

# Ariel Focus Fund

Quarter Ended September 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](http://arielinvestments.com). For the period ended September 30, 2024 the average annual returns of Ariel Focus Fund (investor class) for the 1, 5, and 10 year periods were +27.54%, +9.33%, and +6.74%, respectively.

All major U.S. indices posted gains in the third quarter with the economy demonstrating resilience and forecasters anticipating a soft landing. With interest rate cuts underway, the Federal Reserve shifted its focus towards the health of the labor market. Meanwhile, value bested growth, small cap issues outperformed their large cap brethren and a broadening market rally trounced the powerful technology sector. Against this backdrop, Ariel Focus Fund advanced +10.61% in the quarter, ahead of both the Russell 1000 Value Index and the S&P 500 Index, which returned +9.43% and +5.89%, respectively.

Manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK)** advanced following solid earnings results and a subsequent increase in near-term guidance. Although sales volumes remain low and pricing headwinds continue, improved productivity and lower material costs drove margin expansion. Management also repurchased shares signaling increased confidence that the trough in earnings may be behind the company. In 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.

Global leader in enterprise software, **Oracle Corporation (ORCL)** also traded higher in the period. ORCL is benefitting from artificial intelligence (AI) demand as well as its ability to provide cloud-based infrastructure for data centers. Relatedly, the company announced a new multi-cloud database partnership with AWS, adding to its existing relationships with Microsoft and Google. These partnerships have fueled excellent growth and raised management's longer-term (full year 2029) revenue target to over \$104 billion, implying 16% annual growth. These results and outlook continue to support our view that ORCL's positioning as the leading provider of database software and cloud-based infrastructure is entrenched, making it a key beneficiary of global demand for generative AI development.

Additionally, leading global defense contractor **Lockheed Martin Corporation (LMT)** increased following a top- and bottom-line earnings beat and subsequent raise in full year guidance. The company also announced three significant F-35 contracts underscoring the growing tailwinds for sustainment efforts and continued engineering advancements as the fleet continues to expand. LMT continues to be well positioned in the defense sector.

In contrast, oil and natural gas explorer, **APA Corporation (APA)** was the greatest detractor from relative performance in the quarter amid weakness in energy prices driven by concerns of slowing global growth. Although the company delivered solid earnings, conservative production guidance due to curtailments in the Permian Basin and higher than expected North Sea maintenance weighed on shares. Also in the quarter, APA announced the successful sale of its non-core asset, the Central Basin Platform as well as raised synergy targets for the Callon Petroleum Company acquisition. APA remains laser-focused on increasing the operational efficiency of the Callon assets, free cash flow generation and returning capital to shareholders.

Oil services company, **Core Laboratories, Inc. (CLB)** also traded lower over the period. Although earnings results were in-line with Wall Street expectations, the volatile macro environment and softening expectations for U.S. onshore drilling and completion activity weighed on performance. Nonetheless, the company continues to project international growth from projects in the Middle East, Asia Pacific and West Africa and remains laser focused on generating positive free cash flow, reducing debt and improving its return on invested capital.

Lastly, producer and marketer of crop nutrients, **Mosaic Co. (MOS)**, fell in the period on weaker than expected potash and fertilizer pricing as well as a decline in phosphate sales volumes. Electrical equipment failures and weather-related headwinds due to Hurricane Helene also weighed on shares. Management expects pricing to improve as growers continue to be incentivized to maximize yields by applying fertilizers.



MOS is focused on cost discipline, free cash flow generation and paying down debt, while continuing to return significant capital to shareholders through buybacks. Given management's disciplined capital allocation, we continue to believe the company is well positioned.

We initiated a new position in manufacturer and developer of laboratory equipment and biological testing, **Bio-Rad Laboratories Inc. (BIO)**. The company offers a worldwide presence with the United States representing 42% of revenue, Europe 31%, Asia 21% and Other 6%. Its customer base is diversified with hospital labs representing 34% of revenue, reference labs 11%, transfusion labs 10%, academic/government 21%, biopharma 15%, and applied markets 9%. BIO boasts a solid financial profile, rising operating margins, high and recurring revenue streams. We believe Bio-Rad is a classic Ariel company, offering leading innovative products in a growing worldwide marketplace. The company estimates 80% of sales are from products in which Bio-Rad has dominant market share.

By comparison, we exited money transfer services, **Western Union Company (WU)** to pursue more compelling opportunities.

We believe the U.S. economy looks healthy and expect the underlying strength of corporate profits will prove resilient. Consensus earnings growth estimates across a variety of sectors suggest a sustainable rally could potentially be on the way. Although interest rates will likely settle at a higher structural level compared to the past decade, monetary and fiscal tailwinds should support the broadening of the market beyond the Magnificent Seven. As the performance gap between mega-cap stocks and their small to mid-cap counterparts narrows, we expect our portfolios to be rewarded. We believe the patient investor who stays the course and consistently owns differentiated businesses with solid competitive positioning and robust balance sheets will reap 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 9/30/24, Mohawk Industries, Inc. constituted 6.7% of Ariel Focus Fund; Oracle Corporation 6.6%; Lockheed Martin Corporation 5.5%; APA Corporation 4.2%; Core Laboratories Inc. 3.1%; Mosaic Company 2.7%; Bio-Rad Laboratories Inc. 1.3% and Western Union Company 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](http://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](http://arielinvestments.com). Please read the prospectus or summary prospectus carefully before investing. Distributed by Ariel*



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