

Ariel Investments

Performance (%) as of September 30, 2024			Annualized				
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Emerging Markets Value							04/30/2023
Gross of Fees	9.24	21.90	28.24	-	-	-	23.57
Net of Fees	8.99	21.04	27.03	-	-	-	22.41
MSCI EM Net Index	8.72	16.86	26.05	-	-	-	16.92
Additional Indexes							
MSCI EM Value Net Index	8.12	15.11	24.38	-	-	-	17.67
Ariel Emerging Markets Value ex-China							05/31/2023
Gross of Fees	0.99	14.12	25.74	-	-	-	24.97
Net of Fees	0.72	13.23	24.44	-	-	-	23.68
MSCI EM ex-China Net Index	3.96	12.71	27.40	-	-	-	20.11

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: For the third quarter ended September 30, 2024, the MSCI EM Index rose +8.72% and the MSCI EM ex-China Index returned +3.96%, boosted by strong returns in China and Southeast Asia. The Ariel Emerging Markets Value Composite advanced +9.24% gross of fees (+8.99% net of fees), while the Ariel Emerging Markets Value ex-China Composite gained +0.99% gross fees (+0.72% net of fees).

Chinese equities rose sharply towards quarter end, as authorities began to disclose plans for more meaningful measures to stabilize the real estate sector and stimulate the economy. Several ASEAN (Association of Southeast Asian Nations) markets experienced strong returns as investors warmed to their economic growth prospects amidst declining interest rates in their domestic economies as well as the U.S. By contrast, South Korea and Taiwan underperformed in response to tech sector profit-taking after a big run, along with questions over the persistence of Artificial Intelligence spending.

We believe attractive investment opportunities remain abundant across Emerging Markets. Absolute and relative valuations are compelling compared to developed markets, despite strong earnings growth potential. Recent outperformance in China is encouraging and valuations remain cheap. With many EM companies increasing shareholder payouts via dividends and/or buybacks, we expect improving prospects and capital discipline to result in higher stock prices.

Korean Financials: Overlooked Bargains with Rising Shareholder Returns

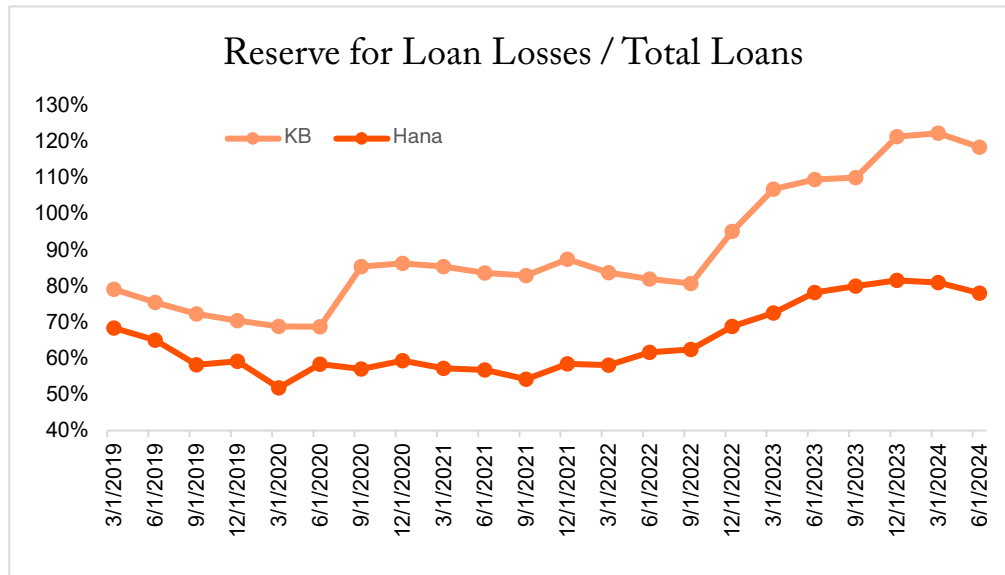
South Korea's stock market tends to capture investor and media attention mostly for its high-profile technology companies in the semiconductor and electric vehicle (EV) battery industries, among others. Even amidst these exciting investment prospects, we have been particularly attracted to off-the-beaten-path opportunities in the banking sector, where deep value and burgeoning changes in corporate behavior are at hand.

We established large positions in leading Korean banks, **KB Financial Group, Inc.** and **Hana Financial Group, Inc.**, in 2023. As investors worried about earnings sustainability as well as the return of capital to shareholders, both firms traded at an anemic 0.3x book value. Historically, the Korean government and banking regulator have been reluctant to allow banks to distribute more cash. In addition, a potential deterioration in credit from a weakening real estate cycle as well as high consumer debt weighed on shares.

Given the high loan-to-value ratios on their mortgage books, Korean banks appeared insulated from a real estate downturn. The banks also rebuilt provision levels, significantly improving their coverage ratios for nonperforming loans (NPLs). Further, capitalization ratios, measured via common tier-1 equity ratios (CET1) sat at near decade-highs, while return-on-equity (ROE) levels were approaching the cost of equity.

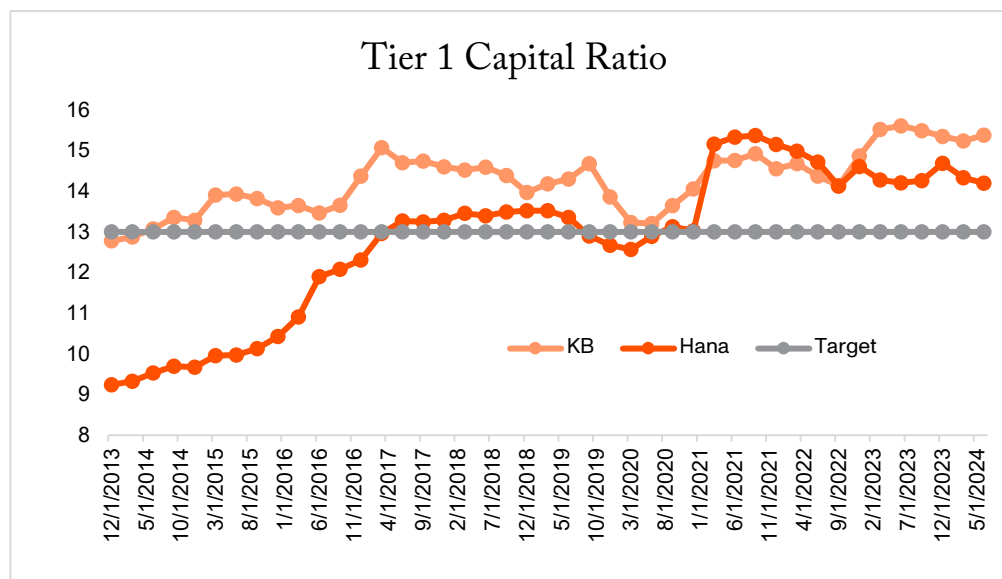
In an environment of modest asset growth, opportunities for domestic consolidation were limited. Meanwhile international expansion was constrained. As a result, Korean banks had few alternatives but to return capital to shareholders via dividends and buybacks. Our active engagement with bank management teams and regulators, suggested all parties were open to gradual increases in returns of capital. Given their deep discounts to fair value, combined with prospects for rising return of capital to shareholders, our confidence in holding large positions in Korean banks grew.

Chart 1



Source: Bloomberg

Chart 2



Source: Bloomberg

The Power of Alignment

Korean bank shares started to recover in early 2024, during a rapid-fire sequence of events which caused a widespread re-appraisal and re-valuation. The Korean government’s announcement of its Corporate Value-Up Program was a catalyst to improving bank prospects. This reform package was designed to address the longstanding “Korea discount” in the local stock market by aligning the interests of corporations, regulators and shareholders with better corporate governance, transparency and shareholder value. The Korean Financial Services Commission (FSC), which regulates the banking sector, played a pivotal role in supporting these efforts providing guidelines and incentives to ensure companies acted in the best interest of its shareholders. While the ultimate outcomes and success of the Value-Up Program remain uncertain, thus far, government authorities and regulators have made it clear that they are aligned in prioritizing and enhancing shareholder returns.

In January, Hana surprised the market with a larger-than-expected share buyback announcement. In April, KB disclosed updated plans for driving shareholder returns, followed by its own strong share buyback declaration in July. Both banks are now returning approximately 40% of capital to shareholders through a combination of dividends and buybacks—well above historical levels that fell below 30%. This ratio should continue to rise in the coming years.

The market’s reaction was swift and a clear testament of the power of alignment. Year-to-date, KB Financial’s shares have surged +53% (in USD) while Hana’s share price leaped +40% as the MSCI Emerging Markets Index rose nearly +17%.

Looking Ahead

Against the backdrop of such a strong rally, we chose to trim our positions in Korean banks. This change reflects our updated view of the implied risk/reward from here. Those proceeds have been re-deployed to take advantage of attractive opportunities elsewhere—most notably China, where another large value gap is at hand. And yet, Korean banks continue to represent a significant weighting in the portfolio because meaningful upside still exists. With payouts on the rise and valuations yet to fully reflect the new scenario, we remain enthusiastic about the prospects for these securities.

While banks may not get the public attention afforded to Korea's tech darlings, nothing excites us more than a combination of valuation discounts, catalysts and alignment.

Sincerely,



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

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, exchange-traded funds (ETFs), and other hedges 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 portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their 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. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. 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 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 expressed views will come to fruition or any investment will perform as described.

As of 9/30/24, the Ariel Emerging Markets Value (representative portfolio) held the following positions referenced: KB Financial Group, Inc. 3.29%; and Hana Financial Group, Inc. 2.77%. As of 9/30/24, the Ariel Emerging Markets Value ex-China (representative portfolio) held the following positions referenced: KB Financial Group, Inc. 3.53%; and Hana Financial Group, Inc. 3.12%.

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 Composites. Portfolio holdings mentioned do not represent all holdings purchased or sold for the Composites.

Investors cannot invest directly in an index. The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,377 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Inception of this benchmark was January 1, 2001.

The MSCI Ariel Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 24 Emerging Markets (EM) countries. The value investment style characteristics

for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Inception of this benchmark was December 8, 1997. MSCI Emerging Markets ex-China Index captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. Its inception date is March 9, 2017.

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.

