

Ariel Focus Fund

Quarter Ended June 30, 2024

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. The investment return and principal value of an investment 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 current to the most recent month end for Ariel Focus Fund may be obtained by visiting our website, arielinvestments.com. For the period ended June 30, 2024 the average annual returns of Ariel Focus Fund (investor class) for the 1, 5, and 10 year periods were +8.54%, +6.97%, and +5.56%, respectively.

The bull market powered through the second quarter fueled by investor enthusiasm for artificial intelligence (AI) themed stocks. This narrow, momentum-driven, rally helped the S&P 500 eke out a modest gain, even as Mid- and Small-Cap companies declined. The resulting bifurcation has been extreme, as the non-AI companies in the S&P 500 Index lost 1.2%.¹ This limited market breadth likely reflects weakening economic growth and inflation in the U.S. With many investors cautiously optimistic the Federal Reserve will successfully engineer a soft landing, interest rate cuts may be at hand in the coming months. Still, the turmoil surrounding the U.S. election is becoming a new focal point. Although uncertainty is high and volatility will likely remain elevated, we view these risks as short-term noise within the context of our long-term investment horizon. Against this backdrop, Ariel Focus Fund declined -3.37% in the quarter, trailing the -2.17% return posted by the Russell 1000 Value Index and the +4.28% gain of the S&P 500 Index.

Global leader in enterprise software, **Oracle Corporation (ORCL)**, was the top contributor to relative performance in the period. ORCL is benefitting from a significant expansion in artificial intelligence (AI) demand and strong booking growth with OpenAI. We believe these results highlight ORCL's ability to effectively cross-sell and upsell apps and infrastructure, as well as the emergence of the company's cloud platform as a competitive offering. In addition, ORCL announced a meaningful partnership with Google Cloud mirroring its existing partnership with Microsoft Azure. The company's ability to leverage the services of both companies without having to rewrite the application helps differentiate and improve ORCL's positioning in the database market. Furthermore, management provided strong guidance for fiscal 2025, including a double-digit increase in total revenue, with growth accelerating throughout the year.

Shares of global investment bank, **Goldman Sachs Group, Inc. (GS)**, also rose in the period following solid earnings results, highlighted by strength in fixed income, currencies and commodities (FICC) as well as equities trading and better-than-expected investment banking fees. Meanwhile, GS continues to successfully execute on its strategic initiatives to improve the overall return of the company. It is right sizing headcount and narrowing its ambitions in consumer strategy through divestitures and working to improve profitability in Platform Solutions by 2025. With the possibility of increased capital requirements from its regulators, GS plans to reign in buybacks over the short-term but maintain its dividend. Looking ahead, we continue to view the near and long-term outlook for Goldman as attractive, given favorable business trends, continued positive momentum on strategic initiatives and active expense/capital management programs.

Additionally, shares of oil services company, **Core Laboratories, Inc. (CLB)**, increased following a top- and bottom-line earnings beat. Strong international demand for laboratory services and completion diagnostic solutions boosted results. Although the macro environment remains volatile and U.S. onshore drilling and completion activity is expected to remain flat year-over-year, management is projecting international growth from projects in the Middle East, Asia Pacific and West Africa. Meanwhile, the company remains laser focused on generating positive free cash flow, reducing debt and improving its return on invested capital.

In contrast, manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK)** underperformed this quarter, as consumer demand and pricing remain under pressure due to secular headwinds in the housing market. In a difficult environment, management is successfully executing on cost savings and productivity initiatives, while also preparing the business for share gains as demand recovers. In

¹ Sindreu, Jon. "The Second Quarter Split the Market." *The Wall Street Journal*, July 1, 2024, p. B9.



our view, MHK's healthy balance sheet and progress managing through economic cycles position the company to benefit from long-term growth in residential remodeling, new home construction and commercial projects.

Oil and natural gas explorer, **APA Corporation (APA)**, also traded lower in the quarter following an earnings miss. Weaker-than-expected production guidance and an upcoming increase in capital investment weighed on investor sentiment. Meanwhile, APA raised its cost synergy targets from the recent acquisition of Callon Petroleum Company, which stands to enhance the scale of the company's existing Delaware Basin assets. The increased operational savings appear accretive to key financial metrics in late 2024 and beyond. APA's wells continue to deliver strong performance in the Permian Basin. The company also is expressing confidence in its Suriname development. Management remains laser-focused on increasing the operational efficiency of the Callon assets, free cash flow generation and returning capital to shareholders via buybacks and dividends.

Lastly, tool innovator, **Snap-on Incorporated (SNA)**, declined on mixed earnings results as softer than expected organic growth in the tools segment was offset by solid margins. Amidst the challenging macro backdrop, mechanics have begun favoring lower-priced tool sets and franchisees are destocking inventory levels. In response, SNA is redirecting product design, capacity and marketing efforts to match mechanic preferences. In our view, the automotive repair industry sports a favorable runway due to aging vehicles and the increased technological complexity associated with repair. We believe SNA's value proposition to its end markets remains differentiated, as it continues to respond to real-time feedback and invest in new products to service unique needs of original equipment manufacturers.

Also in the quarter, we initiated a new position in boutique asset manager, **Affiliated Managers Group, Inc. (AMG)**. AMG purchases meaningful equity interests in boutique asset management firms and in return receives a fixed percentage of revenues. The company's partnership approach allows for its affiliates' management teams to own significant equity stakes while maintaining operational independence. AMG's size and scale allow the company to be the leading destination for growing boutique firms addressing succession issues and/or seeking assistance in marketing, distribution and product development. In our view, investors currently underappreciate the company's active and alternative-asset affiliate business model.

Meanwhile, we successfully exited alternative asset manager, **KKR & Co. (KKR)** as shares began trading above our estimate of private market value.

AI-themed stocks continue to dominate markets this year. Escalating geopolitical tensions, the potential timing of the Fed pivot and the outcome of the upcoming U.S. Presidential

election also pose risks. As the bull market climbs the proverbial "wall of worry," we consider macroeconomic developments and recent headlines within the context of our long-term investment horizon. We continue to be cautiously optimistic and believe the underlying strength of corporate profits will prove resilient. Consumers are still spending, unemployment remains low and the balance sheets of U.S. financial institutions and households are generally in good shape. As rates begin to subside in 2024 and beyond, we think the gap between mega-cap stocks and their small to mid-cap counterparts will narrow.

Meanwhile, we remain focused on the underlying fundamentals and opportunities market dislocations can provide to long-term, actively patient investors. We strongly believe the disciplined investor that stays the course and consistently owns differentiated, quality business models with robust balance sheets will deliver superior returns over time.

Investing in equity stocks is risky and subject to the volatility of the markets. 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 Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified investment. The Fund is often concentrated in few sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

As of February 1, 2024, Ariel Focus Fund Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.16%. Currently, an expense ratio cap of 1.00% is in place for the Investor Class to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments LLC (the Advisor) is contractually obligated to maintain this expense ratio cap through 1/31/25. The net expense ratio for the Investor Class does 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. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 6/30/24, Oracle Corporation constituted 6.5% of Ariel Focus Fund; Goldman Sachs Group, Inc. 6.7%; Core Laboratories, Inc. 3.6%; Mohawk Industries, Inc. 5.2%; APA Corporation 4.7%; Snap-on, Inc. 5.8%; Affiliated Managers



Group, Inc. 1.1%; and KKR and Co. Inc. 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 Ariel Focus Fund.

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

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is January 1, 1987. Russell® is a trademark of London Stock Exchange Group, which is the source and owner of the Russell Indexes' trademarks, service marks and copyrights. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes or underlying data and no party may rely on any Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. The S&P 500® Index is widely regarded as the best gauge of large-cap U.S. equities. It includes 500 leading companies and covers approximately 80% of available U.S. market capitalization. Its inception date is March 4, 1957.

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, a wholly-owned subsidiary of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.



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