Ariel investments

| Performance (%) as of June 30, 2024 | QTR | YTD | 1-Year | 3-Year (Annualized) | 5-Year (Annualized) | 10-Year (Annualized) | Since Inception (Annualized) |
|---|---|---|---|---|---|---|---|
| **Ariel International Fund** | | | | | | | 12/30/2011 |
| **AINTX Investor Class** | **-2.20** | **3.23** | **6.14** | **-0.15** | **3.41** | **2.28** | **4.64** |
| **AINIX Institutional Class** | **-2.11** | **3.38** | **6.34** | **0.09** | **3.65** | **2.53** | **4.89** |
| MSCI EAFE Net Index | -0.42 | 5.34 | 11.54 | 2.89 | 6.46 | 4.33 | 6.92 |
| MSCI ACWI ex-US Net Index | 0.96 | 5.69 | 11.62 | 0.46 | 5.54 | 3.84 | 6.00 |
| Additional Indexes | | | | | | | |
| MSCI EAFE Value Net Index | 0.01 | 4.49 | 13.75 | 5.55 | 6.06 | 3.01 | 5.97 |
| MSCI ACWI ex-US Value Net Index | 1.26 | 4.71 | 13.45 | 3.55 | 5.29 | 2.76 | 5.18 |
| **Ariel Global Fund** | | | | | | | 12/30/2011 |
| **AGLOX Investor Class** | **-3.12** | **3.99** | **8.57** | **3.89** | **6.94** | **5.67** | **7.63** |
| **AGLYX Institutional Class** | **-3.06** | **4.09** | **8.79** | **4.14** | **7.20** | **5.93** | **7.90** |
| MSCI ACWI Net Index | 2.87 | 11.30 | 19.38 | 5.43 | 10.75 | 8.43 | 10.29 |
| Additional Indexes | | | | | | | |
| MSCI ACWI Value Net Index | -0.59 | 6.22 | 13.92 | 4.79 | 7.02 | 5.39 | 7.80 |

*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:** This quarter, the stock market rally continued, with an ever-shrinking group of massive tech companies powering the results. Meanwhile, stocks outside this exalted cohort dropped sharply when their earnings missed Wall Street's expectations. Even some AI darlings declined, and there is more pressure on management teams touting new product roadmaps to explain how generative AI will spur revenue growth.

The fading of the AI hype machine shows investors are starting to focus on the details. Without the 10 largest stocks, the technology sector underperformed the market by over 500 basis points. These tech giants are currently trading at a 49% premium to the market, well above the historic average premium of 26%[1]. We are true believers in the long-term positive impact of AI but expect its benefits to accrue gradually to a broader set of companies, in direct contrast to the current focus on more immediate upside for fewer winners.

[1] Bernstein Société Générale Group., "Technology Strategy: A powerful but narrow 1H rally for tech…what should investors do now?," published and accessed on July 8, 2024.

Ariel International Fund traded -2.20% lower in the period, trailing both its primary and secondary benchmark, the MSCI EAFE and MSCI ACWI ex-U.S. Indices, which returned -0.42% and +0.96% respectively. 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.

Although we are disappointed with this quarter's results, we are not discouraged. While we seek to insulate our portfolios in down markets, our potential upside has improved as a result of our intensified focus on companies with attractive valuations and solid business momentum.

## New Names Trail Before Gaining

It is not unusual for an investment idea to lag when initially added to a portfolio. Our recent enhancements have resulted in a higher percentage of new stocks being added than is typical. Several of these names pulled back in the second quarter after a strong start to the year. As long-term investors, we know to expect these periods and remain patient and confident in our stock selection.

Companies benefitting from the buildout of AI, such as **Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC)**, a Taiwanese foundry business that manufactures all the AI semiconductors, and **NetApp**, **Inc**. **(NTAP)**, a solutions provider enabling AI implementation, contributed positively to our returns during the quarter. We also added **Teradata Corporation (TDC)**, a U.S.-based software company that provides cloud database and analytics-related software for AI. **Intel Corporation (INTC)**, a newer name in our global portfolios, is another beneficiary. We initiated a position last year after shares fell to a level that we thought understated the near-term cyclical recovery of its application business and long-term improvement in the foundry business. The stock rallied sharply in the fourth quarter of 2023 but has retreated this year as the timing of the foundry recovery has been extended.

Within the automotive manufacturing sector, **Stellantis (STLA)** shares sagged due to overproduction during the second half of last year, which drove up U.S. inventory levels. We believe STLA's strong European footprint and its industry leading profitability, operational excellence and strategic foresight will continue to enhance long-term shareholder value. Meanwhile, German-based automotive manufacturing company **Daimler Truck Holding AG (DTG)** also declined in the period. Despite DTG's solid earnings, investor sentiment weakened following growing economic uncertainty in Europe. In our view, DTG is the highest quality original equipment truck manufacturer in the industry. We believe its efforts will result in higher margins throughout the cycle, improving profitability over the medium term and leading to a re-rating in shares.

In the healthcare sector, leading kidney dialysis provider **DaVita, Inc. (DVA)** posted gains. By contrast, the recently added **CVS Health Corporation (CVS)** suffered its biggest drop in 15 years as it missed expectations, delaying margin recovery on its Medicare Advantage (MA) business. In response, management underscored its focus on margins and enhancing its positioning in MA. CVS believes the program will remain an attractive business for Aetna and CVS Health over time and is constructing 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 an accelerated share buyback.

Our smaller U.S. mega-cap position relative to our benchmarks have cost us gains in the U.S. market, particularly with the absence of strong performers like Nvidia and Apple whose rich valuations elude us. However, our international holdings provide comparable geographic revenue exposure to the U.S.

## The Metabolic Trade—Value with a Catalyst

As Main Street embraces the latest "miracle drug" for weight loss, glucagon-like peptide-1 (GLP-1) medications have become the latest Wall Street fad. GLP-1 drugs have been used to treat diabetes since 2005, with the FDA granting the first license to treat obesity in 2014. They have been used by a small population for several years but now have become a sensation, as the newest generation of GLP-1 products (i.e. Ozempic and

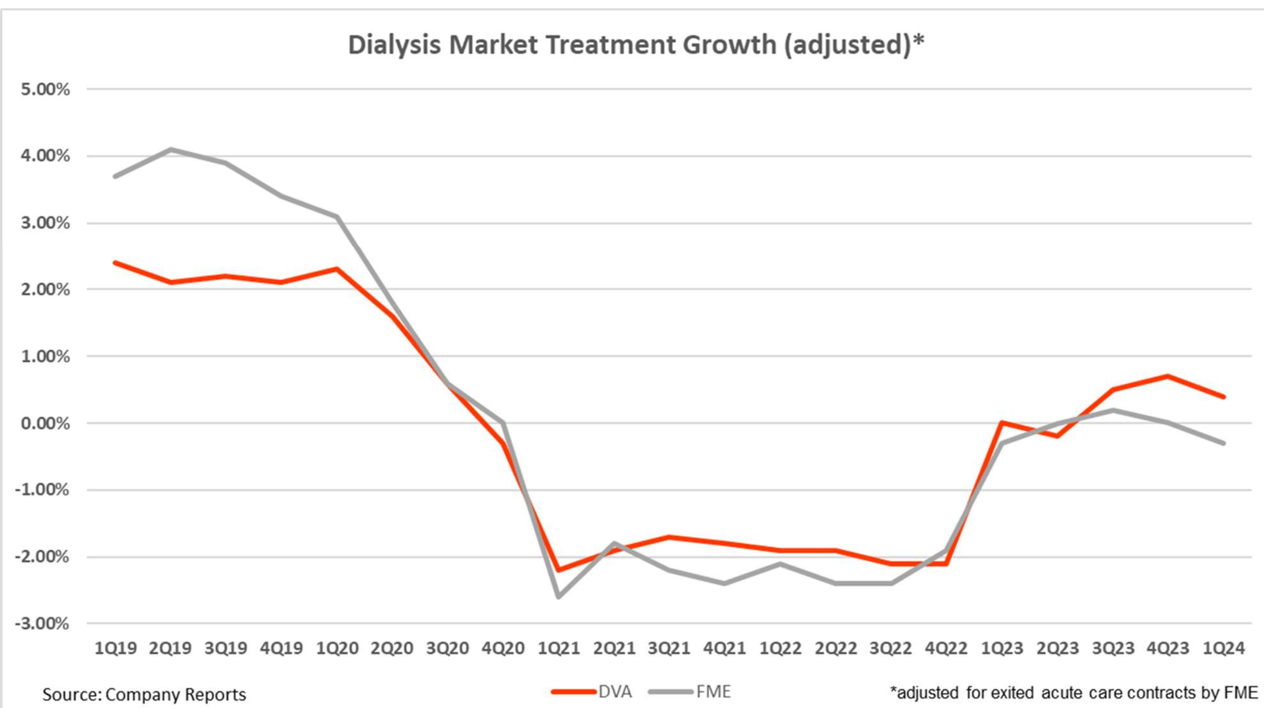
Mounjaro) can lead to 15-25% weight loss on average—well above prior versions. These astonishing results are propelling demand for obesity drugs.

There is good reason for this. The global obesity crisis remains a significant challenge, with more than 650 million people estimated to be living with the disease worldwide. Recent studies such as the Novo Nordisk August 2023 SELECT trial have changed the narrative. The findings revealed patients taking GLP-1s showed a 20% reduction in cardiovascular events compared to those receiving the placebo—demonstrating the "incretin effect" of these medications that makes you feel fuller and eat less.

These studies sent companies with approved weight-loss drugs soaring in the third quarter of 2023, while secondary effect stocks, such as companies in the MedTech industry, saw a pullback. We believe the market overreacted in some cases by hyping these new products as the silver bullet to end obesity. Access to GLP-1s for weight-loss treatment remains expensive, insurance coverage is limited and not everyone with obesity can or wants to take them. In the U.S., four in ten (42%) Americans are obese. Yet, Medicare does not cover weight loss and commercial insurance companies are not incentivized to treat obesity, meaning that for now employers must choose to opt in.

Investors have reacted differently when it comes to the impact of GLP-1s on kidney dialysis centers. Given that over 40% of new kidney disease is caused by diabetes, they worry dialysis use will decline. Even if there are high rates of both uptake and effectiveness for GLP-1s, we believe the overall impact on dialysis volume will be small in the near-to-medium term. Following an August 2023 study that demonstrated that GLP-1s can reduce chronic kidney disease, shares of two leading kidney dialysis companies—U.S. based **DaVita, Inc.** and Germany-based **Fresenius Medical Care AG**—fell over 25% from their highs. We purchased DaVita in October and re-purchased Fresenius in November 2023, based on our belief that the eventual impact of GLP-1s on chronic kidney disease will not be felt until the next decade.

DaVita has been a top contributor to our global performance this year as enrollment numbers rebounded. This quarter, we began to trim the name to increase our position in Fresenius, which has yet to show consistent positive volume growth post-Covid which may soon be reflected in its stock price. (See chart below.)



## Looking Ahead

The stock market's focus on short-term outcomes continues to over-rotate to the "here and now." This approach magnifies attractive valuations for long-term investors that embrace Actively Patient® investing.

History demonstrates that software and solution providers will eventually capture the lion's share of economic value when a technology advancement like AI occurs. The market is currently investing heavily in the front-end hardware backing these breakthroughs—as evidenced by the rise of trendy graphics processing units (GPUs) stocks like Nvidia. In the long term, however, we expect to see broader value captured by software companies. We believe the AI and AI-enabled companies in our portfolio are well positioned for this future.

More broadly, geopolitical and political uncertainties remain high. We continue to evaluate the potential drivers of economic and market fluctuations and focus on preparing for scenarios that could disrupt the current market narratives. Our emphasis remains on stocks that are reasonably priced with less earnings risk. We also believe companies with proven histories of stable revenues and earnings growth in varying economic environments will become increasingly important during any slowdown. The celebrity mega tech stocks may be vulnerable. When large-cap growth companies finally correct, we believe value stocks will shine.

Sincerely,

Henry Mallari-D'Auria, CFA®
Chief Investment Officer
Global and Emerging Markets Equities

**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.

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 Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and the Funds' 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.

Per the Ariel International Fund's Prospectus as of February 1, 2024, the gross expense ratio for the Investor Class and Institutional Class was 1.29% and 0.93%, and had an annual net expense ratio of 1.14% and 0.89%, respectively. Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel International Fund's total annual operating expenses to 1.13% and 0.88% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2025. The net expense ratio for the Investor Class and Institutional Class do 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.

Per the Ariel Global Fund's Prospectus as of February 1, 2024, the gross expense ratio for the Investor Class and Institutional Class was 1.36% and 0.97%, and had an annual net expense ratio of 1.14% and 0.89%, respectively. Ariel Investments, LLC, the Adviser, has contractually agreed to waive fees and reimburse expenses (the "Expense Cap") in order to limit Ariel International Fund's total annual operating expenses to 1.13% and 0.88% of net assets for the Investor Class and Institutional Class, respectively, through January 31, 2025. The net expense ratio for the Investor Class and Institutional Class do 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. 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, Ariel International Fund's position size, if any, in the above holdings was Fresenius Medical Care AG 4.34%; Stellantis NV 3.02%; Daimler Truck Holding AG 3.34%; Taiwan Semiconductor Manufacturing Co., Ltd. ADR 1.59%; NetApp, Inc. 0.00%; Teradata Corporation 0.00%; Intel Corporation 0.00%; DaVita, Inc. 0.00%; CVS Health Corporation 0.00%. As of 6/30/24, Ariel Global Fund's position size, if any, in the above holdings was Fresenius Medical Care AG 2.99%; Stellantis NV 1.73%; Daimler Truck Holding AG 1.99%; Taiwan Semiconductor Manufacturing Co., Ltd. 2.99%; NetApp, Inc. 3.16%; Teradata Corporation 1.39%; Intel Corporation 2.04%; DaVita, Inc. 2.41%; CVS Health Corporation 1.96%.

Each Fund's primary index is the first one listed below each respective Fund's performance data. Indexes are unmanaged. Investors 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 U.S. and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-U.S. Index is an index of large and mid-cap representation across 22 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI ex-U.S. Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 22 Developed and 24 Emerging Markets countries. Its inception date is December 8, 1997.

The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The inception date is May 31, 1990. The MSCI ACWI Growth Index captures large and mid cap securities exhibiting overall growth style characteristics across 23 Developed Markets (DM) countries and 25 Emerging Markets (EM) countries. Its inception date is December 8, 1997. 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 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 companies 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.

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