Ariel investments

Performance (%) as of June 30, 2024				Annualized			
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Focused Value							03/31/2005
Gross of Fees	**-2.98**	**4.32**	**9.23**	**1.07**	**7.67**	**6.48**	**7.04**
Net of Fees	**-3.14**	**3.98**	**8.52**	**0.42**	**6.97**	**5.80**	**6.18**
Russell 1000® Value Index	-2.17	6.62	13.06	5.52	9.00	8.23	7.81
S&P 500® Index	4.28	15.29	24.56	10.01	15.04	12.86	10.44

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 Clients and Friends: In the second quarter, the Ariel Focused Value Composite declined -2.98% gross of fees—modestly trailing its primary benchmark, the Russell 1000 Value Index, which lost -2.17%, but substantially falling short of the tech driven S&P 500 Index, which rose +4.28%. Year to date through June 30, 2024, the Ariel Focused Value Composite gained +4.32% gross of fees, while the Russell 1000 Value Index earned +6.62% and the S&P 500 surged +15.29%.

The three holdings contributing most positively to the portfolio's performance were data software provider **Oracle Corporation (ORCL)**, investment bank **Goldman Sachs Group, Inc. (GS)** and energy consulting firm **Core Laboratories, Inc. (CLB)**. Our biggest detractors were home flooring manufacturer **Mohawk Industries, Inc. (MHK)**, oil and gas exploration company **APA Corporation (APA)** and auto tool manufacturer **Snap-On Incorporated (SNA)**.

At Ariel, we are bottom-up stock pickers, not macroeconomic prognosticators. We do not believe we, or anyone else, can consistently predict short-term changes in factors like GDP growth, unemployment or the value of the U.S. dollar. Yet, it's clear that today's investors are keenly focused on short-term economic trends, particularly inflation and interest rates. As a result, stocks have been—and are likely to continue to be—piloted by macro sentiment, at least in the near term.

A look back at financial history suggests the markets have been impacted by inflation and interest rates over three phases, with a fourth yet to occur.

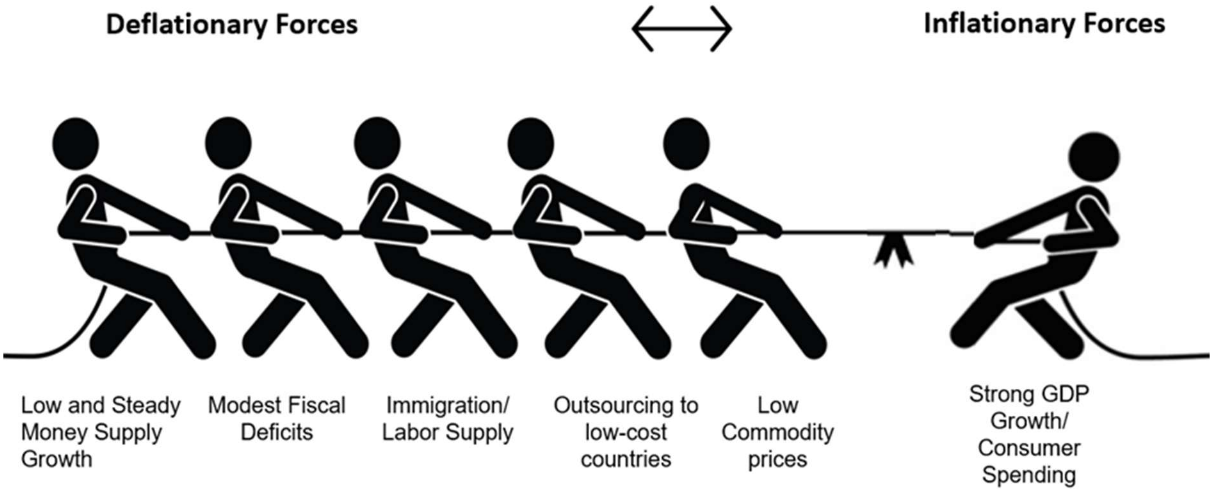
Table 1
The Four Phases of Inflation and Interest Rates

Phases Trend	**Comment**		**Asset Class Performance**
Phase One: 1980-2020	Benign Inflation and Falling Interest Rates	For almost 40 years, money supply grew slowly, and inflation fell.	Bonds, real estate, LBOs, venture capital and growth stocks all outperformed. Commodities lagged.

Phase Two: 2021-2023	Return of Non-Transitory Inflation	Massive Fed easing and the surge in money supply sent inflation soaring. Interest rates rose quickly.	Bonds, real estate and cyclical stocks underperformed.
Phase Three: 2024-2025	Soft Landing	Market expects inflation to fall; Fed can cut rates without creating a recession.	Stocks and bonds perform well.
Phase Four: 2026--?	Chickens Come Home?	Massive federal deficits, trade wars and immigration crackdown lead to resurgent inflation.	Higher rates, pressure bonds, real estate and leveraged equities. Commodities and hard assets outperform.

For approximately 40 years, stable money supply policy, manageable federal deficits, globalization and outsourcing, loose immigration enforcement and lower commodity prices produced falling inflation and declining interest rates. We call this *Phase One: Benign Inflation and Falling Interest Rates* (See Figure 1). From 2020 through 2023, the *Return of Non-Transitory Inflation* marked *Phase Two*. In 2024, we entered *Phase Three: Soft Landing,* in which easing inflation allowed the Fed to lower interest rates while avoiding a recession. Although many Fed watchers are intensely focused on when a rate cut will occur, we do not believe our performance will be meaningfully affected by whether it comes this Fall or early next year.

Figure 1
Inflation Tug of War 1980 – 2020: Benign Inflation


Deflationary Forces
Inflationary Forces
Low and Steady Money Supply Growth
Modest Fiscal Deficits
Immigration/ Labor Supply
Outsourcing to low-cost countries
Low Commodity prices
Strong GDP Growth/ Consumer Spending

In *Phase Four*, which we expect to begin in 2026, this tug of war should reverse, with all the forces keeping inflation at bay now exerting an upward pull. Fiscal deficits offer some insight. From 1980 through 2020, U.S. deficits generally ran at a level of several hundred billion dollars, which compared to today's $22 trillion gross domestic product were manageable. There was even a four-year surplus at the end of the 1990s.

Since Covid, our country's deficits have exceeded a trillion dollars as a direct result of higher interest rates on higher federal debt, increased healthcare and social spending for an aging population and higher defense spending. These growing deficits will shift fiscal policy from deflationary to inflationary.

Until recently, globalization and outsourcing have also been significant disinflationary forces. Large companies shifted manufacturing to lower-wage countries to cut costs and subsequently passed some savings on to consumers. Today, pressures against outsourcing are growing, as support for free trade erodes, which means outsourcing is less likely to serve as a deflationary force.

Immigration is another factor in the inflation conversation. There is general agreement that new immigrants have provided a large source of lower-cost labor in industries such as food service, agriculture and hospitality. And yet, many immigration foes cite this willingness to "work for less" as a reason to oppose it. With more political opposition, immigration's disinflationary impact on the overall economy will diminish.

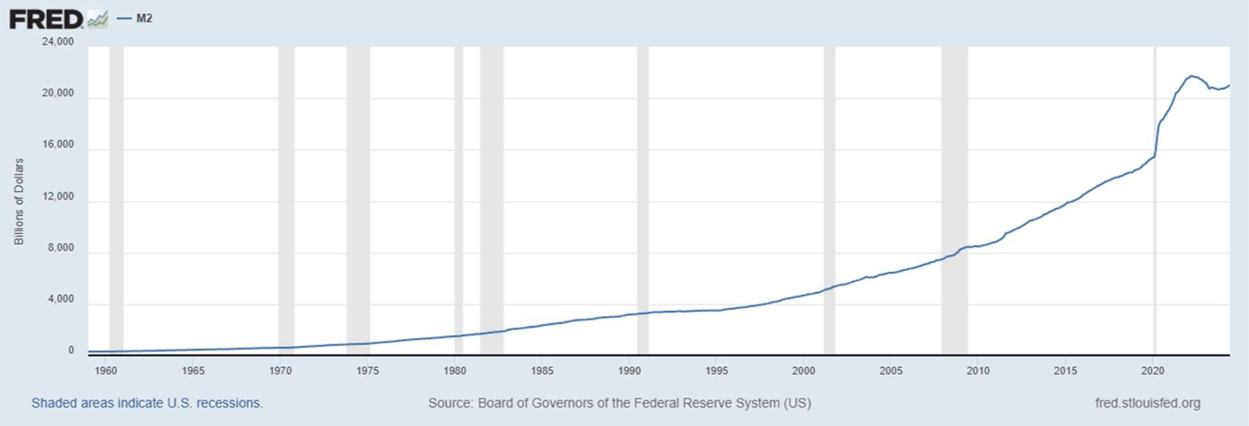
Oil and Commodities

In 1981, the U.S. paid an average of $36.95[1] for a barrel of oil, much of which was imported from the Middle East. In May of 2020, the price of West Texas Intermediate had fallen below $30. The long-term drop in energy prices came primarily from the development of new production technologies such as horizontal drilling and fracking. Deregulation of gas prices during the Reagan Administration drove more investment in oil production. Better automobile fuel economy and a shift from home heating oil to natural gas also helped mitigate demand, further lowering prices. Oil and energy, once strong contributors to inflation, became a force for disinflation.

We anticipate a reversal of this commodity price trend as well. A combination of stricter environmental regulation and pressure on oil companies to generate stronger cash flows has resulted in lower global exploration. Meanwhile, developing countries such as India and China will need more commodities to support their economic growth. Accordingly, we expect commodity prices to be a source of inflationary pressure in *Phase Four*.

Finally, there is the historical impact of slow growth in the money supply, which we believe was the strongest factor moderating inflation in *Phase One* and which ended abruptly in 2020 with Covid. Figure 2 below shows between 1970 and 2020, there were no dramatic increases in the money supply, not even during the financial crisis of 2008. Monetary policy called for fixed and predictable increases. To jump-start a Covid-bound economy, between February of 2020 and February 2022, the Federal Reserve boosted the money supply by 40%, an unprecedented rate of increase for the U.S. This dramatic increase drove the non-transitory inflation in *Phase 2*. As Milton Friedman once noted, "Inflation is always and everywhere a monetary phenomenon."

Figure 2
Growth of the Money Supply: The End of Slow and Steady

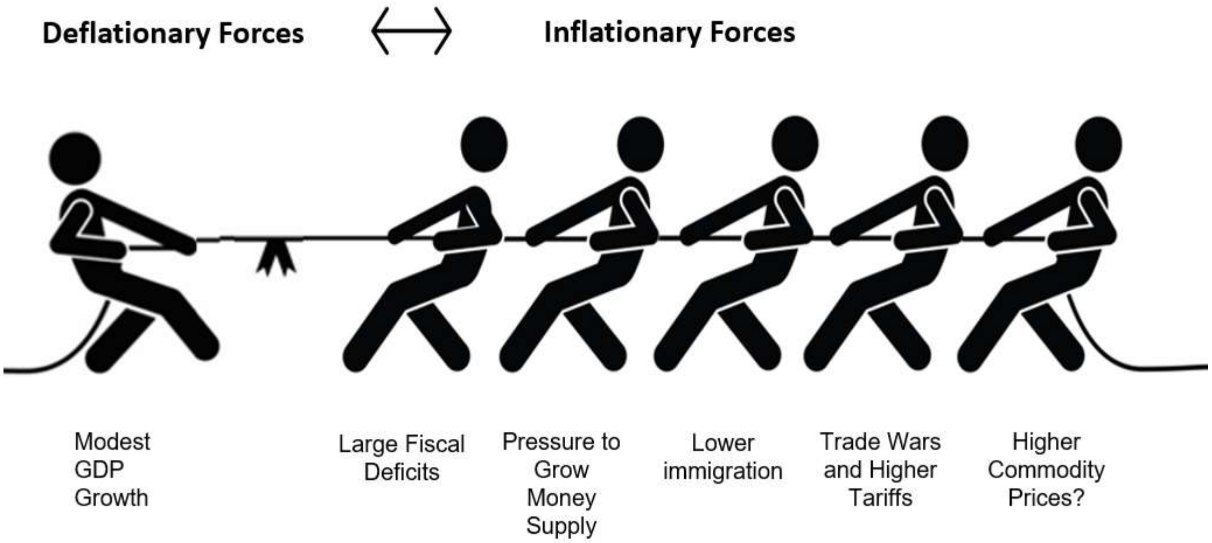


Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US) fred.stlouisfed.org

[1] Jack L. Hervey, "The 1973 Oil Crisis: One Generation and Counting," Chicago Fed Letter, No. 86, Federal Reserve Bank of Chicago, October 1994, https://www.chicagofed.org/publications/chicago-fed-letter/1994/october-86.

The current outlook for money supply is not good. The recent increases in federal spending and trillion-dollar deficits will be the norm for the foreseeable future and will need to be financed. Historically, the U.S. Treasury has funded modest fiscal deficits by issuing Treasuries. Foreign governments, principally the Chinese and Japanese, have been major buyers of these bonds. If these foreign buyers can no longer absorb significantly higher new Treasury issuance, the Fed may be forced to "turn on the printing presses," as so many deficit-running countries have done in the past. The odds are high of money supply increasing at a rate inconsistent with the goal of 2% inflation, which leaves us in a new inflation tug-of-war, with the inflationary forces overpowering the deflationary ones.

Figure 3
Future Phase 4: Chickens Come Home?


Deflationary Forces
⟷
Inflationary Forces
Modest GDP Growth
Large Fiscal Deficits
Pressure to Grow Money Supply
Lower immigration
Trade Wars and Higher Tariffs
Higher Commodity Prices?

In this future phase, hundred billion-dollar fiscal deficits have been replaced with trillion-dollar deficits. Protectionism and "onshoring" take the place of free trade, globalization and outsourcing. In our view, stricter border enforcement will push wages higher; and increased demand and decreased supply will move commodity prices up too. Most importantly, we believe the era of slow and steady money supply growth will be over.

As a result, we expect higher inflation and higher interest rates in 2026.

Sincerely,

Charles K. Bobrinskoy
Vice Chairman

Ariel Update as of July 29, 2024:

We look forward to welcoming our clients and friends to our office at 477 Madison Avenue this fall—***where all Ariel New Yorkers are excited to finally be together in one location!*** As we prepare for the move, our global and emerging markets equities teams will work from home in August and September. We believe this short-term arrangement will ensure all regular and ongoing conversations with portfolio company managements and our clients are uninterrupted. In the meantime, please know we are fully engaged in our relentless effort to grow and protect your money while providing exceptional service along the way. Should you have any questions or need additional information, do not hesitate to contact us.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small- and mid-cap companies is more risky and volatile than investing in large-cap companies. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. A focused portfolio may be subject to greater volatility than a more diversified investment.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Net performance of the Ariel Focused Value Composite has been reduced by the amount of the highest fee charged to any client in the Composite during the performance period. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. A complete fee schedule is available upon request and may also be found in Ariel Investments LLC's Form ADV, Part 2. Returns are expressed in U.S. dollars. Current performance may be lower or higher than the performance data quoted. The Ariel Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated in fewer sectors.

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 6/30/24, the Ariel Focused Value (representative portfolio) held the following positions referenced: Oracle Corporation 6.38%; Goldman Sachs Group, Inc. 6.42%; Core Laboratories, Inc. 3.35%; Mohawk Industries, Inc. 4.98%; APA Corporation 4.59%; Snap-On Incorporated 5.54%. The portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel Focused Value Composite. 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. 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 growth and higher sales per share historical growth. The inception date of the Russell 1000® Growth Index 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.