Ariel investments

Performance (%) as of December 31, 2024				Annualized			
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Focused Value							03/31/2005
Gross of Fees	**-0.76**	**14.35**	**14.35**	**3.93**	**8.00**	**7.12**	**7.35**
Net of Fees	**-0.85**	**13.95**	**13.95**	**3.57**	**7.62**	**6.75**	**6.67**
Russell 1000® Value Index	-1.98	14.37	14.37	5.63	8.68	8.48	7.99
S&P 500® Index	2.41	25.02	25.02	8.94	14.52	13.10	10.61

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: In the fourth quarter, Ariel Focused Value outperformed the Russell 1000 Value Index, marginally falling -0.76% gross of fees (-0.85% net of fees) versus -1.98% for its primary benchmark. For the full year, Ariel Focused Value earned +14.35% gross of fees (+13.95% net of fees) compared to 14.37% for the Russell 1000 Value.

Smaller with More Value

Over the course of the year, the smaller market capitalization of our portfolio versus the benchmark as well as our smaller weighting in growth stocks penalized our results during a time when large cap stocks continued to crush small cap issues and growth continued to trounce value.

As an "all cap" portfolio, Ariel Focused Value can buy value across the cap ranges. We do this for three reasons. First, there has been consistent evidence in academic literature of a "small cap effect" in which smaller companies have outperformed larger companies over long investment horizons. Explanations for this effect are varied but include: less sell-side research resulting in less efficient pricing of small cap stocks; more difficulty in maintaining growth rates for large companies due to "the law of large numbers," and reduction in the primacy of shareholder interest in governance as companies become large. In our view, there is much more focus on "stakeholder interest" in large companies rather than the primacy of "shareholder interest" in smaller companies.

Likewise, the "value anomaly" in which value stocks have beaten growth stocks has been well documented in the financial literature. Fama and French were among the first of many to show how companies trading at low multiples of earnings and/or low percentages of accounting net worth tended to outperform. We acknowledge the recent reversal of this effect, with growth outperforming value since the Great Financial Crisis of 2008-2009, has been larger and lasted longer than we would have expected.

We also own more small cap value stocks than the benchmark, because our investment process is centered on purchasing companies whose shares are trading at discounts to our calculation of intrinsic value. Generally, we are finding more of these companies in the lower end of the market cap range and among value stocks. At Ariel, our daily Buy/Sell chart ranks our portfolio holdings from highest discount to intrinsic value to lowest.

At year-end, eight of the ten portfolio companies trading at the highest discount to intrinsic value, or what we call Private Market Value ("PMV"), have a market capitalization of less than $10 billion. These eight companies were trading at discounts to PMV of 33-48% compared to an average discount of 21.8% for the entire portfolio. Conversely, the five companies at the bottom of our Buy/Sell chart, trading much closer to our calculation of intrinsic value, have a market cap above $10 billion—four exceed $100 billion in market cap.

Just as our valuation analysis points to smaller companies, we are also finding more opportunities in cheaper stocks versus more expensive growth alternatives. Of the nine companies we own trading at the largest discount to intrinsic value, five have price/earnings (P/E) ratios of 11x or less, essentially half of the 21.6x P/E ratio of the S&P 500. **Mohawk Industries Inc. (MHK)**, **BorgWarner Inc. (BWA)**, **Mosaic Company (MOS)**, **APA Corporation (APA)** and new holding **Schlumberger Limited (SLB)** all trade at prices 11x or less our calculation of their next twelve-month earnings. We are finding value in value.

Trimming Winners

At the end of 2024, we face a conundrum common to value managers. Some of our favorite and largest holdings have performed well and are now approaching our calculation of intrinsic value. **Goldman Sachs Group, Inc. (GS)** rose +51.8% last year and was the second largest contributor to performance behind **Oracle Corporation (ORCL)**. Goldman went from selling for one time book value in 2023 to 1.8x book in November of 2024. Readers of past letters will recall my grandfather's adage to "Buy 'Em at one and Sell 'Em at two." Buy a good bank at one time its book value; sell at two times book. It is much easier to earn a good return paying market value for a collection of a bank's marketable securities, than to earn a good return paying two times the market value. After 2024's strong performance, and with my grandfather's wisdom echoing, I am likely to reduce our Goldman position this year.

Oracle Corporation presents a similar challenge. It has been one of our largest holdings over the last several years and best performers—surging +59.7% over the last year. In September of 2022, Oracle was my favorite stock in the technology sector, trading at 11.7x forward earnings. Since artificial intelligence (AI) is fundamentally about analyzing data, companies looking to implement AI will be analyzing their own internal, proprietary data. For many of the largest companies in the world, that data sits on Oracle platforms. Accordingly, we believe Oracle is well-positioned to develop AI applications to analyze this data that is also difficult for companies to move to other providers, giving Oracle a sustainable competitive advantage.

The market has come to agree with us with the stock now trading at 25.2x forward earnings. Although, we still believe Oracle is well-positioned for the AI future and will enjoy strong earnings growth, ours is no longer a contrarian position. Like Goldman Sachs, Oracle is still a great company that no longer trades at a great price. These days, both Goldman and Oracle are great companies trading at fair prices. We will continue to own smaller positions in both.

Buying Oversold Stocks

While Oracle and Goldman Sachs were the largest positive contributors to performance, the three largest detractors in 2024 were commodity, energy or materials companies. APA Corporation declined -33.3%, Mosaic Company lost -29.0%, while **Barrick Gold Corporation (GOLD)** fell -12.2%. With the possible exception of 2022 when oil prices spiked with the Russian invasion of Ukraine, commodity stocks have generally been disappointing investments for Ariel Focused Value. As we have discussed in past letters, our investment in these companies is based on two ideas. First, high inflation will favor companies with hard assets such as oil, natural gas, gold and/or fertilizers. Second, global demand for energy, food and precious metals will increase while production and transportation costs will be driven higher by environmental regulations.

Thus far, demand for oil and gas continues to rise as developing countries increase their standard of living. Meanwhile, more fertilizers are used as diets improve with more food production. Gold's reputation as an inflation hedge combined with growing jewelry demand have led to record prices. Despite these favorable trends, APA, Barrick Gold and Mosaic shares have lagged.

Although commodity stocks remain very much out of favor, we will continue to buy what others are selling.

Sincerely,

Charles K. Bobrinskoy
Vice Chairman

People Update:

Effective February 1, 2025, we will be changing the lineup of portfolio managers for our Mid-Cap Value Strategy and Ariel Appreciation Fund. Founder, Chairman, Co-CEO and Chief Investment Officer, John W. Rogers, Jr. is passing the baton to our next generation leaders. Longtime co-portfolio manager on Ariel's Mid-Cap Value Strategy and Ariel Appreciation Fund, Timothy Fidler, CFA will be joined by tenured co-portfolio manager on Ariel's Small Cap Value and Small Cap Value Concentrated strategies, Kenneth Kuhrt, CPA. We believe this leadership change will yield fresh perspectives in our mid-cap area. Both individuals have proven track records as co-portfolio managers working alongside John, and while Tim will continue to create continuity for the strategy, we are excited to provide Tim and Ken the opportunity to demonstrate what they can do together on behalf of our clients and shareholders. Meanwhile, John is committed to being at Ariel for the long-term and remains focused on serving as Chief Investment Officer and managing our small cap value, small cap value concentrated and small/mid cap value portfolios.

Investing in equity stocks is risky and subject to the volatility of the markets. Investing in small- and 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. A focused portfolio may be subject to greater volatility than a more diversified investment.

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 December 31, 2013, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from January 1, 2014 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 Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated 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. Views and opinions are as of the date of this commentary and can change without notice. There is no guarantee that any expressed views will come to fruition or any investment will perform as described.

As of 12/31/24, the Ariel Focused Value (representative portfolio) held the following positions referenced: Mohawk Industries, Inc. 4.78%; BorgWarner, Inc. 1.93%; Mosaic Company 2.45%; APA Corporation 3.97%; Schlumberger NV 0.52%; Goldman Sachs Group, Inc. 5.77%; Oracle Corporation 4.96%; and Barrick Gold Corporation 2.70%. The 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 Focused Value Composite. 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. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000 companies with relatively higher price-to-book ratios, higher I/B/E/S forecast medium term growth and higher sales per share historical growth. The inception date of the Russell 1000® Growth Index 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.