Ariel investments

Quarterly Commentary

Ariel Mid Cap 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 Mid Cap Value Composite increased +10.01% gross of fees (+9.78% net of fees) in-line with the Russell Midcap Value Index's +10.08% gain in the quarter, but ahead of the +9.21% return of the Russell Midcap Index.

Several stocks in the portfolio had solid returns in the quarter. Shares of **Stanley Black & Decker (SWK)** outperformed following robust quarterly earnings results as well as a subsequent increase in full year guidance. The Tools and Outdoor segment posted positive organic revenue growth for the first time since late 2021. Meanwhile, SWK's transformation initiatives remain on track. The company delivered margin expansion by realizing savings from sourcing initiatives, productivity improvements and cost efficiencies. Though the macroeconomic backdrop remains challenging, management is cautiously optimistic lower interest rates will drive a recovery in consumer demand. We have conviction in SWK's experienced executive management team and think the balance sheet is well positioned to weather the storm.

Financial advisory and asset manager, **Lazard, Inc. (LAZ)** also increased in the period following solid top- and bottom-line results. This performance was driven by momentum in the advisory business and improving macro conditions. While the asset management segment continues to experience headwinds, company leadership believes rate cuts should increase demand for more risk-oriented active core strategies and specialty offerings. Notably, LAZ's long-term growth trajectory remains intact as it aims to increase firm-wide revenue two-fold through double-digit annual revenue growth by 2030. At current levels, we believe LAZ trades at a healthy discount to our private market value estimate.

Additionally, real estate services company, **CBRE Group Inc. (CBRE)** advanced in the period on a top- and bottom-line earnings beat and subsequent raise in full year guidance. The more stable interest rate backdrop led to improved results across the transactional Advisory Services segment, while the Global Workplace Solutions business continued to thrive, particularly within property management, following the onboarding of Brookfield's U.S. office portfolio. Meanwhile, CBRE is deploying free cash flow towards acquisitions to drive long-term growth.

Alternatively, drilling and production equipment provider, **NOV Inc. (NOV)** weighed on returns over the period despite the company's solid business fundamentals. NOV delivered a top- and bottom-line earnings beat, highlighted by rising demand in offshore and international markets, strong backlog order conversion, effective cost controls and robust free cash flow generation. Although a softening oil outlook in North America drove management to modestly lower full year guidance, the company continues to return capital to shareholders through a recent 50% dividend hike and $1 billion share repurchase authorization. As NOV right-sizes its onshore business and grows a more efficient offshore business, we believe the market will recognize the long-term value and re-rate the shares.

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, financial services provider, **Charles Schwab Corporation (SCHW)** fell during the quarter as investors became focused on the ongoing decline in transactional cash balances and its earnings impact. The lower rate environment and retirement announcements across the executive leadership team further weighed on shares. Interestingly, SCHW indicated plans to increase the usage of third-party banks over time, while prioritizing its balance sheet for customer lending activities. This would provide clients with extended FDIC insurance, while improving bank liquidity and lowering capital intensity. We believe the company should be able to flex its scale and customer-centric focus to improve the organic growth profile, regrow deposits and generate durable earnings across market cycles. We also think the TD Ameritrade acquisition will create incremental value by enhancing SCHW's industry standing and long-term growth.

SLOW AND STEADY WINS THE RACE

We did not initiate any new positions in the quarter. However, we sold our shares of waste management services provider **Stericycle, Inc. (SRCL)** on the news of its acquisition.

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 mid-cap companies is more risky and volatile than investing in large cap companies. 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. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. For the period ended 9/30/24 the performance (net of fees) for the Ariel Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +18.21%, +8.80%, and +7.05%, respectively. For the period ended 9/30/24 the performance for the Russell Midcap Value Index and the Russell Midcap Index for the 1-, 5-, and 10-year periods was +29.01%, +10.33%, and +8.93%, and +29.33%, +11.29%, and +10.19%, 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 Mid Cap Value Composite differs from its primary benchmark in that it has fewer holdings and more concentration in fewer sectors.

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, Stanley Black & Decker, Inc. constituted 3.1% of the Ariel Mid Cap Value Composite (representative portfolio); Lazard Inc. 3.0%; CBRE Group, Inc. 2.5%; NOV Inc. 2.1%; Core Laboratories Inc. 2.6%; Charles Schwab Corporation 2.3%; and Stericycle Inc. 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 Mid Cap 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 Midcap® Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is February 1, 1995. The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is November 1, 1991. 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.

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