

# Ariel Investments

Performance as of December 31, 2025 (%)

Annualized

	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception
<b>Ariel International Fund</b>						
						12/30/2011
<b>AINTX Investor Class</b>	<b>2.25</b>	<b>31.48</b>	<b>15.08</b>	<b>7.10</b>	<b>5.86</b>	<b>6.34</b>
<b>AINIX Institutional Class</b>	<b>2.35</b>	<b>31.84</b>	<b>15.35</b>	<b>7.36</b>	<b>6.13</b>	<b>6.60</b>
MSCI EAFE Net Index	4.86	31.22	17.22	8.93	8.18	8.12
MSCI ACWI ex-US Net Index	5.05	32.39	17.33	7.91	8.41	7.46
<b>Additional Indexes</b>						
MSCI EAFE Value Net Index	7.83	42.25	21.37	13.37	8.69	8.08
MSCI ACWI ex-US Value Net Index	7.61	39.50	20.16	11.87	8.74	7.22
<b>Ariel Global Fund</b>						
						12/30/2011
<b>AGLOX Investor Class</b>	<b>2.88</b>	<b>23.30</b>	<b>14.08</b>	<b>9.37</b>	<b>8.38</b>	<b>8.62</b>
<b>AGLYX Institutional Class</b>	<b>2.95</b>	<b>23.58</b>	<b>14.36</b>	<b>9.63</b>	<b>8.65</b>	<b>8.90</b>
MSCI ACWI Net Index	3.29	22.34	20.65	11.19	11.72	11.15
<b>Additional Indexes</b>						
MSCI ACWI Value Net Index	3.66	21.98	14.74	10.81	9.08	8.79

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 Fellow Shareholders:** Global equities ended 2025 with strong fourth-quarter momentum and clear international outperformance. U.S. stocks as measured by the S&P 500 rose nearly 18% for the year, with the last quarter's gains led by resilient earnings and mega-cap technology. However, these domestic returns were eclipsed abroad. Europe outperformed in the final quarter as banks and industrials rallied on peaking rates and improving growth expectations. Japan extended record highs, supported by corporate reforms and strong equity inflows. By contrast, China lagged for the quarter, but still decisively outperformed U.S. stocks for the year after being labeled "un-investable" at the start of 2025 due to global trade concerns.

Ariel International Fund and Ariel Global Fund posted a strong year, although fourth quarter relative performance was disappointing. While our industrials, technology and financial positions drove returns, our holdings in Japan-based **Bandai-Namco Holdings, Inc.** and **Sega Sammy Holdings Inc.**, as well as German-based kidney dialysis center operator, **Fresenius Medical Care AG** were significant detractors.

## Global Markets are at an Inflection Point

The case for international equities is no longer built solely on valuation—though that remains a powerful starting point. It is increasingly supported by a macroeconomic backdrop that is becoming more favorable for

companies operating outside the United States, particularly at a time when U.S. stock markets are both richly priced and highly concentrated.

Amid ongoing political tensions, Europe has sustained positive momentum. While GDP growth forecasts of 1.1% for 2026 and 1.4% in 2027 may appear modest,<sup>1</sup> it marks a clear improvement from the earlier narrative of a shrinking population, low-information technology-exposure economy—an outlook investors held before Europe committed capital toward strategic independence and digital investment.

Within Asia, Japan is exiting a prolonged low-inflation period, with scope for further rate hikes and yen appreciation. The corporate reforms underway also have tailwinds—rising return on equity (ROE) and improved capital discipline, including more share buybacks, reinforcing equity returns alongside macro stability. Japan’s Cabinet recently approved a record-high defense budget exceeding ¥9 trillion (approximately \$58 billion) for fiscal year 2026—underscoring Tokyo’s push to bolster its national security as regional tensions grow.<sup>2</sup> And China policies are focused on reducing excess production capacity and boosting consumption and services, which, in our view, increase the likelihood of a more durable cash flow recovery.

We believe improving profitability, attractive valuations and likely a weaker U.S. dollar underpin the case for strong international returns in 2026 and beyond.

### **Built for this Opportunity—Re-Introducing our Discipline**

The macro tailwinds outside the U.S. are translating into tangible company-level improvements, creating an environment where undervalued businesses with strengthening fundamentals can begin to narrow the gap relative to American peers. Disparate valuations and growth rates within markets today remain wide. This backdrop places a premium on company research and stock selection—and they are increasingly rewarded. In short, we believe it is an exciting time to be investing abroad.

As the opportunity set expanded over the past year, we deliberately evolved our global and international portfolios. Today, our portfolio construction reflects a broader mix of companies, geographies and sources of return—positioning our strategies to benefit from improving macro conditions while remaining anchored in valuation discipline and company-specific scenarios.

Within Ariel Global Fund, top contributors for 2025 span across healthcare (U.S.-based, **CVS Health Corporation**), semiconductor and semiconductor equipment producers (Korean-based, **SK Hynix Inc.** and Japan-based, **Lasertec Corporation**), solar manufacturing (U.S.-based **First Solar, Inc.**) and telecommunication services (**Orange SA**). Ariel International Fund benefited from the semiconductor related names as well as strong performance in European financials (Austria-based, **BAWAG Group AG** and U.K.-based, **Barclays plc**) and capital goods conglomerate, **Siemens AG**. Holdings which detracted from relative performance for 2025 (**China Mengniu Dairy Company, Ltd.**, **JD.com, Inc.** and **Stellantis N.V.**) were affected by company-specific issues and not concentrated in any one theme. We continuously re-underwrite our holdings, asking ourselves “would we buy this if we didn’t already own it?” In the case of JD.com and Stellantis, the answer was “no” and we exited both positions to pursue more compelling opportunities.

We focus on idiosyncratic risk—companies where fundamentals and good business momentum can improve regardless of broader market direction. And through our “value with catalyst” approach, we look for clear evidence of some form of an inflection in the trajectory of the business, such as margin expansion, pricing power, balance-sheet repair or governance improvements.

So, it is not surprising that when compared with indices and industry peers, the global and international portfolios have greater exposure to companies with improving earnings as evidenced by our third quarter

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<sup>1</sup> Selfin, Yael et. al (December 2025) “European Economic Outlook” *KPMG* pp. 2

<sup>2</sup>Yamaguchi, Mari. (25 December 2025) “Japan’s Cabinet approves record defense budget aiming to deter China as tensions grow” PBS News, <https://www.pbs.org/newshour/world/japans-cabinet-approves-record-defense-budget-aiming-to-deter-china-as-tensions-grow>

Global portfolio EPS growth of 14.2% versus 9.6% for our global peers.<sup>3</sup> We expect our returns to be driven by relative earnings growth as well as the potential for relative valuation.

Since late 2023, we have worked to achieve downside protection through a broader set of differentiated positions, rather than simply low-beta exposure. This approach also enabled greater upside participation, albeit at a slightly higher beta. Over a full market cycle, we believe emphasizing stock selection expands sources of return and improves potential for more consistent outperformance.

### Value with a Catalyst—Daikin Industries

Markets tend to fixate on familiar refrains. For **Daikin Industries Ltd.**, a global producer of air conditioning, refrigerant and heating systems, that has meant investors remain focused on sluggish housing activity, weak near-term demand for European heat pumps and a narrative that has shifted from structural growth to cyclical disappointment. This framing overlooks how much Daikin's earnings power has evolved, even as demand headlines remain soft. In our view, the stock price reflects weaker near-term demand, not the operational and return improvements Daikin is already delivering. The market's overreaction to regional slowdowns created an attractive buying opportunity.

Demand for HVAC systems in the U.S. has been constrained by high mortgage rates and low housing turnover. Daikin's air conditioning business in the U.S. accounts for 39% of sales and 30-35% of operating profit, pressuring near-term performance. In addition, a 2024 rush to pre-buy R-410A, a widely used refrigerant, ahead of a U.S. regulatory change drove short-term market loss due to Daikin's limited inventory. However, U.S. residential HVAC is cyclical by nature—replacement demand is deferred, not destroyed.

We expect positive catalysts in 2026, boosted by depletion of the R-410A inventory that should cause a shipment uptick in 2026, led by the replacement cycle. Under the current management team, Daikin has made measurable progress on margins and returns—and most importantly, it has done so through a downcycle. We believe Daikin is well positioned for this expected cyclical recovery and additional uplift from higher prices for new refrigerants in 2026.

Europe remains the market's secondary concern. The sharp correction in heat-pump demand following subsidy roll-offs and channel destocking has weighed on sentiment, reinforcing the view that the energy transition trade has stalled. In a core market such as France, heat pumps already offer favorable lifetime economics compared to fossil alternatives, particularly when factoring in energy efficiency and operating costs. The constraint is capital cost. Upfront installation expenses remain high, making adoption heavily dependent on public support—support that is not disappearing, but recalibrating. Germany's BEG (Federal Promotion for Efficient Buildings) program, Italy's Ecobonus, France's MaPrimeRénov and the UK's Boiler Upgrade System (BUS) all meaningfully reduce net consumer costs and are designed to re-accelerate demand as policy execution improves.

So why hasn't adoption re-accelerated? The issue is friction, not economics. High upfront costs still matter, installer capability is uneven and biased toward legacy systems and consumer perceptions lag the reality of improved performance and efficiency. For Daikin, Europe does not need a demand rebound to drive profit. Stabilization alone enables operating leverage to lift margins from depressed levels. Europe is not broken. It is paused—and markets tend to misprice pauses as permanent impairments.

Within the China business, we are not as concerned about Xiaomi's expansion into home appliances that has weighed on sentiment toward the sector. In our view, the near-term impact is concentrated among local mass-market players. Xiaomi's value proposition is price and ecosystem integration, not premium performance or commercial-grade reliability. For Daikin, the risk is longer-dated and strategic rather than immediate, and unlikely to disrupt margins in the current cycle. China, in other words, is not a drag. In our view, it is a premium-led growth and margin engine that continues to be overlooked in the valuation.

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<sup>3</sup>Palfrey, Patrick and Jonathan Golub (December 2025) "Q325 Portfolio Insights Ariel Global (AGLOX)" *Seaport Research Partners* pp. 14.

While the broader air-conditioning market remains competitive and cyclical, Daikin is positioned in the premium segment which is expected to grow 3 to 5% faster than the overall market. That mix matters. Premium demand is affected less by unit growth and more by efficiency standards, replacement cycles and brand-led pricing power—areas where we think Daikin is structurally advantaged. We estimate that Daikin's China business operates at roughly 23% operating margin, exceeding most competitors. This reflects premium pricing, a unique product portfolio and disciplined execution rather than volume-led growth. In a market often viewed as commoditized, we believe Daikin is earning returns that suggest a fundamentally different competitive position.

We believe pricing discipline and an improved product mix, with tighter execution across its dealer network, enables Daikin to enter the next phase with a structurally higher margin base and stronger profitability. In our view, this margin resilience is often overlooked.

### Looking Forward

As we consider 2026 and beyond, investment opportunities outside of the U.S. are broadening as policy, currency and corporate fundamentals begin to align. With less mega-cap tech market concentration, active investors have a growing opportunity to identify businesses where improving returns are not fully priced in. In our view, exposure to international equities in this environment offers diversification and long-term return potential.

Sincerely,



Henry Mallari-D'Auria, CFA®  
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 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 Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and the Funds' 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 Ariel International Fund's Prospectus as of February 1, 2025, the gross expense ratio for the Investor Class and Institutional Class was 1.40% and 1.01%, and had an annual net expense ratio of 1.17% and 0.91%, respectively. Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel International Fund's total annual operating expenses to 1.13% and 0.88% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2026. The net expense ratio for the Investor Class and Institutional Class do 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.

Per the Ariel Global Fund's Prospectus as of February 1, 2025, the gross expense ratio for the Investor Class and Institutional Class was 1.53% and 1.14%, and had an annual net expense ratio of 1.14% and 0.89%, respectively. Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel Global Fund's total annual operating expenses to 1.13% and 0.88% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2026. The net expense ratio for the Investor Class and Institutional Class do 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. Views and opinions are as of the date of this commentary and can change without notice. There is no guarantee that any expressed views will come to fruition or any investment will perform as described.

As of 12/31/25, Ariel International Fund's position size, if any, in the above holdings was Bandai Namco Holdings, Inc. 3.19%; Sega Sammy Holdings Inc. 0.00%; Fresenius Medical Care AG 2.44%; CVS Health Corporation 0.00%; SK Hynix, Inc. 0.00%; Lasertec Corporation 1.27%; First Solar, Inc. 0.00%; Orange SA 2.66%; BAWAG Group AG 3.92%; Barclays plc 3.05%; Siemens AG 1.42%; China Mengniu Dairy Company, Ltd. 0.93%; JD.com, Inc. 0.00%; Stellantis N.V. 0.00% and Daikin Industries, Ltd. 4.88%. As of 12/31/25, Ariel Global Fund's position size, if any, in the above holdings was Bandai Namco Holdings, Inc. 2.03%; Sega Sammy Holdings Inc. 0.00%; Fresenius Medical Care AG 1.72%; CVS Health Corporation 3.35%; SK Hynix, Inc. 0.96%; Lasertec Corporation 0.87%; First Solar, Inc. 3.53%; Orange SA 1.61%; BAWAG Group AG 1.72%; Barclays plc 1.82%; Siemens AG 0.00%; China Mengniu Dairy Company, Ltd. 1.53%; JD.com, Inc. 0.00%; Stellantis N.V. 0.00% and Daikin Industries, Ltd. 4.57%.

Each Fund's primary index is the first one listed below each respective Fund's performance data. Indexes are unmanaged. 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.

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