Ariel investments

THE PATIENT INVESTOR

SEPTEMBER 30, 2024

SLOW AND STEADY
WINS THE RACE

Table of Contents

Shareholder Letters

Ariel Fund and Ariel Appreciation Fund 3

Ariel Focus Fund 8

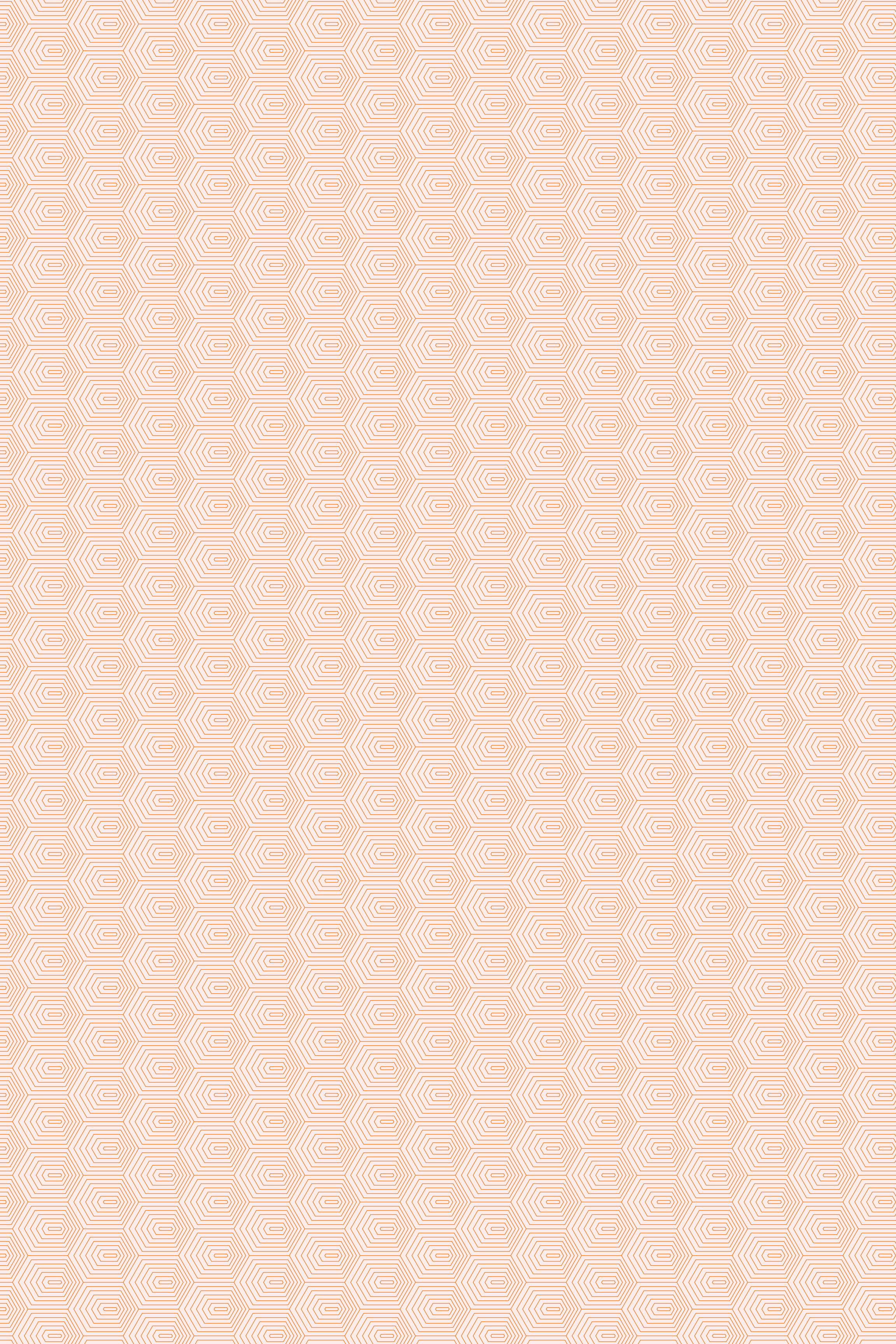
Ariel International Fund and Ariel Global Fund 13

Company Spotlights 18

Our Portfolio Managers 26

Important Disclosures 27

Information about the Funds' Indexes 28



Ariel Fund
Ariel Appreciation Fund

As of September 30, 2024

John W. Rogers, Jr.
Chairman and Co-CEO

Mellody Hobson
Co-CEO and President

Average Annual Total Returns (%)

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Ariel Fund Investor Class	12.08	12.53	27.63	3.09	10.54	8.57	10.79
Ariel Fund Institutional Class	12.15	12.79	28.01	3.41	10.89	8.91	10.91
Russell 2500 Value Index	9.63	11.28	26.59	6.06	9.98	8.47	10.69
Russell 2500 Index	8.75	11.30	26.17	3.47	10.42	9.49	10.51
S&P 500 Index	5.89	22.08	36.35	11.91	15.97	13.38	11.08

* The inception date for Ariel Fund is 11/06/86.

Average Annual Total Returns (%)

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Ariel Appreciation Fund Investor Class	9.90	6.87	18.31	3.49	8.66	6.95	9.97
Ariel Appreciation Fund Institutional Class	9.97	7.11	18.64	3.81	8.99	7.28	10.09
Russell Midcap Value Index	10.08	15.08	29.01	7.39	10.33	8.93	11.00
Russell Midcap Index	9.21	14.63	29.33	5.75	11.29	10.19	11.17
S&P 500 Index	5.89	22.08	36.35	11.91	15.97	13.38	10.61

* The inception date for Ariel Appreciation Fund is 12/01/89.

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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Performance data current to the most recent month-end for Ariel Fund and Ariel Appreciation Fund may be obtained by visiting our website, www.arielinvestments.com.

Dear Clients and Friends:

All major U.S. indices posted gains in the third quarter with the economy demonstrating resilience and forecasters increasingly convinced of a soft landing. With inflation under control and the Fed's interest rate cuts underway, the market remained buoyant. In a leadership reversal, value stocks beat growth shares, small companies outperformed the big guys and Technology sector dominance was dethroned by a broadening rally. Against this shifting backdrop, Ariel Fund beat its benchmarks. Meanwhile, Ariel Appreciation Fund lagged its value index while edging ahead of the core.

More is Less

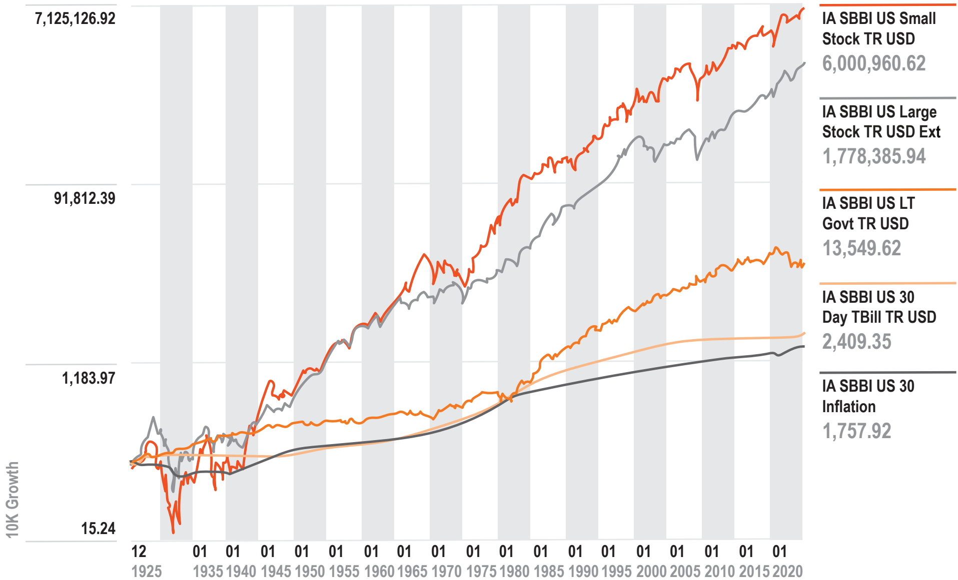
The staggering differential between the returns of large and small companies (as well as their respective growth and value counterparts) has resulted in growing speculation about the future of small cap investing. As natural contrarians, nothing gets us more excited than the "this time is different" crowd re-emerging to ponder the potential demise of a leading asset class that has stood the test of time. We believe the negative sentiment engulfing increasingly orphaned small and mid-cap stocks presents a rare opportunity for long-term investors.

From 1926 through 2010, small cap stocks solidly outperformed large company shares. This result is both logical and unsurprising. For one, math anchored to a smaller base is more significant. To this point, expanding from one location to two represents 50% growth—whereas multiplying from ten to eleven stores represents 10% growth. As companies get bigger, it is harder to grow because incremental progress on a large scale becomes less and less powerful. Meanwhile, sustained advancements on a large scale can be statistically compelling (i.e. Apple) but hard to come by.

As we all know, markets are also efficient. This means the more misunderstood, ignored and underfollowed a name, the more likely its shares can be mispriced. Since smaller companies often fly under Wall Street's radar and big issues generally receive a great deal of investor attention, the probability of finding an undervalued opportunity is higher at the smaller end of the market. This is increasingly true in today's environment where buy side neglect and dwindling analyst coverage of small and mid-cap companies is more pronounced than we have ever seen.

A closer look shows small and large cap leadership has ebbed and flowed since the stock market's modern-day beginnings. But when compounded returns are considered, small cap shares have outperformed all other public equities for over 80 years as depicted on the following page.

Stock Market Performance Since 1926



Source: Morningstar Direct

Sure, there have been periods as recent as the end of the last century when large cap stocks dominated, but nothing compares to the current era that started in 2010 and represents the longest period of small cap underperformance on record. The magnitude and duration of the return disparities are shown on below.

Performance (%) as of 9/30/2024			Annualized			
	YTD	1-Year	3-Year	5-Year	10-Year	Since 2011
Large Cap Growth	+24.55	+42.19	+12.02	+19.74	+16.52	+16.18
Small/Mid Cap Value	+11.28	+26.59	+6.06	+9.98	+8.47	+9.53
Small Cap Value	+9.22	+25.88	+3.77	+9.28	+8.22	+8.71
Small/Mid Cap Value vs Large Cap Growth	*(13.27)*	*(15.60)*	*(5.96)*	*(9.76)*	*(8.05)*	*(6.65)*
Small Value vs Large Cap Growth	*(15.33)*	*(16.31)*	*(8.25)*	*(10.46)*	*(8.30)*	*(7.47)*

Note: Reflects the Russell 1000 Growth, Russell 2500 Value, and Russell 2000 Value Index

Small Time

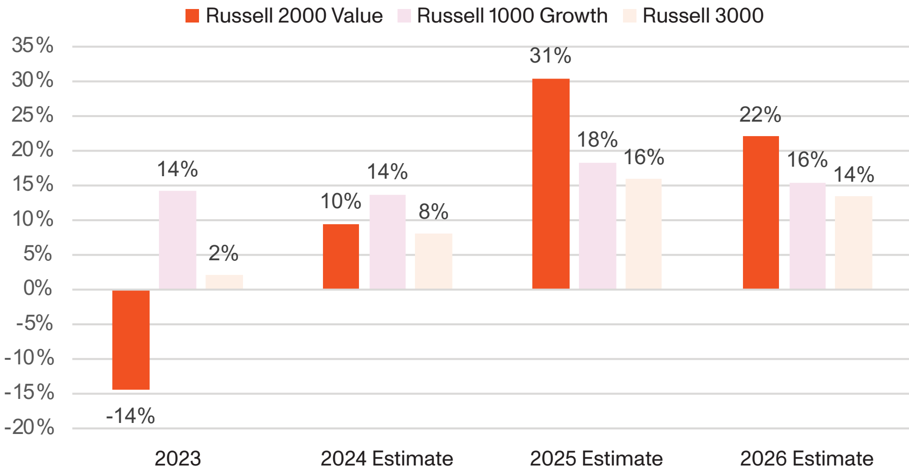
As the big have gotten bigger, market cap weighted indexes have become excessively concentrated in a few names. As a result, the largest 10% of publicly traded companies represent nearly 82% of the total value of the U.S. stock market[1], the narrowest breadth since the

[1] Analysis is based on the ending weight of the largest 10% of the 2,987 names composing the Russell 3000 Index as of September 30, 2024.

Great Depression[2]. Money pouring into passive index funds and momentum trading exacerbate inefficiencies, creating opportunities for contrarian, fundamental investors like Ariel.

Admittedly it is early days, but the leadership baton may have been passed in the third quarter as market performance broadened beyond the mega-cap tech darlings of the day. Not only did small caps outperform, but there was also a notable shift towards value. With large cap valuations near historic highs, we see a compelling opportunity to invest in a market cohort offering greater return potential for years to come. To this point, large cap growth stocks currently trade at 28.5x earnings compared to a 20-year historical average of 19.2x[3]. Meanwhile, earnings growth for the Russell 2000 Value Index is expected to outpace that of the Russell 1000 Growth Index as well as the Russell 3000 Index over the next two years. This dynamic could ignite a reversal of fortune between market leaders and laggards.

Estimated Earnings Growth as of 9/30/2024



Source: FactSet. Represents the estimated consensus one-year earnings per share expected growth

A growing U.S. economy, moderating inflation, modest unemployment and falling interest rates also increase our optimism. Small cap stocks typically benefit from lower borrowing costs and the associated economic growth monetary easing can generate. Furthermore, subdued valuations, strong balance sheets and a hopefully less onerous regulatory environment could set the stage for an acceleration in M&A activity as companies look to boost growth. Additionally, private equity dry powder and their need for portfolio exits could also heighten interest in small and mid-sized companies as the valuation gap between private and public markets eventually narrows.

We have been navigating smaller company markets for nearly 42 years. Today, there is a wide dispersion in the quality of small cap companies with some carrying high levels of

[2] Benjamin R. Nastou, CFA, Derek W. Beane, CFA and Johnathan Perlman. "The Other Side of Market Concentration Peaks." MFS. July 2024.
[3] Source: FactSet Market Aggregates

debt and/or failing to generate earnings. Contrasting fundamentals could increase volatility, presenting skilled stock pickers with ample opportunity to drive returns. And inevitably, the hefty growth and profitability of the large cap market darlings will moderate. Whether or not a sustainable shift is in fact underway, investing in high quality, differentiated businesses with durable competitive advantages, strong balance sheets and high returns on equity has historically generated strong long-term returns with less volatility.

> "Contrasting fundamentals could increase volatility, presenting skilled stock pickers with ample opportunity to drive returns."

The cycles of smaller company versus large company sentiment have always come and gone. Periods of extreme dislocation and large cap dominance, while painful, have historically been followed by strong reversals and longer periods of smaller company outperformance. As inefficiencies build and returns are captured, capital will eventually return to the asset class. We believe the strong underlying fundamentals of our portfolios are hard to ignore and bode well for years to come.

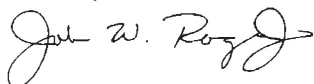
Portfolio Comings and Goings

During the third quarter, we purchased two positions in Ariel Fund: **Bio-Rad Laboratories Inc. (BIO)**, manufacturer and developer of laboratory equipment and biological testing, and former holding **The Middleby Corporation (MIDD)**, which is a leading food equipment manufacturer. Bio-Rad boasts a solid financial profile, rising operating margins as well as high and recurring revenue streams. It is a classic Ariel stock, offering leading innovative products in a growing global marketplace. Longer term, MIDD's differentiated brands and focus on innovation should enable the company to benefit from secular demand for more automation and efficiency in the food service industry. Meanwhile, we sold waste management services provider **Stericycle, Inc. (SRCL)** on the news of its acquisition.

We did not purchase any new holdings in Ariel Appreciation Fund during the period. However, we sold waste management services provider Stericycle, Inc. on the news of its acquisition. We also exited retail drugstore operator, **Walgreens Boots Alliance, Inc. (WBA)** to harvest losses for tax purposes.

As always, we appreciate the opportunity to serve you and welcome any questions or comments you might have.

Sincerely,



John W. Rogers, Jr.
Chairman and Co-CEO

Mellody Hobson
Co-CEO and President

Ariel Focus Fund

As of September 30, 2024

Charles K. Bobrinskoy
Vice Chairman

Average Annual Total Returns (%)

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Ariel Focus Fund Investor Class	10.61	14.84	27.54	5.38	9.33	6.74	6.43
Ariel Focus Fund Institutional Class	10.64	15.02	27.93	5.64	9.60	7.00	6.60
Russell 1000 Value Index	9.43	16.68	27.76	9.02	10.69	9.23	8.22
S&P 500 Index	5.89	22.08	36.35	11.91	15.97	13.38	10.69

* The inception date for Ariel Focus Fund is 06/30/05.

Dear Clients and Friends:

In the third quarter, Ariel Focus Fund outperformed its primary benchmark as well as the broad market returning +10.61% compared to +9.43% for the Russell 1000 Value Index and +5.89% for the S&P 500 Index. During a quarter when value stocks performed well, three of our largest positions moved significantly higher: **Mohawk Industries, Inc. (MHK), Oracle Corporation (ORCL)** and **Lockheed Martin Corporation (LMT)**. Our portfolio was also negatively impacted by our Energy and Basic Materials holdings. **APA Corporation (APA), Core Laboratories, Inc. (CLB)** and **Mosaic Company (MOS) all declined**.

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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Performance data current to the most recent month-end for Ariel Focus Fund may be obtained by visiting our website, www.arielinvestments.com.

Although value stocks outperformed growth in the quarter, large capitalization growth stocks have significantly upstaged large cap value stocks all year. Year-to-date through September, the Russell 1000 Value Index returned +16.68% while the Russell 1000 Growth Index rose +24.55%. Over the same nine-month period, Ariel Focus Fund gained +14.84%.

Reversion to the Mean

At Ariel, we seek to identify high quality businesses with barriers to entry earning attractive returns on invested capital, trading at discounts to our calculation of intrinsic value. Because we believe equity markets are extremely efficient at incorporating all available information into current stock prices, we must have a clear thesis for discrepancies between today's price and what we believe a company is actually worth. Most often, the market's excessive focus on short-term factors and temporary anomalies that can depress current results, explains the valuation gap. We purchase stocks expecting operating results to normalize when a negative headwind proves transitory.

The Vanguard Group founder, John C. Bogle called this concept of reversion to the mean ("RTTM"), "the iron rule of the financial markets." Observable economic data can have relatively stable quantifiable relationships to other data. For example, over extended periods of time, short-term interest rates tend to be lower than long-term rates producing a positively sloped yield curve. Investors demand a higher rate to commit to a longer investment period. Likewise, value stocks have historically traded at a lower multiple of expected earnings than growth shares. These relationships are represented by observable data that can be measured and tracked. Still, these relationships are not constant. Short-term economic conditions can move these factors away from their long-term averages. For example, the Federal Reserve recently sought to curtail inflation by pushing short-term interest rates well above long-term rates producing an inverted yield curve. Exuberance over developments in Artificial Intelligence (AI) has driven growth stock multiples well above their historic valuations relative to value stocks.

This is where reversion to the mean becomes relevant. Under RTTM, data reverts to norms. To illustrate, a woman flipping 100 coins can be expected to produce 50 Head flips. If she tries her luck and produces 60 Heads, RTTM theory predicts she has a better than 50/50 chance of producing LESS than 60 Heads on her next try. It is probable that the number of Head flips will decline or revert toward the mean of 50.

In applying this theory to equity investing, Ariel Focus Fund looks for companies whose results have been temporarily depressed by an unusual factor that we expect to revert to its mean. A once in a century pandemic might temporarily weaken demand for cruise line vacations. Supply chain snags might reduce cars available on dealer lots. Implementation of an enterprise resource planning (ERP) software system might dimish this year's (but only THIS year's) earnings.

Currently, we expect the relationship between short-term and long-term interest rates to revert to normal (i.e., a positively sloped yield curve). This "more normal" relationship will improve the return on capital of investment banks such as **Goldman Sachs Group, Inc. (GS)** which tend to borrow short and invest long. Goldman Sachs will often fund itself with short-term debt instruments such as federal funds and the cash balances of their wealth management clients. Their investments tend to be more concentrated in longer duration securities like stocks and bonds. A return to the more normal term-structure of interest rates will likely improve Goldman's net interest margin and return on capital.

"Ariel Focus Fund looks for companies whose results have been temporarily depressed by an unusual factor that we expect to revert to its mean."

Similarly, we expect the relationship between value and growth stock multiples to revert to its historic mean. Over the last 20 years, the Russell 1000 Growth Index has traded at an average forward PE multiple of 19.2x compared to 13.8x for the Russell 1000 Value Index. At the end of September, the Russell 1000 Growth Index traded at 28.5x forward earnings compared to 16.7x for the Russell 1000 Value Index. The growth index PE is 11.8 points higher than that of the value index compared to the historical average of 5.4x. This short-term anomaly should revert. Excessive exuberance over the future of AI has lifted growth stock valuations above their intrinsic worth. Fear that a Federal Reserve-induced recession would hit cyclical value stocks has pressured multiples, excessively again, in our opinion. Once the spread between PE ratios of value stocks versus growth stocks eventually narrows, value stocks should outperform.

There are other short-term anomalies producing opportunities throughout equity markets. Years of below expected housing starts in the U.S. have reduced demand for the floor covering products of Mohawk Industries. Current operating results have fallen below the company's long-term earnings power. With a forward PE of less than 14x earnings, Mohawk shares are priced as if current depressed housing conditions are the "new normal."

One counter argument to this philosophy of reversion to the mean is, "This time is different." RTTM does not work if the data set moves, taking the mean average with it. Investing in buggy whip companies based on average 19th century horse-drawn buggy sales would have been a mistake after the invention of the Ford Model-T. If things really have changed permanently, this argument is correct. If the new Federal Reserve continues to hold short-term rates high, making an inverted yield curve the new expected term-structure, Goldman Sachs will indeed be less profitable than in the past.

If opportunities in AI permanently shift the growth rates of technology companies upward, while leaving non-tech companies with lower growth economics, then the new widened gap in PE ratios will be justified. The slope of the yield curve and the differential between value and growth PEs are more likely to move toward their historic averages.

Contributors and Detractors

The top contributor to Ariel Focus Fund's third quarter performance was Mohawk Industries, Inc. which surged +41.46%. In July, Mohawk repurchased shares for the first time since 2022 and also raised guidance. Despite the recent stock performance, Mohawk continues to trade well below our estimate of its intrinsic value. A normalization in housing construction will increase demand for Mohawk's carpet, ceramic and luxury vinyl tile flooring products.

Oracle Corporation remains one of our favorite misunderstood value stocks. As recently as 2022, Oracle traded at 12x forward earnings with a stock price near $60. After appreciating +21.02% in the third quarter, Oracle now trades above $170 at 26x forward earnings. Oracle's enterprise data software products are well-positioned to assist corporations in utilizing AI capabilities. The data needed to best leverage AI often sits on Oracle's software platform and is expensive to move. The company's recently announced partnerships with Microsoft and Amazon underscore this growth opportunity. Oracle modestly trades below our private market value estimate, but its rising valuation compels us to trim our position.

Lockheed Martin's strong 2024 performance has been less about a reversion to the historical mean, and more about the realization of potential. For the last several years, Lockheed's less than stellar results were caused by delayed shipments of the advanced F-35 fighter jets due to software problems. Given the importance of these aircraft for the company, the U.S. Military, and our allies, we expected these problems to be resolved. Lockheed expects to deliver between 75 and 110 F-35s this year, which remains below the expected annual rate of 150 aircraft. Deliveries of new F-35s are highly profitable on a current cash flow basis as the sale price recoups billions of dollars in past research spending. We expect F-35 sales to represent 30% of company sales going forward.

As already mentioned, our Energy and Basic Materials sectors detracted from our results this quarter. We believe the world's use of petroleum products for transportation, heating and electricity generation will increase rather than decrease over the short and medium-term driving demand for oil in the next decade. And yet, markets are predicting a steady decline in the future price of oil. While demand may fall modestly after 2035, natural gas will continue to be needed to generate electricity.

While our general optimism about the future of the oil and gas exploration industry remains intact, we will acknowledge some disappointment with the operating performance of our largest Energy holding, APA Corporation, which fell -16.25% during the quarter. When APA announced its first oil discovery off the coast of Suriname in South America in early 2020, we would have anticipated first production this year. Instead, APA is estimating first oil production in 2028. Meanwhile, the value of APA's holdings in the North Sea have been reduced by high British tax rates on production off its shores. While APA's results have been disappointing, we believe its current stock price still represents an excellent opportunity. Its shares are currently trading at an enterprise value over EBITDA multiple of 3x and a forward PE ratio of less than 7x.

As always, we appreciate the opportunity to serve you and welcome any questions or comments you might have.

Sincerely,

Charles K. Bobrinskoy
Vice Chairman

Ariel International Fund
Ariel Global Fund

As of September 30, 2024

Henry Mallari-D'Auria, CFA®
Chief Investment Officer
Global Equities

Average Annual Total Returns (%)

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Ariel International Fund Investor Class	7.56	11.03	19.60	3.90	4.83	3.71	5.14
Ariel International Fund Institutional Class	7.64	11.28	19.86	4.17	5.08	3.97	5.40
MSCI EAFE Net Index	7.26	12.99	24.77	5.48	8.20	5.71	7.36
MSCI ACWI ex-US Net Index	8.06	14.21	25.35	4.14	7.58	5.22	6.53
MSCI EAFE Value Net Index	8.89	13.79	23.14	8.94	8.27	4.56	6.56
MSCI ACWI ex-US Value Net Index	9.26	14.40	24.04	7.48	7.78	4.28	5.80

* The inception date for Ariel International Fund is 12/30/11.

Average Annual Total Returns (%)

	Quarter	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception*
Ariel Global Fund Investor Class	6.94	11.21	19.89	7.66	8.56	6.51	8.04
Ariel Global Fund Institutional Class	7.02	11.40	20.14	7.92	8.83	6.77	8.31
MSCI ACWI Net Index	6.61	18.66	31.76	8.09	12.18	9.38	10.63
MSCI ACWI Value Net Index	9.42	16.23	26.89	8.49	9.04	6.65	8.40

* The inception date for Ariel Global Fund is 12/30/11.

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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Performance data current to the most recent month-end for Ariel International Fund and Ariel Global Fund may be obtained by visiting our website, www.arielinvestments.com.

Dear Clients and Friends:

The third quarter ended with keen focus on China's surprise economic stimulus announcements and the resulting stock market rally. The People's Bank of China's plans to lower borrowing costs and increase bank lending capacity represented significant policy shifts. On the last day of the quarter, these plans drove a record $372 billion in domestic trading volume. Historically, Chinese stock market rallies are powered by economic stimulus. If policymakers sustain their efforts and China's economy shows signs of a durable recovery, this rally could have room to run.

Macroeconomic forces like inflation and interest rates continued to influence the broad indices, which remain heavily weighted toward AI-driven mega-cap tech stocks. As we witnessed this quarter, interest rate cuts typically boost sectors like Real Estate, Utilities and Financials, with lower borrowing costs fueling demand. However, this time, growth stock valuations did not see the same uplift which is a shift from recent trends.

Against this backdrop, our international and global portfolios outperformed their respective benchmarks during the quarter. 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. Similarly, Ariel Global Fund increased +6.94% in the quarter, ahead of the +6.61% return of its primary benchmark, the MSCI ACWI Index, but trailing the +9.42% gain of its secondary benchmark, the MSCI ACWI Value Index.

Portfolio Positioning

Our international and global portfolio construction practices have evolved over the past year, providing more avenues to generate returns. Our portfolio construction enhancements have led to more diverse types of stocks which we believe paves the way for more consistent alpha generation. Previously, downside protection resulted from cash allocations and an overweight in high dividend yielding stocks. Today, we believe our broader diversification will effectively insulate our portfolio during downturns, with certain issuers expected to outperform in challenging environments.

We are increasingly focused on idiosyncratic company risk, where fundamentals have room for significant improvement. We emphasize patience. In our approach to "value with a catalyst," business momentum is a key indicator. And while our beta has marginally increased, the portfolio remains less volatile than the benchmark.

Our research remains the same. We are active, long-term managers who are willing to take a contrarian approach when we believe the market misprices opportunities. We select financially healthy companies trading below their intrinsic worth. We do not chase short-term trends or cyclical plays. Instead, we build positions based on long-term, secular trends. As we seek to have high active share, our portfolios will intentionally differ from our benchmarks.

Ariel Global Fund now consists of 45 names representing at least a 1% weighting or higher. Prior to the change in portfolio manager, the portfolio had 54 stocks with a long tail of 25 names under 1%. To build a higher conviction strategy, we increased our holdings in some existing names such as cybersecurity company, **Check Point Software Technologies, Ltd.**, which has been a top contributor this year. Implementing these portfolio enhancements has also resulted in more new names than typical. Chinese e-commerce company, JD.com, Inc., and Japanese toy maker and video game publisher, **Bandai Namco Holdings, Inc.**, are new names that were strong performers this quarter. Meanwhile, other recently added holdings have been detractors, notably **Intel Corporation** whose punishing earnings miss has sparked takeover rumors. Despite this share price sell-off, Intel's expanded collaboration with Amazon Web Services (AWS) validates the company's chip process manufacturing catch-up which is core to our turnaround thesis. **Samsung Electronics Company, Ltd.'s** shares were pressured recently by investor concerns over weak demand in conventional memory. However, we anticipate a sustained upcycle in the memory market, which should support further growth and robust operating profit next year. Additionally, we remain positive on Samsung's diversified business model, particularly its foundry operations, which offers additional paths for growth beyond memory. Despite these gains and setbacks, we believe our portfolios are moving in the right direction.

> "Today, we believe our broader diversification will effectively insulate our portfolio during downturns, with certain issuers expected to outperform in challenging environments."

It is our intention to position the international and global strategies to capture more upside participation while maintaining a defensive tilt to withstand market difficulties. Our increased exposure to cyclically sensitive companies results from individual stock selection rather than broad sector bets. We also maintain relatively low exposure to cyclically sensitive sectors—for example, we are not invested in Materials or Energy based on current valuations, heightened vulnerability to economic cycles and geopolitical tensions, such as trade conflicts.

Electrification Remains the Future of Autos, Despite Some Softness in Regional Sales

Since April, the MSCI World Auto Index has risen +7.22%, in line with the broader market. However, Tesla Inc. surged +49% during that period, while, on average, the rest of the sector has fallen -25%. Although Tesla often grabs the spotlight, we see other success stories playing out in the auto industry over time.

Secular growth is driven by shifts in consumer behavior, not today's economic environment. Nearly one in five cars sold in 2023 was electric, a 35% year-over-year

increase. Of the nearly 14 million electric vehicles (EV) manufactured, 95% were sold in China, Europe and the United States.

Half the weight of our auto and truck holdings is in tires, a tech-driven, consolidating sector with expanding margins. Three-quarters of tires are sold in the replacement market, with rising demand for premium EV tires. The manufacturing process is complex, creating high barriers to entry. **Michelin (CGDE)**, the French multinational tire manufacturer, and **Bridgestone Corporation**, the Japanese tire manufacturer, have been top portfolio contributors.

Original Equipment Manufacturers (OEMs) and suppliers are adapting to new powertrain systems. They are also updating supply chains and services to support production of internal combustion engine (ICE) vehicles as well as EVs and hybrids. We have exposure to high-voltage cable/wire suppliers and power semiconductor companies through our positions in Dublin-based automotive technology supplier, **Aptiv plc** as well as German-based semiconductor manufacturer, **Infineon Technologies AG**. We believe these holdings will benefit from changes in the automotive supply chain as OEMs rethink the manufacturing processes of transmissions, exhaust and fuel systems.

Cyclically sensitive holdings, where vehicle replacement can be postponed, have been more volatile during this recent cycle. Since April, **Stellantis NV** and **Daimler Truck Holding AG (DTG)** have underperformed for company specific reasons.

Stellantis shares fell nearly -30% during the quarter after lowering its 2024 profit forecast, citing performance issues in North America and rising competition from Chinese EV makers. Despite short-term challenges such as fluctuating demand, production cuts and labor unrest, we see long-term upside in the company's EV growth strategy. Near-term pressures on profitability do not alter the company's disciplined approach to capacity and pricing. Stellantis continues to streamline operations and improve profitability, positioning itself for a recovery once current headwinds ease.

German-based automotive manufacturing company, **Daimler Truck Holding AG** is closely tied to industrial and commercial activity. Weaker demand in Europe and Asia have contributed to recent revenue declines. However, the North American market showed resilience, with record margins in its truck and bus segments. Battery-electric truck sales surged +69% year-over-year, as Daimler Trucks aims to lead the transition to emission-free, autonomous and connected trucking. Despite near-term challenges, we view DTG as a top-tier manufacturer poised for long-term growth.

Meanwhile, shares of Japanese auto manufacturer, **Subaru Corporation**, have underperformed following production cuts aimed at aligning with current market conditions, alongside offering significant incentives on select models. Investor concerns have grown due to foreign exchange volatility and a weakening macroeconomic environment. Despite short-term challenges, the company's focus remains on strong fundamentals and advancing its electric and hybrid vehicle line-up which should drive future growth.

Looking Ahead

As we head into the final quarter of 2024, geopolitical uncertainties continue to be elevated. We remain laser-focused on stocks that we feel are reasonably priced with less earnings risk. In so doing, we regularly assess potential economic and market drivers, preparing for scenarios that could challenge current market narratives. On this point, we believe AI-exhaustion may be at hand, with a rotation toward other sectors underway. And while our portfolio may benefit when high-valuation AI stocks pullback, this is not the primary focus. We have many stock-specific scenarios which we believe can lead to outperformance. In our view, our international and global portfolios offer significant upside potential. We are forecasting lower valuations and reduced volatility than our benchmark indices, while maintaining comparable growth potential.

As always, we appreciate the opportunity to serve you and welcome any questions or comments you might have.

Sincerely,

Henry Mallari-D'Auria, CFA®
Chief Investment Officer
Global Equities

Company Spotlight

Danske Bank

Danske Bank (DANSKE) is one of the largest financial institutions in the Nordic region with a comprehensive range of financial products and services. Headquartered in Copenhagen, Denmark, the company has expanded its footprint across the Nordics and other European countries, offering banking, asset management, insurance and real estate services. Danske Bank has significantly shaped the region's financial landscape and is focused on sustainable finance and electronic innovation.

Teaming Up

Danske Bank's success is rooted in its differentiated portfolio, which includes retail banking, commercial banking, wealth management and corporate finance. These business units are strategically aligned to deliver a broad spectrum of services from basic consumer loans to complex corporate advisory services. This diversification provides a steady income and positions the bank to manage risk effectively, especially in volatile economic conditions. Moreover, Danske Bank's commitment to digital transformation with initiatives like MobilePay has improved its standing in an increasingly online-first banking environment.

Efficiency Unleashed

A core strength is the company's steadfast focus on cost efficiency. Over the past few years, the bank has implemented substantial pricing reductions to improve operational efficiencies and earnings. This includes streamlining processes, reducing redundancies

Barry Cohen
Vice President
Senior Research Analyst, Global Equities

and leveraging technology to lower operating expenses. Investors have responded positively to these initiatives, allowing the bank to maintain solid profitability in challenging times—such as a prolonged low interest rate environment. By focusing on disciplined cost management, Danske Bank continues to boost its operating margins and increase investor confidence in its long-term value-creation abilities.

Maximizing Shareholder Returns and Value Creation

Danske Bank maintains a strong capital position, with a Common Equity Tier 1 (CET1) capital ratio of 18.5% as of mid-2024, which measures a bank's core equity capital against its risk-weighted assets to assess its ability to withstand financial distress. This supports shareholder returns and facilitates strategic acquisitions. Given its strong financial performance, the bank has committed to pay dividends in 2024 and beyond. At the same time, its resilient capital base enables it to pursue acquisitions to drive future growth. The company's takeover of Sampo Bank in Finland reinforces the bank's foothold in the Nordic market and provides a diverse and stable revenue stream.

While we still see opportunities for Danske to distribute capital to shareholders as its valuation has expanded, we believe there are fewer near-term opportunities for appreciation. In our view, the company's additional guidance around capital distributions has already been reflected in the share price. Moreover, downside risks associated with lower interest rates could negatively impact sentiment around the share price. As a result, we reduced our position in the name this quarter to reallocate proceeds into investments that can offer more upside potential.

Company Spotlight

Jones Lang LaSalle (JLL) was founded in 1783 and is a global real estate firm. The company helps clients buy, build, occupy, manage and invest in various commercial, industrial, hotel, residential and retail properties. With a global workforce of over 110,000, JLL serves clients in more than 80 countries worldwide.

Licensed to Sell

Despite macroeconomic challenges such as high inflation, historically rising interest rates, geopolitical uncertainty and weak but improving transaction activity, JLL continues to deliver strong performance. We believe its global scale, expertise, position as the second-largest provider of real estate services and recurring business lines present an attractive investment opportunity. The company's resilient businesses grew a remarkable +14% in the first half of fiscal year 2024 and now account for nearly 70% of its revenues. In comparison, its transactional businesses increased 3% during the same timeframe. We remain confident that global interest rate stability and improving consumer confidence will accelerate leasing and investment sales activity.

Macro Trends

In 2017, CEO Christian Ulbrich identified five macro-trends that would drive JLL's performance over the next decade: corporate real estate outsourcing growth, rising capital allocations to real estate, increasing urbanization, the fourth industrial

John P. Miller, CFA®
Senior Vice President
Portfolio Manager, Ariel Fund

revolution and sustainability. The trend in real estate outsourcing is accelerating as companies seek cost savings, real estate expertise and workplace flexibility. According to Fortune Business Insights, the global facility management market was valued at $1.3 billion in 2023 and is projected to grow to $2.3 billion by 2032—a +7.4% average annual growth rate. JLL July 2024 research shows that just under $400 billion of capital is currently available for real estate investments—nearly double the amount a decade ago. These secular tailwinds should drive JLL's operating performance.

Keeping It Real Estate

JLL remains a conservatively run franchise with a history of generating strong free cash flow and high returns on capital and equity. These factors result from operating a capital-light business model. The firm does not own real estate but provides valuable real estate services. During the quarter, JLL experienced a rebound in transactions, leasing and capital markets activity as well as solid fee revenues from ramping client wins and contract expansions in the Work Dynamics and property management businesses. Management is optimistic for a near-term recovery following the Fed's interest rate cut and remains confident in the medium- and longer-term revenue outlook for both transactional and recurring revenue streams. We also expect JLL's efforts to streamline operations and increase efficiencies will generate higher profits over time. On September 30, 2024, shares closed at $269.81, a 5% discount to our estimated private market value of $284.

Company Spotlight

Founded in 1963, **Leslie's, Inc. (LESL)** is the largest direct-to-consumer brand in the U.S. pool and spa care industry. Its vertical integration, unique scale and deep customer loyalty are differentiators in a highly fragmented industry primed for consolidation. Pool owners have a strong financial and emotional connection to their pools, leading them to voluntarily invest in maintenance. Prior to 2023, Leslie's experienced top-line growth even during the worst economic cycles, such as the "dot com" bubble and the Great Financial Crisis. Leslie's market share has expanded and continues to widen and its resilience has allowed the company to grow its top-line revenue for over 50 years.

The company reported disappointing operating results for the quarter and significantly reduced full-year guidance. Soft consumer demand driven by weather-related headwinds and increased price sensitivity on large discretionary purchases weighed on results. Product margins also remain under pressure as the company struggles to unwind its higher-cost inventory. In response, Leslie's hired a new CEO, Jason McDonell. Our channel checks suggest his background in retail and consumer products is well-suited to drive a performance recovery. We are encouraged by the leadership change as well as improving trends on the back of warmer and drier weather conditions.

Lifeguard on Duty

Pool maintenance is more complex than just adding chlorine to the water, necessitating dedicated services, which distinguishes specialty retailers and wholesalers. Leslie's is a rare one-stop shop for pool diagnostics, using its proprietary AccuBlue rapid testing to recommend tailor-made solutions. In comparison, its competitors—wholesalers or e-commerce retailers—lack the breadth of offerings and geographical footprint to fulfill customer needs.

Pablo Torrado
Research Analyst, Domestic Research

Look Before You Dive

Leslie's manufactures proprietary formulas for most products sold through physical and online channels. Its brands are often the most popular on e-commerce platforms, including Amazon. The company controls the entire process from manufacturing to the point of sale with visibility into pool owners' needs. Operating approximately 1,000 stores, Leslie's footprint is more sizeable than the sum of its 20 closest competitors combined and digital sales are estimated to be 5x greater than its largest digital competitor. Additionally, roughly 50% of the industry comprises independent companies which do not rival Leslie's effective bargaining abilities. Its areas of operation place 90% of all U.S. pools within 15 minutes of a Leslie's store, keeping the company top of mind for any pool-related solutions or convenient purchases for pool professionals.

Swimming Against the Current

Leslie's is the strongest player in a highly predictable industry with annuity-like income. For over half a century, the number of pools in the U.S. has grown and Leslie's profits have expanded even through challenging economic times. At today's valuation, the company appears to have more upside than downside. We believe its loyal client base, vertically integrated supply chain, scale and seamless customer experience serve as important competitive advantages. As of September 30, 2024, shares traded at $3.16, a discount of 61% to our estimated private market value of $8.01.

Company Spotlight

Tesco plc (TSCO) is a leading food retailer in the United Kingdom. With a rich history spanning over a century, Tesco has evolved from a small grocery stall to one of the largest supermarket chains in the world. Headquartered in Welwyn Garden City, England, the company serves millions of customers daily. It operates thousands of stores across multiple formats, including hypermarkets, supermarkets and convenience stores.

Crossing It Off the List

In recent years, Tesco has realigned its strategy on its core UK food retail business, divesting non-core businesses such as garden centers and restaurants that detracted from its primary focus. It also exited several international markets, including Poland and parts of Asia. Over 90% of its business is now concentrated in the UK and Ireland. By prioritizing its core business, Tesco is better positioned to leverage its strengths and meet the evolving needs of UK consumers. In line with this strategy, the company recently announced the sale of its banking operations to Barclays to focus on its retail operations.

Every Little Helps

With increasing competition from discount retailers like Aldi and Lidl, Tesco has invested in improving its pricing strategy. By launching its Aldi Price Match campaign and offering promotions through its loyalty program, the company has held market share against discounters. This strategy has positively impacted consumer perception,

Jiyoung Young
Associate, Global Equities

which has improved loyalty and store foot traffic. As a result, Tesco reported an increase in market share in 2024, reflecting better competitiveness and a stronger value proposition. The investment in price improvements coupled with a focus on quality and service has allowed Tesco to maintain its position as a dominant player in the UK grocery sector.

Looking Ahead: Retail Media and Online Marketplace Opportunities

Tesco is capitalizing on emerging opportunities in retail media and e-commerce, positioning itself as a leader in these growing sectors. The company has developed its online marketplace, enabling third-party sellers to reach customers through this platform. This initiative diversifies revenue streams and boosts customer engagement by presenting a more comprehensive range of products. Furthermore, Tesco's investment in retail media capabilities allows brands to connect with customers more effectively and refine their advertising strategies. Although these initiatives are still in the early stages, we expect they will benefit Tesco's financial performance in the coming years as the shift towards digital and e-commerce grows.

As of September 30, 2024, Tesco trades at a forward price-to-earnings (P/E) ratio of 13.1x, demonstrating the company's robust market position and strong financial fundamentals. In our view, the company should continue to outperform by leveraging its strong positioning in the industry. We believe Tesco's ongoing commitment to enhancing shareholder value further supports its appeal as a long-term investment.

Our Portfolio Managers

Ariel Fund

John W. Rogers, Jr.
Lead Portfolio Manager

Kenneth E. Kuhrt, CPA
Portfolio Manager

John P. Miller, CFA®
Portfolio Manager

Ariel AppreciationFund

John W. Rogers, Jr.
Co-Portfolio Manager

Timothy Fidler, CFA®
Co-Portfolio Manager

Ariel Focus Fund

Charles K. Bobrinskoy
Portfolio Manager

Ariel International Fund | Ariel Global Fund

Henry Mallari-D'Auria, CFA®
Lead Portfolio Manager

Micky Jagirdar
Portfolio Manager

Vivian Lubrano
Portfolio Manager

Important Disclosures

Risks of Investing in the Funds

The intrinsic value of the stocks in which the Funds invest may never be recognized by the broader market. The Funds are often concentrated in fewer sectors than their benchmarks, and their performance may suffer if these sectors underperform the overall stock market. Equity investments are affected by market conditions. Ariel Fund, Ariel Appreciation Fund and Ariel Focus Fund invest in small and/or mid-cap companies, which is riskier and more volatile than investing in large cap stocks. Ariel Focus Fund is a non-diversified fund and therefore may be more volatile than a more diversified investment. Ariel International Fund and Ariel Global Fund invest in foreign securities and may use currency derivatives and ETFs. Investments in foreign securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, foreign currencies and taxes. The International and Global Funds' use of currency derivatives and ETFs may increase investment losses and expenses and create more volatility. The International and Global Funds' investments in emerging markets present additional risks, such as difficulties selling on a timely basis and at an acceptable price.

Specific Stocks Held by the Funds

In this report, we candidly discuss specific stocks held by the Funds. Our opinions are current as of the date they were written but are subject to change. We want to remind investors that the information in this report is not sufficient on which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security.

Please Read the Funds' Prospectuses

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current summary prospectus or full 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. Please read the summary prospectus or full prospectus carefully before investing. Distributed by Ariel Distributors, LLC, a wholly owned subsidiary of Ariel Investments, LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

Information about the Funds' Indexes

Indexes are unmanaged. An investor cannot invest directly in an index.

The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 companies with relatively lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Inception of this benchmark is July 1, 1995. This index pertains to Ariel Fund.

The Russell 2500™ Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. Inception of this benchmark is June 1, 1990. This index pertains to Ariel Fund.

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. The inception date of this benchmark is February 1, 1995. This index pertains to Ariel Appreciation Fund.

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. The inception date of this benchmark is November 1, 1991. This index pertains to Ariel Appreciation Fund.

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. The inception date of this benchmark is January 1, 1987. This index pertains to Ariel Focus Fund.

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. This index pertains to Ariel Fund, Ariel Appreciation Fund and Ariel Focus Fund.

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. Inception of this benchmark was 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 U.S. and Canada. Inception of this benchmark was December 8, 1997. These indexes pertain to Ariel International Fund.

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. Inception of this benchmark was 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. Inception of this benchmark was December 8, 1997. These indexes pertain to Ariel International Fund.

The MSCI ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Inception of this benchmark was January 1, 2001.

The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. Inception date of this benchmark was December 8, 1997. These indexes pertain to Ariel Global Fund.

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 companies' country of incorporation.

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.

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. Source: MSCI.

Ariel Investment Trust

c/o U.S. Bank Global Fund Services
P.O. Box 701
Milwaukee, WI 53201-0701

800.292.7435

- arielinvestments.com
- linkedin.com/company/ariel-investments
- instagram.com/arielinvestments
- twitter.com/arielinvests

What's Inside

MORE IS LESS Co-CEOs John W. Rogers, Jr. and Mellody Hobson discuss how the staggering differential between the returns of large and small companies (as well as their respective growth and value counterparts) has resulted in growing speculation about the future of small cap investing. They believe the negative sentiment engulfing increasingly orphaned small and mid-cap stocks presents a rare opportunity for long-term investors.

REVERSION TO THE MEAN Vice Chairman Charlie Bobrinskoy describes how the market's excessive focus on short-term factors and temporary anomalies that can depress current results, explains the valuation gap.

PORTFOLIO POSITIONING Chief Investment Officer, Global and Emerging Markets Equities, Henry Mallari-D'Auria summarizes how our international and global portfolio construction practices have evolved over the past year, providing more avenues to generate returns.

COMPANY SPOTLIGHTS Views from our investment team on Danske Bank, Jones Lang LaSalle, Leslie's, Inc., and Tesco plc.

tpi (500) ©11/24 AI–03