

Ariel Focused Value

Quarter Ended September 30, 2024

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, the Ariel Focused Value Composite advanced +10.46% gross of fees (+10.31% net of fees) 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, shares of **Chevron Corporation (CVX)** declined in the quarter. Despite weaker than expected international earnings, volumes in the Permian Basin remain robust as the implementation of triple-fracs drove strong operational efficiencies as well as an increase in full year growth targets. Although CVX's organic growth story remains intact, uncertainty surrounding the Hess deal has become a strategic overhang on shares. Although CVX hoped to close the deal before year-end, approval for the Hess acquisition has been pushed to late 2025. At current valuation levels, we believe the risk/reward is priced in.

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 market volatility. A focused portfolio may be subject to greater volatility than a diversified portfolio. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. The portfolio is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

Past performance does not guarantee future results. For the period ended 9/30/24, the performance (net of fees) for the Ariel Focused Value Composite for the 1-, 5-, and 10-year periods was +27.00%, +9.23%, and +6.93%, respectively. For the period ended 9/30/24 the performance for the Russell 1000 Value Index and the S&P 500 Index for the 1-, 5-, and 10-year periods was +27.76%, +10.69%, and +9.23%, and +36.35%, +15.97%, and +13.38%, respectively. Ariel Composite Net of Fees returns are calculated by deducting: (1) for the period from inception to August 31, 2024, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from September 1, 2024 onwards, the actual monthly advisory fee (on an asset-weighted basis) accrued for the accounts in the composite, using the fee rates in place as of the most recent calendar quarter-end. Gross returns do not reflect the deduction of advisory fees. Client returns will be reduced by advisory fees and such other expenses as may be incurred in the management of the account. Advisory fees are described in Part 2 of Ariel's Form ADV. Returns assume the reinvestment of dividends and other earnings. 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 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 6.4% of the Ariel Focused Value Composite (representative portfolio); Oracle Corporation 6.6%; Lockheed Martin Corporation 5.2%; APA Corporation 4.1%; Core Laboratories Inc. 2.8%; Chevron Corporation 4.0%; Bio-Rad Laboratories Inc. 1.2%; 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 the Ariel Focused Value Composite.

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.



Ariel Investments

200 E. Randolph St., Suite 2900
Chicago, IL 60601

312.726.0140

- arielinvestments.com
- [linkedin.com/company/ariel-investments](https://www.linkedin.com/company/ariel-investments)
- [instagram.com/arielinvestments](https://www.instagram.com/arielinvestments)
- twitter.com/arielinvests

