

Ariel Investments

Performance as of December 31, 2025 (%)

Annualized

	QTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Fund						11/06/1986
ARGFX Investor Class	3.22	14.15	13.91	9.36	9.51	10.78
ARAIAX Institutional Class	3.30	14.49	14.26	9.70	9.84	10.91
Russell 2500™ Value Index	3.15	12.73	13.21	10.02	9.72	10.66
Russell 2000® Value Index	3.26	12.59	11.73	8.88	9.26	9.96
Russell 2500™ Index	2.22	11.91	13.74	7.26	10.40	10.50
S&P 500® Index	2.66	17.88	23.00	14.43	14.82	11.24
Ariel Appreciation Fund						12/01/1989
CAAPX Investor Class	3.04	11.11	9.32	7.57	7.95	9.91
CAAIX Institutional Class	3.14	11.49	9.67	7.90	8.28	10.04
Russell Midcap® Value Index	1.42	11.05	12.27	9.83	9.78	10.87
Russell Midcap® Index	0.16	10.60	14.35	8.68	11.01	11.09
S&P 500® Index	2.66	17.88	23.00	14.43	14.82	10.81

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.

Dear Fellow Shareholders: 2025 compressed an entire market cycle into twelve months—euphoria, panic, recovery and a broadening renewal all happened in a single calendar year.

The year began with optimism as the S&P 500 hit new all-time highs by mid-February, rising on artificial intelligence (AI) momentum and Federal Reserve rate cut enthusiasm. Then the tone shifted suddenly in response to President Trump's April 2nd "Liberation Day" tariff announcement featuring ultra-high reciprocal levies and up to 145% duties on Chinese goods. Equity markets plunged, with the S&P 500 falling nearly 20% and small-cap indices plummeting nearly 30% from their highs.

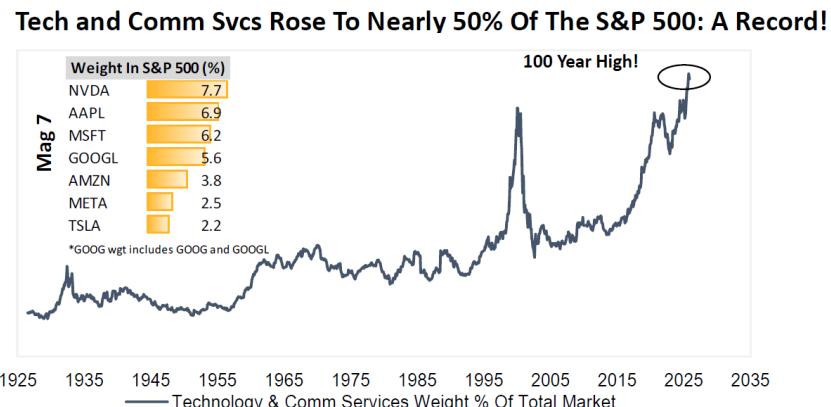
When tariff measures were paused on April 9th, stocks staged one of the most powerful single-day rallies in history. The S&P 500 surged +9.5%—ranking among the top ten trading days since the 1920s.¹ By late in the second quarter, the broad market index had fully recovered. Meanwhile small-cap value issues led the "relief" rally off the lows. Smaller companies saw positive earnings growth in the third quarter, as small-cap value outperformed all other domestic equities. At long last, market leadership expanded beyond mega-cap tech stocks.

¹Kantrowitz CFA, Michael, et.al. (2 January 2026) "What In The World Happened To Markets In 2025?!?" *Piper Sandler*.

By year end, the S&P 500 had demonstrated "record-breaking resilience"—delivering a +17.88% twelve-month return. After closing in on bear-market territory last Spring, the Russell 2000 Index posted a seemingly benign +12.81% gain for the year. But as 2025 came to a close, with the market soaring to higher highs, Wall Street began to awaken to concentration risk.

Not Your Grandfather's S&P 500

In 1923, the Standard & Poor's (S&P) Index originated with 233 companies. The goal was to create a more comprehensive and representative stock market benchmark than the Dow Jones Industrial Average. In 1957, an expanded version of the index was launched, and the S&P 500 was born. In recent years, the S&P 500 has fundamentally transformed and is no longer a broad representative of U.S. equities. Instead, it has become a highly concentrated, tech-dominated index. As a result, passive large company investing has become an unwitting wager on a handful of mega-cap technology giants.² To this point, and as depicted in the illustration below, the Technology and Communication Services sectors currently make up nearly 50% of the S&P 500—a level not seen in its 100-year history. Within this dominance sits the Magnificent Seven,³ representing approximately 35% of the Index's market capitalization as of year-end—nearly *double* their weighting a decade ago.⁴ One company, Nvidia, has a market capitalization worth more than that of the entire U.S. small cap asset class as represented by the Russell 2000 Index.



Source: Kantrowitz CFA, Michael, et.al. *Piper Sandler*, pp 11.

The Case for Smaller Companies—Data, Not Hope

Through 42 years of navigating market cycles, we have learned that the best opportunities emerge when fundamentals diverge from prices. Today, that divergence defines small-cap value. The Russell 2000 Value Index trades at 12x forward earnings—a significant discount to the S&P 500 at 22x and the Russell 1000 Growth Index at 28x. These relative differentials rival the extreme dislocations seen in 1999, which preceded years of powerful small-cap value outperformance.⁵

²Greenberg, Gregg. (9 January 2026) "Advisors Confront Magnificent 7 Concentration Risk." *InvestmentNews*, <https://www.investmentnews.com/equities/mag-7-for-tomorrow/264753>.

³The "Magnificent Seven" are the largest stocks in the S&P 500 Index driving market performance: Apple Inc. (AAPL), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA) and Tesla, Inc. (TSLA).

⁴Budzinski, Michael. (12 December 2025) "Beyond the Magnificent Seven: Unlocking Value in a Concentrated Stock Market" *Morningstar*, <https://www.morningstar.com/financial-advisors/beyond-magnificent-seven-unlocking-value-concentrated-stock-market>.

⁵Hall CFA, Jill Carey (2 December 2025) "Small/Mid Cap Strategy Year Ahead – 2026 Year Ahead: Small caps, big recovery" *BofA Global Research*.

But unlike 1999's aftermath—which was driven primarily by valuation mean reversion—today's setup rests on improving fundamentals. Consensus earnings estimates are decisively higher for small caps relative to large caps for 2026. We believe this represents a fundamental shift in the earnings cycle—not merely hope for mean reversion, but evidence that it is already underway. As Bank of America equity analyst Jill Carey Hall observed, "Small caps just emerged from their EPS recession."⁶

This earnings inflection comes at a time when tailwinds are building. The Federal Reserve delivered three rate cuts in 2025, with additional cuts expected this year. This is significant for smaller companies. Bank of America estimates 45% of Russell 2000 (ex-Financials) debt is short-term or floating rate.⁷ In our view, lower rates reduce refinancing costs and boost earnings disproportionately for smaller companies compared to their large-cap peers.

Moreover, as institutional recognition of the market's concentration risk continues to grow, even a modest reallocation could drive outsized moves in smaller companies given the vast market cap differences between the Russell 2000 and the S&P 500. We estimate a 1% shift from large- to small-cap allocations could represent a material increase in relative performance.

Meanwhile, astute investors know small-cap benchmark composition challenges create opportunity. Patient, quality-focused managers can avoid the structural drags embedded in the indices—unprofitable companies, overleveraged balance sheets and vulnerable business models—by capitalizing on mispriced opportunities among profitable, well-managed businesses trading at distressed valuations. In our view, while passive S&P 500 investing has become a concentrated bet on mega-cap tech companies, active small and mid-cap value investing offers true diversification combined with strong return potential.

Looking Ahead: Positioned for the Rotation

Market leadership changes are rarely gradual. They arrive suddenly, often triggered by unforeseen catalysts. The patient investor does not require perfect timing, just the discipline to maintain conviction when the market is ignoring fundamentals. In 2025, we witnessed four distinct market regimes in a single year. Each transition arrived faster than Wall Street expected. We believe the next one will too.

The pieces are in place. Valuations are at extremes we have not seen since 1999. Earnings are at an inflection point. The Fed has been easing. Broad market index concentration awareness is rising. In our view, this is data, not hope.

In our view, our portfolios hold quality businesses trading at discounts to our estimate of intrinsic value, with improving earnings trajectories and balance sheets built to withstand uncertainty. Our companies do not require heroic assumptions, just recognition that earnings growth and reasonable valuations matter. As capital reallocates from concentration to breadth, from momentum to fundamentals, from mega-cap crowding to small-cap opportunity, we believe we are well positioned. While the S&P 500 has changed, the principles of smaller company value investing have not.

⁶Conley, Jake. (7 October 2025) "Why small-cap stocks are starting to see earnings growth after best quarter since 2021," *Yahoo Finance*, <https://finance.yahoo.com/news/why-small-cap-stocks-are-starting-to-see-earnings-growth-after-best-quarter-since-2021-150043031.html>.

⁷Hall, *BofA Global Research*.

Portfolio Comings and Goings

Ariel Fund

We did not exit any positions but added shares of **Dentsply Sirona, Inc. (XRAY)**, a leading global dental manufacturing company.

Appreciation Fund

We purchased **FactSet Research Systems, Inc (FDS)** and are holding **Omnicom Group, Inc. (OMC)** after its acquisition of **Interpublic Group of Companies (IPG)**.

As always, we appreciate the opportunity to serve you and welcome any questions you might have.

Sincerely,



John W. Rogers, Jr.
Chairman and Co-CEO

Mellody Hobson
Co-CEO and President

Ariel Fund Benchmark Update Effective February 1, 2025: The Russell 2000® Value Index is replacing the Russell 2500™ Index as a secondary benchmark for Ariel Fund because it more closely aligns with certain market sectors in which Ariel Fund invests.

Investing in small- and mid-cap companies is riskier and more volatile than investing in large-cap companies. 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 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.

Per the Ariel Fund's Prospectus as of February 1, 2025, the Investor Class and Institutional Class had an annual expense ratio of 1.00% and 0.69% respectively. Per the Ariel Appreciation Fund's Prospectus as of February 1, 2025, the Investor Class and Institutional Class had an annual expense ratio of 1.14% and 0.83%, respectively.

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 12/31/25, Ariel Fund's position size, if any, in the above holdings was: Dentsply Sirona, Inc. 2.33%, FactSet Research Systems, Inc. 0.00% and Omnicom Group, Inc. 0.00%. As of 12/31/25, Ariel Appreciation Fund's position size, if any, in the above holdings was: Dentsply Sironia, Inc. 0.00%, FactSet Research Systems, Inc. 0.84% and Omnicom Group, Inc. 3.08%.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index.

The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios, lower forecast growth and

lower sales per share historical growth. Its inception date is June 1, 1993. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is January 1, 1984.

The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with relatively lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is July 1, 1995. The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is June 1, 1990. The Russell 1000® Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term (2 year) growth and higher sales per share historical growth (5 years). Its inception date is January 1, 1987.

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.

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Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary prospectus which contains this and other information about the funds offered by Ariel Investment Trust, call us at 800- 292-7435 or visit our website, arielinvestments.com. Please read the prospectus or summary prospectus carefully before investing. Distributed by Ariel Distributors LLC, an affiliated entity of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

