

Ariel Global 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 Global Fund may be obtained by visiting our website, arielinvestments.com. For the period ended June 30, 2024 the average annual total returns of Ariel Global Fund (Investor Class) for the 1, 5, and 10-year periods were +8.57%, +6.94%, and +5.67%, respectively.

The bull market continued in the second quarter driven primarily by investor enthusiasm for large U.S. companies and artificial intelligence (AI) themed stocks. This narrow, momentum driven, rally helped the MSCI ACWI and MSCI ACWI ex-U.S. indices eke out a modest gain, even as the MSCI EAFE Index posted declines due to its lack of exposure to tech beneficiaries in China and Taiwan. Nonetheless, the global outlook is brightening for the second half of 2024—supported by a recovery in bank lending, a pick-up in global manufacturing, recent structural reforms in Japan, new government policies to stabilize the China property market and boost the economy, as well as the near-term possibility of rate cuts in the U.S. and Europe. Meanwhile, the prospect that upcoming elections in the U.S. and Europe may potentially lead to a reshuffling of political power have become a focal point for investors—given the potential economic and market implications. China's support for Russia is also casting an ominous shadow. Although uncertainty is high and volatility will likely remain elevated for now, these risks represent short-term noise within the context of our long-term investment horizon. In what proved to be a tough quarter, Ariel Global Fund fell -3.12% in the period, underperforming the +2.87% gain of its primary benchmark, the MSCI ACWI Index and the -0.59% return of its secondary benchmark, the MSCI ACWI Value Index.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel Global Fund is overweight Health Care, Consumer Discretionary, Financials, Utilities and Information Technology. The portfolio is significantly underweight Consumer Staples, Industrials and Real Estate, as well as lacks exposure to Energy and Materials. At the sector level, our positioning within Materials, Consumer Staples and Energy was the greatest contributor to returns, while our investment choices within Information Technology, Health Care and Communication Services were the largest performance detractors.

Market leader for computer storage systems, **NetApp Inc.** advanced over the quarter following a top- and bottom-line earnings beat. Strong growth across its All-Flash, Block, Artificial Intelligence (AI) and Public Cloud products, tight cost controls and operating margin expansion drove the outperformance. Additionally, management raised the quarterly dividend, announced a buyback program and reiterated its commitment to return 100% of free cash flow to shareholders in 2025, further aiding shares. We believe NetApp is well-positioned to benefit from its cloud storage service as it helps companies move data between public and private clouds seamlessly. Meanwhile, we remain excited about the company's digital transformation projects involving business analytics, AI and data security.

Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC) also traded sharply higher in the quarter, following its annual shareholder meeting where management highlighted robust earnings visibility. The boom in AI investment is driving significant demand for the semiconductor hardware that enables it. TSMC currently holds a dominant position in relevant chip manufacturing and packaging. Additionally, although AI investments have been mostly focused on the datacenter market, Apple's recent announcement on "Apple Intelligence" kickstarted an Edge AI race—which will likely drive greater than expected semiconductor growth in smartphones. TSMC is Apple's sole foundry partner which bodes well for the future. Overall, we continue to view TSMC's scale, technology, business model, customer service and execution favorably. The fact the company remains committed to returning capital to shareholders through both buybacks and dividends is another plus.

Additionally, Korea's largest financial company in terms of assets and customer base, **KB Financial Group**, increased in the quarter following an earnings beat, highlighted by solid profitability, stable loan growth and net interest margin expansion. Given KB Financial's capital structure and solid provisioning practices, we believe it is well-positioned to deliver on its enhanced shareholder return policy, inclusive of



dividends, buybacks and subsequent share cancellations. Despite the recent outperformance, we still see significant upside in the name as it is trading at 0.5x price-to-book and generates return-on-equity in line with its cost-of-equity.

Alternatively, several positions weighed on performance. One of the world's largest semiconductor chip manufacturers by revenue, **Intel Corporation (INTC)**, underperformed in the period on news of a longer than expected turnaround in profitability within the Foundry business. This was exacerbated by disappointing near-term guidance due to a weakening demand environment signaling an extended replacement cycle. We view the quarter as a temporary trough that should dissipate as we see signs of a cyclical recovery for personal computers (PCs) and central processing units (CPUs), driven by the Windows 11 upgrade. In our view, the market is overlooking the progress Intel is making to advance its manufacturing process. Not to mention, the company's efforts to serve as a viable second source foundry partner of leading-edge silicon. We believe the separation of the design and manufacturing businesses will be a key catalyst in unlocking improved financial performance while also enhancing the competitiveness of the foundry business.

American healthcare company, **CVS Health Corporation (CVS)**, also declined following disappointing earnings results and a subsequent reduction in full year guidance. The miss was primarily due to increased utilization of Medicare Advantage plans and weakness in the health services segment driven by the loss of a large client and continued pharmacy client price improvements. In response, management reiterated its focus on improving margins and enhancing its positioning in Medicare Advantage. CVS believes the program can remain an attractive business for Aetna and CVS Health over time and will construct its bid for 2025 as a multi-year repricing opportunity across plan level benefits. Meanwhile, CVS continues to return capital to shareholders through dividends and a recent accelerated share repurchase transaction.

Finally, multinational automotive manufacturing company, **Stellantis N.V. (STLA)**, fell in the quarter as higher interest rates in the U.S. and tapering demand for high-volume combustion engine models resulted in elevated U.S. inventory levels. Nonetheless, pricing outperformed expectations and management reiterated full-year guidance of double-digit adjusted operating profit margin and positive free cash flow. Although we expect discounting to increase as U.S. inventory ages, we maintain a constructive view on the company. We believe STLA's strong global footprint and unwavering dedication to leading the industry in profitability, operational excellence, and strategic foresight will continue to enhance long-term shareholder value.

We initiated eight new positions in the quarter.

We purchased multinational insurance and financial services company **AXA SA**, which is currently trading at a significant

discount relative to its U.S. peers due to weaker operating performance and its exposure to the European economy. We expect this gap will narrow as AXA prioritizes underwriting within the more predictable non-life business segments including—commercial, protection and health insurance—all of which offer recurring revenues and higher margins. Furthermore, as a stronger cash generator, investors are benefitting from rising dividends as well as opportunistic share repurchases.

We added property and casualty insurer, **Allstate Corporation**. A challenging macro-environment, inflation and lower reserve development led to significant underwriting losses across key markets, presenting us with an attractive entry point. Looking ahead, we expect the strong pricing environment, coupled with lower inflationary pressure and future premium growth to yield upside for shares. Additionally, management is committed to improving its adjusted expense ratio and recently made upgrades to its claims handling processes to minimize loss development and lower claim severities.

We bought bank holding company, **BAWAG Group AG**. In our view, consensus estimates for 2025 and 2026 do not fully appreciate the sustainable growth potential, best-in-class cost efficiency and sector-leading capital returns the business offers. Given the acquisition of Netherlands-based mortgage bank, Knab, as well as recent reports highlighting BAWAG as the leading contender to acquire Barclay's German Consumer Finance business, we believe the company is well-positioned for future growth. In addition to its deal activity, management remains committed to free cash flow generation and returning capital to shareholders via dividends.

We also added positions in two of the largest homebuilders in the U.S., **D.R. Horton** and **Lennar Corporation**. We think the U.S. housing market will continue to experience healthy demand due to substantial supply shortages resulting from a lack of construction following the global financial crisis. Against this favorable backdrop, we believe both companies are well-positioned to capitalize on recent affordability issues driven by rising housing prices, with their entry level, single-family-focused business models.

We initiated a position in property investment and development company in the MENA region, **Emaar Properties PJSC**. We believe the company will continue to benefit from the post COVID recovery in Dubai's real estate market, which has been amplified by a large number of expatriates entering the country. Sales in the development, retail, hospitality and entertainment segments have all demonstrated growth. Across these segments, healthy domestic spending as well as a rebound in tourism are driving traffic, occupancy and rates. We expect Emaar Properties valuation discount to regional peers will narrow as it continues



to post strong financial results and generate exceptional cash flow.

We added **Infineon Technologies AG**, a leading player in power semiconductor and system solutions. In our view, Infineon is well-positioned to gain share from secular tailwinds in both auto and renewable markets. Near-term, the company is benefitting from the shift in battery electric vehicles towards plug-in hybrids given its distinctive manufacturing capabilities. Other notable growth opportunities include increased penetration of Infineon's Advanced Driver Assistance System, enhanced focus on energy efficiency and industrial power applications, and sustainable energy efforts in data centers. At current valuation levels, we do not believe the market fully appreciates Infineon's strong competitive position and growth prospects.

Lastly, we purchased **Vanguard Total World Stock ETF** as a cash alternative during the quarter.

By comparison, we successfully exited Brazil-based telecommunications company, **TIM SA** on valuation. We also sold one of the largest banks in Mexico, **Grupo Financiero Banorte S.A.B. de C.V.**, Finnish telecommunications and consumer electronics company, **Nokia Oyj**, provider of comprehensive security services, **Secom Company, Ltd.**, and multinational telecom company and **Vodafone Group PLC** to pursue more compelling opportunities.

As broad optimism continues to prevail, there are cautious undertones. Although market concentrations have their own peaks and troughs, volatility is near historical lows. The mega-cap technology names—whose rich valuations continue to propel broad market performance—appear vulnerable to a correction. Escalating geopolitical tensions, unpredictable monetary policy, as well as the outcome of elections in the U.S. and Europe also pose risks. As the bull market climbs the proverbial “wall of worry,” we expect these uncertainties will likely result in a period of heightened volatility and widening dispersion of returns, creating opportunities for active managers with focused expertise to shine. In our view, higher quality companies with sustainable, profitable growth and robust balance sheets will be the drivers of future outperformance. Accordingly, we continue to improve our upside capture across our international and global portfolios while remaining laser focused on preserving downside protection.

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 exchange-traded funds (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 in which the Fund invests may never be recognized by the broader market. The Fund is often concentrated in fewer sectors than its benchmarks, and its 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.

As of February 1, 2024, Ariel Global Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.36%. Currently, an expense ratio cap of 1.13% 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 6/30/2024, NetApp, Inc. constituted 3.2% of Ariel Global Fund; Taiwan Semiconductor Manufacturing Company, Ltd. 3.0%; KB Financial Group, Inc. 1.7%; Intel Corporation 2.0%; CVS Health Corporation 2.0%; Stellantis NV 1.7%; AXA SA 0.9%; Allstate Corporation 1.8%; BAWAG Group AG 1.1%; D.R. Horton, Inc. 1.2%; Emaar Properties PJSC 0.5%; Infineon Technologies AG 1.5%; Lennar Corporation 1.2%; Vanguard Total World Stock Index Fund ETF 0.4%; Grupo Financiero Banorte SAB de CV 0.0%; Nokia Oyj 0.0%; Secom Co Ltd 0.0%; TIM SA 0.0%; and Vodafone Group PLC 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 Global Fund.

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 ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. Its inception date is December 8, 1997. All MSCI



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