

Ariel International Developed Markets

Quarter Ended September 30, 2026

Global equity markets advanced in the third quarter, although renewed Middle East tensions and a higher-for-longer interest rate environment tempered gains. Rising oil prices lifted inflation expectations, pushing yields higher and prompting markets to reassess the path for monetary policy. Artificial intelligence remained the dominant investment theme, though enthusiasm narrowed. U.S. technology leaders gained while parts of Asia's semiconductor sector retreated, as investors weighed whether future returns would justify the extraordinary capital pouring into AI.

Those pressures unfolded differently around the world. Japan contended with higher energy costs and shifting rate expectations; Europe with persistent inflation and a cautious consumer; and China with an uneven recovery. The result was a market defined more by dispersion than direction across regions, sectors and individual companies.

For long-term investors, that unevenness matters. When capital crowds into the prevailing winners, strong businesses can fall quietly out of favor. In our view, periods like these open meaningful gaps between price and value, particularly when short-term sentiment obscures the durability of a company's competitive position, balance sheet and earnings power. Against this backdrop, the Ariel International (DM) Composite returned -1.84% gross of fees (-2.01% net of fees) in the quarter, underperforming the MSCI EAFE Index and MSCI EAFE Value Index, which returned +0.81% and +4.27%, 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 Communication Services, Information Technology, Utilities, Consumer Discretionary and Consumer Staples. The portfolio is underweight Industrials, Financials, Materials, and Health Care as well as lacks exposure to Energy and Real Estate. At the sector level, positive stock selection within Consumer Discretionary, Consumer Staples and Health Care were the greatest contributors to returns. By comparison, our overweight exposure to Information Technology, selection among Utilities holdings and underweight allocation to Energy were the largest detractors during the quarter.

Japanese video game publisher, **Bandai Namco Holdings, Inc.**, was our top contributor during the quarter as investors gained confidence in the company's accelerating earnings recovery. Growth across its core toys, collectibles and trading

card franchises remained robust, with the Gundam Card Game emerging as a significant driver of global momentum. Meanwhile, stabilizing repeat sales of existing titles, supported by a stronger content release slate and growing live entertainment offerings, strengthened confidence in second-half earnings and drove a re-rating of the shares. We believe the market is increasingly recognizing the value of Bandai Namco's diversified, IP-driven model, which bolsters recurring revenue opportunities and long-term earnings growth across gaming, collectibles, merchandise, experiences and digital engagement. Despite the stock's strong performance, we think the recovery remains in its early stages and the company's earnings potential is not yet fully reflected in its valuation.

Japanese construction and mining equipment manufacturer **Komatsu Ltd.** advanced during the quarter on an earnings beat and a subsequent increase to full-year guidance. A newly initiated position this quarter, results were driven by strong demand for mining equipment, a large Middle East contract win and improving North American construction activity. The company also continued repurchasing shares under its existing buyback program. In our view, investors remain overly focused on Komatsu's thermal coal exposure in Indonesia, which admittedly is under pressure but represents a relatively small portion of the business. Meanwhile, the company's exposure to copper, gold and North American construction appears to be entering an upcycle, while its sizable aftermarket parts and service business helps moderate cyclicality. We believe this combination, along with a growing order backlog, supports a longer runway for growth than is reflected in the share price.

Bank of Ireland Group plc, rose as management continued to deliver on its strategic priorities. Improving operating leverage and disciplined cost control reinforced the durability of recent profitability gains, contributing to a re-rating of the shares. We believe the market is beginning to recognize the bank's improved return profile while still underappreciating its longer-term efficiency program and its capacity to return capital to shareholders.

By comparison, global power semiconductor leader **Infineon Technologies AG** declined as investors reacted to softer-than-expected margin guidance, tempering near-term earnings expectations. We view the weakness as a function of conservative guidance rather than any change in underlying fundamentals. We believe Infineon remains well positioned to



benefit from growing demand for AI-related power semiconductors, supported by its market leadership and critical role in next-generation data center power infrastructure.

Shares of logistics automation and cleanroom systems leader **Daifuku Co. Ltd.** also fell over the period despite delivering strong results and raising earnings guidance, as investors focused on near-term margin pressure from rising labor, depreciation and component costs. We believe that sentiment overlooks the strength of the company's underlying fundamentals. Demand remains robust across warehouse automation, logistics and semiconductor-related end markets, prompting management to raise its outlook for semiconductor orders as customers continue to invest in advanced manufacturing capacity. With productivity initiatives underway and operating leverage still ahead, we believe those same margins are more likely to expand than compress.

Lastly, **ENGIE SA** underperformed during the quarter despite raising guidance, due to concerns about higher leverage following the UK Power Networks acquisition and drought-related weakness in French hydro generation. Nonetheless, UK Power Networks contributed positively to its first full quarter of ownership, regulated network operations exceeded expectations and management raised its outlook on improved earnings visibility. In our view, the focus on financing has overshadowed the quality of the assets acquired. As regulated networks and contracted renewables represent a larger share of earnings, we expect greater stability and visibility. We also view the hydro-related weakness as a temporary weather-driven headwind, with leverage expected to trend toward target levels as planned asset sales are completed.

In addition to **Komatsu, Ltd.**, as previously discussed, we initiated seven new positions during the quarter.

We added paints and coatings manufacturer **Akzo Nobel N.V.**, which is merging with Axalta Coating Systems Ltd. The transaction has shareholder approval and awaits regulatory review, but the shares have lagged as investors question the strategic rationale and whether the announced cost synergies are achievable. We see two highly complementary businesses with real room to cut overlapping costs, improve procurement and enhance profitability. We also view the accompanying governance changes, including stronger shareholder-aligned incentives and improved board accountability as a positive. End-market conditions are also improving, with European home improvement activity stabilizing and North American auto refinish demand showing signs of recovery. Taken together, we believe the combined company's earnings potential is worth more than the market assumes.

We repurchased Japanese machinery manufacturer **Ebara Corporation**, a former holding whose semiconductor equipment business is largely overlooked within its broader industrial portfolio. Ebara is the world's second-largest

supplier of chemical mechanical planarization (CMP) tools, a critical step in semiconductor manufacturing, and has benefited from strong AI-driven demand from both logic and memory customers. In our view, the market still prices Ebara as a cyclical industrial company rather than recognizing the earnings power of its semiconductor franchise. We believe growing chip complexity, increased adoption of advanced packaging technologies and a recovery in memory spending should support long-term CMP demand. Likewise, we think management's focus on improving returns and narrowing margin gaps versus best-in-class peers adds further upside.

We bought **NatWest Group plc**, a U.K. lender with several business-specific earnings drivers that extend beyond the interest rate environment. The bank's structural hedge continues to support net interest income as maturing assets are reinvested at higher yields, while loan growth has outpaced peers and management has raised its return targets. The acquisition of Evelyn Partners also expands NatWest's capital-light wealth management platform and diversifies its revenue base. We believe these factors position the company to deliver stronger and more durable earnings growth than the share price assumes.

We also reestablished a position in **Reckitt Benckiser Group plc**, the U.K. consumer health and hygiene company behind Dettol, Lysol, Durex and Mucinex. We believe the shares trade at an unwarranted discount to their consumer staples peers, despite attractive exposure to faster-growing emerging markets, which account for nearly half of core revenue. Recent results have been pressured by a weak cold and flu season, stranded costs from portfolio actions and continued litigation concerns. However, emerging market growth remains robust, margins continue to improve and a favorable outcome in the company's first infant formula liability trial has reduced a key overhang. We believe these factors support stronger earnings growth than is currently reflected in the valuation.

We initiated a position in **Scout24 SE**, operator of ImmoScout24, Germany's leading online property marketplace. The shares sold off as investors questioned whether AI could disrupt vertical marketplaces, despite improving fundamentals and higher guidance. In our view, Scout24's value lies in its extensive property listings, trusted data and deep integration with agent workflows—advantages that are difficult to replicate. Professional customer retention remains exceptionally strong, and the company's own AI-enabled tools are driving higher engagement and monetization. Roughly three-quarters of revenue comes from subscriptions rather than housing transaction volumes, which should make results much steadier through the property cycle.

We also added **Standard Chartered PLC**, a UK-headquartered international bank connecting many of the world's fastest-growing markets across Asia, Africa and the Middle East with global financial centers. We are drawn to the



company's differentiated "super connector" model, anchored in cross-border transaction banking, trade finance and global markets businesses that move capital and commerce across its network. Wealth management provides a complementary engine, with strong net new money inflows and an increasing mix of higher-fee investment products that lift revenue while reducing interest rate sensitivity. We believe continued execution on efficiency initiatives, coupled with topline growth, should drive meaningful returns on equity. The company's strong capital position adds further support, providing capacity for dividends and shareholder repurchases. While geopolitical and emerging market risks are inherent to the franchise, we believe the current valuation more than accounts for them, leaving room for both earnings growth and multiple expansion as execution continues.

We bought **Sumitomo Mitsui Financial Group, Inc.**, the second largest of Japan's three megabanks, where we believe the market still applies a valuation framework built for the zero-rate era. The Bank of Japan's rate hikes provide a meaningful earnings tailwind, as the bank's large, low-cost deposit base reprices more slowly than its assets. Sumitomo Mitsui is also shifting toward higher-return businesses through its Olive digital platform, which deepens customer relationships across banking, payments, securities and wealth management, while its partnership with Jefferies Financial Group expands fee-based advisory and capital markets revenues. Management's efforts to unwind legacy cross-shareholdings and redeploy capital into growth initiatives and buybacks are a further encouraging sign. In our view, these actions should lift profitability and return on equity well beyond what the market's zero-rate assumptions imply.

Conversely, we exited the following names on valuation:

- the renewable energy and utility services provider, **Algonquin Power & Utilities Corporation**
- Japanese multinational tire manufacturer, **Bridgestone Corporation**
- French multinational tire manufacturer, **Cie Generale des Etablissements Michelin SA**
- Italian gas distributor, **Italgas Spa**
- German-based specialty chemical company **Wacker Chemie AG**

Looking ahead, we expect the dispersion that defined the quarter to widen further as markets become more discerning. As capital grows more expensive and monetization remains uneven, we believe companies with durable demand and proven earnings power will separate from those sustained largely by optimism.

At the same time, the opportunity set may broaden. Improving business conditions and earnings growth beyond the largest technology companies could allow market leadership to extend across industries and geographies, even as inflation,

higher borrowing costs and geopolitical uncertainty keep volatility elevated.

In this environment, fundamentals matter more than headlines. We remain focused on taking profits where price has caught up with value, and directing capital toward businesses whose improving earnings, competitive advantages or company-specific catalysts are not yet fully reflected in share prices.

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 9/30/2026, the performance (net of fees) for the Ariel International (DM) Composite for the 1, 5, and 10- year periods were +18.14%, +10.64% and +7.59%, respectively. For the period ended 9/30/2026 the performance for the MSCI EAFE Index and the MSCI EAFE Value Index for the 1, 5, and 10-year periods were +15.69%, +9.32% and +9.07%, and +23.26%, +14.32% and +10.06%, 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 9/30/2026, Bandai Namco Holdings, Inc. constituted 4.1% of the Ariel International (DM) Composite (representative portfolio); Komatsu, Ltd. 4.6%; Bank of Ireland Group PLC 2.4%; Infineon Technologies AG 3.5%; Daifuku Co., Ltd. 3.8%; ENGIE SA 3.2%; Akzo Nobel NV 0.3%; Ebara Corporation 1.6%; NatWest Group PLC 2.0%; Reckitt Benckiser Group PLC 2.0%; Scout 24 SE 0.9%; Standard Chartered PLC 2.6%; Sumitomo Mitsui Financial Group, Inc. 2.5%; Algonquin Power & Utilities Corporation 0.0%; Bridgestone Corporation 0.0%; Cie Generale des Etablissements Michelin SA 0.0% ; Italgas SpA 0.0% and Wacker Chemie AG 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 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 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.

