

Ariel International Developed Markets

Quarter Ended June 30, 2026

Global equities rebounded strongly in the second quarter, supported by easing geopolitical tensions, resilient earnings and sustained investment across the artificial intelligence (AI) ecosystem. While U.S. technology companies remained market leaders, investor focus broadened to the semiconductor, memory and infrastructure companies enabling the next phase of AI deployment.

Regional performance reflected this dynamic. Taiwan and South Korea led returns as demand for advanced semiconductors and AI-related hardware remained robust, while Japan benefited from lower energy prices and increasing exposure to global technology spending. China participated more selectively, with gains concentrated in AI-linked and internet platform companies as weaker domestic demand and ongoing property-sector challenges continued to weigh on broader market sentiment.

Despite the broad market advance, performance dispersion remained significant across regions, sectors and individual companies, reinforcing the importance of fundamental research, valuation discipline and a long-term perspective. Against this backdrop, the Ariel International (DM) Composite jumped +22.61% gross of fees (+22.38% net of fees) in the quarter, surpassing both the MSCI EAFE and MSCI EAFE Value indices, which returned +10.82% and +7.49%, respectively.

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

Leading electronic components provider **Murata Manufacturing Co., Ltd.** advanced as investors increasingly priced in a multi-year growth upcycle propelled by rising demand for multilayer ceramic capacitors (MLCC) in AI data centers. Upward revisions to long-term profit expectations reinforced confidence in sustained earnings expansion, supported by favorable product mix and pricing dynamics. The shift toward higher-value, high-capacitance components,

where Murata maintains a clear technological edge, is expanding margins, while tighter industry capacity supports higher prices. In our view, Murata stands to benefit from rapid AI infrastructure buildout, with servers emerging as a key growth driver. At the same time, growing adoption of Edge AI is increasing MLCC content per device, further supporting demand. We view the stock as a compelling long-term investment given its diversification into adjacent areas such as power solutions and radio frequency (RF) modules, improving fundamentals and the recovery in its devices segment.

Global power semiconductor leader **Infineon Technologies** traded higher as investors reacted to a meaningful uplift in guidance and increasing confidence in revenue and margin growth. A strong rising backlog and improving order trends signal accelerating demand, with both volume recovery and firmer pricing expected to fuel results in the coming quarters. Management commentary pointing to a step-change in profitability reinforced expectations for sustained earnings upgrades. Looking ahead, the investment thesis remains compelling. Infineon is at the intersection of key secular growth trends, including AI infrastructure, automotive electrification and industrial automation. Its leadership in power semiconductors and deep relationships across data center and automotive ecosystems create competitive advantages and high switching costs. While automotive demand has been weaker of late, early signs of stabilization alongside improving global cycles provide a supportive backdrop. As capacity ramps and AI-driven power usage accelerates, we expect continued earnings momentum.

Shares of semiconductor manufacturer **MediaTek Inc.** also rose as investors grew more confident in its expanding role as a key supplier for Google's rapidly scaling cloud and AI infrastructure. Stronger expectations for Tensor Processing Unit (TPU) adoption, including faster deployment in upcoming generations, point to a steeper revenue ramp and improving long-term growth visibility. Its cloud ASIC business is also highly profitable, with margin gains and operating leverage set to lift overall earnings power. We believe potential wins with other hyperscalers add further upside and reinforce MediaTek's position in the AI supply chain. Meanwhile, momentum in flagship smartphones and AI-enabled devices broadens the growth story. Overall, accelerating AI demand, improving margins and multiple growth drivers have led to a positive re-rating of the shares.



Conversely, UK telecommunications provider **BT Group plc** declined as investors digested in-line earnings and unchanged guidance, offering limited incremental near-term upside. While EBITDA and cash flow modestly exceeded expectations, the absence of a meaningful upgrade to medium-term targets and limited clarity on capital returns weighed on sentiment. Continued weakness in the International segment and ongoing broadband line losses also tempered confidence, partially offsetting stabilizing trends in its wholesale fixed line infrastructure arm, Openreach and improving performance in Consumer. BT is ending a peak investment cycle, with fiber capital expenditures set to decline and cost efficiencies expected to meaningfully enhance free cash flow. At the same time, the competitive landscape is becoming more favorable, as smaller fiber competitors face funding constraints while BT accelerates its network rollout. Together with improving pricing dynamics and structurally rising data demand driven by AI and digital infrastructure, we believe BT is well positioned for a gradual re-rating as execution continues.

Shares of leading European telecom operator **Orange S.A.** pulled back during a quarter when results were solid but only modestly ahead of expectations. Meanwhile, near-term cash flow was pressured by the timing of elevated capital expenditures. Investor sentiment was further weighed down by the delayed realization of strategic upside from the SFR transaction, which is expected to materialize in 2027 and carries interim regulatory uncertainty. Nonetheless, Orange continues to transition into a more predictable, cash-generating business with improving earnings visibility, supported by strength in its core French market, growth in Africa and the Middle East as well as synergies from MasOrange. Over time, we continue to believe market consolidation and pricing discipline in France will unlock more upside. With strong cash generation and an attractive, growing dividend, we view the recent pullback as an opportunity to build exposure to a strengthening long-term story.

Algonquin Power & Utilities Corporation also traded lower despite a solid quarterly beat, as investors looked through the headline strength and focused on the durability of earnings. Much of the upside was driven by a one-time retroactive revenue adjustment, while higher operating costs, particularly wildfire insurance, tempered the underlying quality of results. Ongoing uncertainty around the timing and implementation of key rate cases, along with a lack of near-term catalysts, also weighed on sentiment.

We initiated six new positions during the quarter.

We bought **Merck KGaA**, a leading life science tools company, based on our conviction that a biopharma spending recovery is underway following a prolonged period of inventory destocking and funding constraints. The inflection is most evident in Process Solutions, Merck's mission-critical

biologics manufacturing business, which benefits from recurring revenue, deep customer integration and high switching costs. Improving order trends are reinforcing confidence in both near-term performance and the company's longer-term growth outlook. While investor sentiment remains pressured by weaker demand in academia and China, we believe accelerating bioprocessing activity will be the primary driver of earnings growth. At current levels, we do not believe the stock price fully reflects the strength of Merck's competitive position or its improving earnings trajectory.

We added **Orsted AS** a leading offshore wind developer, following a sustained period of operational setbacks and political uncertainty. Cost overruns, project delays, and policy challenges—particularly in U.S. offshore wind—undermined confidence and culminated in a large rights offering in 2025. In our view, the current valuation still reflects a business facing persistent execution risk, despite clear signs of improvement. Several of Orsted's largest projects are now well advanced, offering visibility into future cash flows. Meanwhile, management has strengthened the balance sheet, tightened capital allocation and shifted toward a lower-risk operating model. Looking ahead, rising electricity demand from U.S. data centers should support renewable power pricing, while Europe's increasing focus on energy security is expected to create a more favorable backdrop for offshore wind development. We do not believe the current valuation fully reflects Orsted's improving fundamentals or earnings potential.

We purchased **Pharmaron Beijing Co., Ltd.**, a global contract research and manufacturing organization that we expect to benefit from China's growing role in biopharma innovation. As large pharmaceutical companies increasingly source innovation externally, China's drug development ecosystem is gaining share, supported by lower costs, improving scientific capabilities and faster development timelines. Pharmaron's integrated platform across discovery, development and manufacturing allows it to participate across the drug lifecycle, positioning the company to capture this structural shift. Industry data suggests Chinese biotechs can advance programs faster and at lower costs than global peers, which is generating more out-licensing activity as well as demand for outsourced services. While prior concerns around regulatory scrutiny, geopolitical tensions and data integrity have weighed on sentiment, we believe these risks are now better understood and reflected in the current valuation. With improving growth visibility, continued new order momentum and meaningful operating leverage to a strengthening innovation cycle, we believe Pharmaron represents an attractive long-term investment opportunity.

We also bought **Sunny Optical Technology Group Co., Ltd.**, a global leader in optical components and imaging solutions. We believe the company is well positioned to benefit from growth across consumer electronics, AI and



intelligent sensing. Its leading optical engineering capabilities and strong innovation track record have enabled it to gain share in premium smartphone cameras while expanding into attractive markets such as optical interconnects, robotics and extended reality. We are particularly encouraged by management's focus on the convergence of optics and AI, which we believe will expand the company's growth opportunities and strengthen its competitive position. Supported by a scaled manufacturing platform, deep customer relationships and growing opportunities beyond smartphones, we believe Sunny offers a compelling combination of technological leadership and durable growth.

We purchased **Vanguard FTSE Developed Markets ETF** as a cash alternative.

Lastly, we initiated a position in **Melrose Industries PLC**, a high-quality aerospace supplier with a differentiated franchise in engine components and a compelling runway for long-term cash flow growth. We believed the market was underappreciating the company's long-term cash generation potential as newer engine platforms matured. However, following an incident at one of the company's aerospace facilities that heightened legal, regulatory and operational uncertainties, we exited the position as this development threatened to delay the free cash flow inflection underpinning our investment thesis.

Alternatively, we exited **SUMCO Corporation** which is a leading supplier of advanced silicon wafers used in both central and graphic processing units (CPUs and GPUs), on valuation.

Consistent with our disciplined capital allocation process, we took advantage of market volatility to further enhance the Ariel International Developed Markets portfolio. To that end, we exited several holdings and redeployed capital into higher conviction opportunities. These sales included:

- **Banca Monte dei Paschi di Siena SpA**, the Italian banking group;
- **Fortum Oyj**, the European independent power producer;
- **Kuaishou Technology**, China's leading livestreaming and short-form video platform;
- **Lojas Renner S.A.**, the Brazilian apparel retailer;
- **Minth Group Ltd.**, the global automotive components supplier with growing exposure to the European electric vehicle value chain;
- **Syensqo SA**, the specialty chemicals manufacturer; and
- **Wizz Air Holdings Plc**, the ultra-low-cost airline serving Central and Eastern Europe.

Looking ahead, we believe the opportunity set is becoming increasingly attractive. While AI remains a powerful secular force reshaping the global economy, market leadership is

broadening, creating opportunities across a wider range of companies, sectors and geographies. Supported by resilient earnings, improving business fundamentals, strengthening corporate confidence and a more constructive policy backdrop, this evolution points to a more balanced and durable foundation for future returns. In our experience, such environments often provide fertile ground for active investors, as company-specific fundamentals become more important than macro narratives. Against this backdrop, we believe a disciplined focus on intrinsic value, business quality and long-term competitive advantages will continue to uncover compelling opportunities where market expectations remain disconnected from underlying business prospects.

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 6/30/2026, the performance (net of fees) for the Ariel International (DM) Composite for the 1, 5, and 10- year periods were +23.38%, +10.14% and +8.41%, respectively. For the period ended 6/30/2026 the performance for the MSCI EAFE Index and the MSCI EAFE Value Index for the 1, 5, and 10-year periods were +20.23%, +9.05% and +9.66%, and +26.95%, +13.15% and +10.45%, 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. Advisory fees paid by an account may be higher than the actual fee that applies to the composite as a whole, since the actual fee is asset-weighted and aggregated across all accounts. Advisory fee schedules are described in Part 2 of Ariel's Form ADV. 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. 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 and (ii) the Composite will at times invest a portion of its assets in the U.S. and emerging 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.

As of 6/30/2026, Murata Manufacturing Company, Ltd. constituted 3.1% of the Ariel International (DM) Composite (representative portfolio); Infineon Technologies AG 4.8%; MediaTek, Inc. 1.9%; BT Group plc 2.1%; Orange SA 2.6%; Algonquin Power & Utilities Corporation 1.9%; Merck KGaA 3.0%; Orsted AS 2.9%; Pharmaron Beijing Co., Ltd. 0.5%; Sunny Optical Technology Group Co., Ltd. 1.2%; Vanguard FTSE Developed Markets ETF 0.6%; Melrose Industries PLC 0.0%; Banca Monte dei Paschi di Siena S.p.A. 0.0%; Fortum Oyj 0.0%; Kuaishou Technology 0.0%; Lojas Renner S.A. 0.0%; Minth Group Ltd. 0.0%; SUMCO Corporation 0.0%; Syensqo SA 0.0% and Wizz Air Holdings Plc 0.0%. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel International (DM) Composite.

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

Indexes are unmanaged. An investor 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 US and Canada. 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

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