74%, 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 International (DM/EM) Composite differs from its benchmark, the MSCI ACWI (All Country World Index) ex US, 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 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.

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

As of 12/31/2025, Lasertec Corporation constituted 1.3% of the Ariel International (DM/EM) Composite (representative portfolio); Barclays plc 3.4%; SK Hynix, Inc. 1.4%; Bandai Namco Holdings, Inc. 2.6%; Fresenius Medical Care AG 2.2%; Sega Sammy Holdings, Inc. 0.0%; Banca Monte dei Paschi di Siena SpA 2.4%; Banco Santander SA 2.1%; Bank of Ireland Group plc 2.4%; CyberAgent, Inc. 1.8%; Daikin Industries, Ltd. 4.8%; Fortum Oyj 1.4%; Horiba, Ltd. 1.5%; Kuaishou Technology 1.2%; Lojas Renner SA 0.9%; TDK Corporation 2.2%; Wacker Chemie AG 1.5%; AXA SA 0.0%; Aptiv PLC 0.0%; BNP Paribas SA 0.0%; Deutsche Boerse AG 0.0%; Ebara Corporation 0.0%; JD.com, Inc. 0.0%; TIM SA 0.0%; Telefonica Brasil SA 0.0% and Vanguard Total International Stock ETF 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 International (DM/EM) Composite.

Indexes are unmanaged. An investor cannot invest directly in an index. 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



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