

Ariel International 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 International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended September 30, 2024 the average annual total returns of Ariel International Fund (Investor Class) for the 1-, 5, and 10-year periods were +19.60%, +4.83%, and +3.71%, respectively.

Markets worldwide posted gains in the third quarter, although there was a lot of volatility. The “yen carry trade” selloff in Japan and the “deflationary spiral” looming over China logged significant declines followed by a sharp rebound. Meanwhile, market leadership broadened beyond the mega-cap tech stocks and there was a notable shift towards value at the expense of growth with investors rotating into a variety of sectors. The Federal Reserve and European Central Bank’s initiation of a rate-cutting cycle as well as aggressive economic stimulus announcements in China also contributed to improving market sentiment. Against this backdrop, Ariel International Fund advanced +7.56% in the quarter, ahead of the +7.26% return of its primary benchmark, the MSCI EAFE Index, but lagging the +8.06% gain of its secondary benchmark, the MSCI ACWI ex-US index.

Ariel’s non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel International Fund is overweight Consumer Discretionary, Utilities, Information Technology and Financials. The portfolio is meaningfully underweight Industrials, Consumer Staples, Energy, Communication Services and Real Estate as well as lacks exposure to Materials. At the sector level, stock selection within Health Care and Information Technology were the largest sources of positive attribution. By comparison, our Consumer Discretionary and Industrial holdings were the greatest performance detractors during the quarter.

China-based E-commerce company, **JD.com, Inc.** was the top contributor in the quarter as the People’s Bank of China’s (PBOC) comprehensive stimulus measures bolstered investor confidence in the Chinese economy. The improving economic sentiment is fueling consumer spending which benefits the company’s retail operations. Additionally, the company’s strategic decision to diversify general merchandise product offerings, expand its third-party marketplace business and monetize advertising streams has contributed to consecutive quarterly earnings beats. JD.com is also poised to capitalize on the home appliance trade-in program, which is one of its

largest product categories. Given the favorable market environment, the company’s strategic positioning and supply chain efficiency improvements, we continue to like its long-term growth prospects.

Israeli based provider of products for information technology security, **Check Point Software Technologies Ltd.** also advanced following solid quarterly earnings results. Double-digit billings growth was particularly strong across geographies. Consumers appear to be adopting more pillars of Check Point’s platform and engaging in larger strategic commitments with Infinity and Quantum Force. The company also announced the appointment of new CEO Nadav Zafrir, whose reputation is well established in the cyber community. Meanwhile, Check Point continues to be an astute steward of capital, pursuing organic growth and utilizing surplus cash to return capital to shareholders. We continue to favor the company’s exposure to the fast-growing cloud security market and its industry leading profitability.

French pharmaceutical company, **Sanofi** was another contributor over the quarter as momentum for Dupixent, a dermatitis treatment, drove earnings. Additionally, positive clinical trials for myeloma drug, Sarclisa and a Phase 3 Multiple Sclerosis asset also boosted shares. At current levels, we view Sanofi’s vaccines business as underappreciated and think the immunology pipeline is being overlooked. Also, we continue to be optimistic Dupixent will be a key growth driver.

Alternatively, Japanese auto manufacturer, **Subaru Corporation** underperformed over the period. Investors have become increasingly concerned with recent foreign exchange fluctuations alongside a weakening macro environment. Earnings results also came in lower than expected as the company reported a rise in incentives. Notably, management maintained full-year guidance as U.S. retail sales trends remain positive, and the company expects to make up for recent shipment delays in the coming quarter. Looking ahead, we remain focused on Subaru’s solid business fundamentals



and view its electric vehicle roadmap as a long-term opportunity to increase market share.

Shares of multinational automotive manufacturing company, **Stellantis N.V. (STLA)** also declined following a significant earnings miss. The company attributed the performance to lower sales, production disruptions from a product overhaul and weak performance in North America. Muted demand for electric vehicles in Europe also weighed on performance. In response, STLA is implementing operational improvement initiatives to bring down U.S. inventory levels through production cuts, consumer incentives and gradual price adjustments. Despite these results, management maintained its previous buyback and dividend commitments. 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 commitment to industry leading profitability, operational excellence, and strategic foresight will continue to enhance long-term shareholder value.

Lastly, Korean-based mobile phones and smartphones manufacturer, **Samsung Electronics Company, Ltd.** traded lower during the quarter. Investors are concerned about weakness in conventional memory demand, particularly within the personal computer and smartphone market. However, we continue to see a sustained upcycle in the server market for high-bandwidth memory (HBM) in support of artificial intelligence (AI) infrastructure. Stronger memory pricing should drive further revenue growth and operating profit expansion in the year ahead. We also like Samsung's diversified business model and see additional upside should the company gain share in both the display market and foundry business.

We initiated two new positions in the quarter.

We added marketing communication company, **Publicis Groupe SA**. We believe the company is poised to deliver solid revenue and operating profit growth over the next few years. We also expect the company's unified digital platform and unique technology offerings to present a compelling opportunity to provide more effective advertising experiences at scale through advanced identity, demographic, behavioral and transactional data analysis.

We also purchased **Tesco plc**, a leading food retailer and wholesaler based in the United Kingdom. Following years of intense disruption from discount retailers, the competitive dynamic in the market has stabilized, creating a favorable backdrop. Tesco is gaining market share through an improved pricing and value proposition. We think the company has the ability to better operating margins, while continuing to benefit from alternative revenue streams such as Marketplace and Retail Media.

By comparison, we also sold out of **Vanguard FTSE Developed Markets ETF** to deploy the cash into more compelling opportunities.

As broad optimism continues to prevail, geopolitical uncertainties remain elevated. We continually assess potential economic and market drivers in preparation of scenarios that may challenge current market narratives. Many investors appear to be signaling AI fatigue, with a rotation underway towards stocks across a variety of other sectors. In our view, growth stocks are trading at elevated valuations, whereas value stocks remain cheap. We strongly believe reasonably priced, higher quality companies offering sustainable, profitable growth and robust balance sheets will be the drivers of future outperformance. Meanwhile, 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.

Per the Fund's Prospectus as of February 1, 2024, Ariel International Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.29%. 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 9/30/2024, JD.com, Inc. constituted 2.3% of Ariel International Fund; Check Point Software Technologies, Ltd. 5.8%; Sanofi 5.5%; Subaru Corporation 3.0%; Stellantis N.V. 2.0%; Samsung Electronics Co., Ltd. 1.3%; Publicis Groupe SA 1.5%; Tesco PLC 3.2%; and Vanguard FTSE Developed Markets ETF 0.0%.

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 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 US and Canada. Its inception date is December 8, 1997. The MSCI ACWI (All Country World Index) ex-US 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-US 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. 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 company's 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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