Ariel Focus Fund

Quarter Ended December 31, 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 Focus Fund may be obtained by visiting our website, arielinvestments.com. For the period ended December 31, 2024 the average annual returns of Ariel Focus Fund (Investor Class) for the 1, 5, and 10 year periods were +13.48%, +7.37%, and +6.24%, respectively.

Markets worldwide defied expectations in 2024 led by the dominating performance of mega-cap technology stocks known as the "magnificent seven.[1]" Even though gains have been concentrated, the results of the U.S. election, strong earnings momentum and a robust labor market drove bullish sentiment. This ebullience extended beyond the equity market: gold delivered its best year since 2010, bitcoin more than doubled and the U.S. dollar neared a 20-year high. Meanwhile, uncertainty surrounding the new U.S. administration's policies and the Federal Reserve signaling slower than anticipated easing in the year ahead drove small cap issues sharply lower in December. Although uncertainty and volatility are likely to remain elevated, the patient investor knows "stock prices trade on fundamentals. And when those solid fundamentals shine through, share prices rise.[2]" Against this backdrop, Ariel Focus Fund declined -1.19% in the quarter, outpacing the Russell 1000 Value Index's -1.98% return and behind the S&P 500 Index's +2.41% gain. Over the trailing one-year period, Ariel Focus Fund increased +13.48%, underperforming both the Russell 1000 Value and S&P 500 Indices, which returned +14.37% and +25.02%, respectively.

Tool innovator, **Snap-on Incorporated (SNA)** was the top contributor to performance in the period as the company continues to effectively navigate the growing complexity of the automotive repair industry. Amidst a challenging macro backdrop, SNA began redirecting product design, capacity and marketing efforts towards more affordable hand tools resulting in a sequential improvement in quarterly sales and gross margin expansion. We believe these results highlight SNA's differentiated value proposition to its end markets, particularly as it continues to respond to real-time feedback and invest in new products to service unique needs of original equipment manufacturers. In our view, the automotive repair industry sports a favorable runway due to aging vehicles and the increased technological complexity associated with repair.

Global investment bank, **Goldman Sachs Group, Inc. (GS)** also outperformed on a robust quarterly earnings beat, highlighted by strength across its investment banking, trading and asset management segments. Meanwhile, the U.S. election has been widely viewed as a positive catalyst across the industry. Investors expect the incoming administration to emphasize deregulation and exhibit a greater openness to business combinations compared to the prior regime. Hence, management's positive commentary around the operating momentum of its core franchises, an improving M&A outlook and the resilience of the U.S. economy sent shares higher.

Additionally, supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** traded higher over the period. Despite a challenging macro environment, positive organic sales growth and structural cost efficiencies drove margin expansion. Encouraging commentary around improving consumer demand trends, new product offerings and cross-selling opportunities further aided share price appreciation. Also in the quarter, President and CEO, Jay Geldmacher, announced his intention to retire from his executive and board roles in 2025. Once a successor is identified, Mr. Geldmacher expects to become a senior advisor

[1] The "Magnificent Seven" are the largest stocks in the S&P 500 Index driving market performance: Apple Inc. (AAPL), Amazon.com, Inc. (AMZN), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META), Microsoft Corp. (MSFT), NVIDIA Corp. (NVDA) and Tesla, Inc. (TSLA).

[2] Hobson, Mellody and John W. Rogers Jr. "What the Stock market Taught Us This Year: Don't Fall for These Investing Traps." *Wall Street Journal*, 5 December 2023.

to the company to facilitate a smooth transition. In our view, this leadership change is indicative of the successful completion of the transformation plan the team initiated following the spin-out from Honeywell. We believe the company is entering a new phase of sustainable growth which will be driven by a secular preference for more connected smart home solutions and product innovation.

In contrast, shares of manufacturer and distributor of floorcovering products, **Mohawk Industries Inc. (MHK)** declined in the period as consumer demand and pricing remain under pressure due to secular headwinds in the housing market. Although quarterly earnings results were in-line with expectations, management lowered near-term guidance to account for losses resulting from recent U.S. hurricanes. Meanwhile, management continues to successfully execute on productivity and cost restructuring initiatives, while also preparing the business for share gains as demand recovers. In our view, MHK's healthy balance sheet and progress managing through economic cycles should help the company benefit from long-term growth in residential remodeling, new home construction and commercial projects.

Shares of leading global defense contractor **Lockheed Martin Corporation (LMT)** also traded lower returning some of its third quarter gains. Although earnings were solid, investor uncertainty tied to ongoing F-35 contract negotiations and software delays overshadowed the company's robust order backlog and return of capital to shareholders via share repurchases and dividends. In our view, LMT continues to be well positioned in the defense sector.

Lastly, gold mining company, **Barrick Gold Corporation (GOLD)** fell following an investor day where management reduced five-year guidance for gold production and raised cost estimates. Meanwhile, a dispute with the African government of Mali and associated negative headlines created an overhang on shares. Despite ongoing uncertainty, management remains laser focused on upgrading its mining operations and broadly improving efficiencies amid today's rising prices for precious metals. The company also continues to prioritize capital returns to shareholders via dividends and share repurchases. At current valuation levels, we believe the risk/reward is priced in.

Also in the quarter, we initiated a position in **Schlumberger NV (SLB)**, the largest oilfield services company in the world by revenue. SLB provides equipment, services, and digital tools to help oil and gas producers operate more efficiently, including reservoir characterization, rig and well construction and production enhancement. We believe the company's scale and technical expertise serves as a key differentiator. Weak near-term demand, an oil glut, falling commodity prices and concerns about future spending amid a global shift to renewable energies presented an attractive entry point. We believe there are tailwinds supporting rising demand over the medium-term, as national oil companies invest in long-cycle projects to grow capacity and address the natural decline of production. Additionally, we expect SLB will continue to evolve their capabilities to help clients with rising energy needs going forward.

By comparison, we successfully exited leading global manufacturer of power generation equipment, **Generac Holdings, Inc. (GNRC)** on valuation.

We believe the U.S. economy looks healthy and expect corporate profits to prove resilient. Although interest rates will likely settle at a higher structural level compared to the past decade and potential policies around tariffs and immigration present uncertainty, we think market friendly policies such as tax cuts and deregulation should support the broadening of the market beyond the Magnificent Seven. Once the performance gap between mega-cap stocks and smaller company counterparts narrows, our portfolios should be rewarded. We strongly believe the disciplined investor that stays the course and consistently owns differentiated businesses with solid competitive positioning and robust balance sheets will deliver superior returns over time.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small and mid cap companies is riskier and more volatile than investing in large cap companies. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and therefore may be subject to greater volatility than a more diversified investment. The Fund is often concentrated in few sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

As of February 1, 2024, Ariel Focus Fund Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.16%. Currently, an expense ratio cap of 1.00% 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 12/31/24, Snap-on, Inc. constituted 6.7% of Ariel Focus Fund; Goldman Sachs Group, Inc. 6.0%; Resideo Technologies, Inc. 5.2%; Mohawk Industries, Inc 5.0%; Lockheed Martin Corporation 4.4%; Barrick Gold Corporation 2.8%; Schlumberger NV 0.5%; and Generac Holdings 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 Ariel Focus Fund.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios, lower forecasted growth values and lower sales per share historical growth. Its inception date is January 1, 1987. Russell® is a trademark of London Stock Exchange Group, which is the source and owner of the Russell Indexes' trademarks, service marks and copyrights. Neither Russell nor its licensors accept any liability for any errors or omissions in the Russell Indexes or underlying data and no party may rely on any Russell Indexes and/or underlying data contained in this communication. No further distribution of Russell data is permitted without Russell's express written consent. Russell does not promote, sponsor or endorse the content of this communication. The S&P 500® Index is widely regarded as the best gauge of large-cap U.S. equities. It includes 500 leading companies and covers approximately 80% of available U.S. market capitalization. Its inception date is March 4, 1957.

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SLOW AND STEADY WINS THE RACE