Quarterly Commentary

Ariel International 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 International Fund may be obtained by visiting our website, arielinvestments.com. For the period ended December 31, 2024 the average annual total returns of Ariel International Fund (Investor Class) for the 1-, 5, and 10-year periods were +5.36%, +2.75%, and +3.43%, respectively.

Markets worldwide defied expectations in 2024 led by the dominating performance of U.S. mega-cap technology companies and investor enthusiasm for artificial intelligence (AI) themed stocks. However, persistent challenges in the Eurozone, including uncertainty around interest rates, concerns surrounding the new U.S. administration's policies as well as a strengthening U.S. dollar drove the MSCI ACWI, MSCI ACWI ex-U.S. and MSCI EAFE Indices into the red. China's economy also ended the year sluggishly, with September's stimulus efforts losing steam and the recovery in consumer spending turning elusive. 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.[1]" Against this backdrop, Ariel International Fund declined -5.11% in the quarter, outperforming both its primary and secondary benchmark, the MSCI EAFE and MSCI ACWI ex-US Indices, which fell -8.11% and -7.60%, respectively. Over the trailing one-year period, Ariel International Fund rose +5.36%, outperforming the MSCI EAFE Index's +3.82% return, but slightly lagging the +5.53% gain posted by the MSCI ACWI ex-US Index.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel International Fund is overweight Consumer Discretionary, Utilities, Information Technology and Financials. The portfolio is meaningfully underweight Industrials, Energy, Consumer Staples and Communication Services, as well as lacks exposure to Materials. At the sector level, our stock selection within Health Care, Real Estate and Consumer Staples as well as our avoidance of Materials were the largest sources of positive attribution. By comparison, our Consumer Discretionary holdings, allocation to currency forwards and positioning within Communication Services were the greatest performance detractors during the quarter.

Germany-based kidney dialysis services and products provider, **Fresenius Medical Care AG** advanced in the period following solid quarterly earnings results driven by an inflection in the U.S. market as treatment volumes returned to positive growth. Subsequently, management upgraded its 2024 outlook and reaffirmed guidance for 2025. Meanwhile, the company continues to successfully execute on its goal to exit non-core assets in Latin America and invest in Europe and Asia. Additionally, a new ruling from the Centers for Medicare & Medicaid Services (CMS) for 2025 that increases payments to end-stage renal disease facilities further aided shares. At current valuation levels, we believe the Fresenius remains well-positioned from a risk/reward standpoint.

New holding, Italian bank, **Banca Monte dei Paschi** also increased following a quarterly earnings beat and subsequent raise in full year guidance. The Italian government also sold a portion of its stake in the firm further aiding share price appreciation. We believe the bank can provide long-term earnings stability through its recent actions to reduce interest rate sensitivity and improve asset quality, thereby enhancing profitability and the balance sheet. Additionally, the bank's increased payout ratio to 75% and attractive cash yield—the highest among European Union banks—bolsters our positive outlook. Furthermore, we think a favorable interest rate outlook alongside the company's solid capital profile and robust trading book as well as the potential for consolidation in the Italian banking sector presents additional upside potential.

Additionally, **Emaar Properties PJSC**, a property investment and development company in the MENA region, traded higher over the period on strong earnings results, highlighted by

[1] 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.

record quarterly residential sales, healthy margins and robust free cash flow. Additionally, the company announced an attractive long-term dividend policy to return capital to shareholders. Looking ahead, we believe Emaar Properties will continue to benefit from the post COVID recovery in Dubai's real estate market, which has been amplified by a large number of expatriates entering the country.

In contrast, French multinational tire manufacturer, **Michelin (CDGE)** was a notable underperformer in the period due to a challenging macro environment. Weaker-than-expected consumer demand caused a sharp decline in volumes resulting in to a top- and bottom-line earnings miss. Subsequently, management cut 2024 guidance and announced plans to close two of its factories by 2026 to reduce costs. Nonetheless, we remain enthusiastic about Michelin's strong global competitive position and pricing strategy. In our view, shares are trading at a large discount to historical multiples despite a stronger balance sheet, higher free cash flow generation and attractive returns of capital to shareholders.

French pharmaceutical company, **Sanofi** also underperformed. The new administration's decision to appoint a well-known vaccine critic as the future Secretary of the U.S. Department of Health and Human Services (HHS) weighed on pharmaceutical shares industrywide. In our view, the sell-off is an overreaction, as the vaccine business is a small part of Sanofi's total revenue. Moreover, vaccine effectiveness is supported by strong scientific evidence and real-world data, particularly for young, elderly and at-risk patients. At current valuation levels, we view Sanofi's vaccine business and its Respiratory Syncytial Virus (RSV) Antibody as underappreciated and believe the immunology pipeline continues to be overlooked. Also, we remain optimistic Dupixent will be a key long-term growth driver.

Finally, China-based E-commerce company, **JD.com, Inc.** detracted from performance in the period. The stock came under pressure as some investors took profits on solid earnings performance, while others became concerned with the implications tariffs could have on the Chinese economy. In our view, this share price action runs counter to the company's solid business fundamentals. The home appliance trade-in program and popular shopping event, Singles' Day, generated significant consumer spending across various product categories. Additionally, the company's strategic decision to diversify general merchandise product offerings, expand its third-party marketplace business and monetize advertising streams continues to aid the top- and bottom-lines. Despite the near-term noise, we continue to view the company's strategic positioning favorably and like JD.com's long-term growth prospects.

In addition to purchasing Italian bank, **Banca Monte dei Paschi**, we initiated seven new positions during the quarter.

We added global bank and financial services provider, **Barclays PLC**. We expect shares to benefit from a recovery in global capital markets and net interest income (NII) growth driven by macroeconomic hedging and asset flows. The bank is also planning to expand its investment banking advisory business. Moreover, its U.S. credit card business presents opportunities for either a potential sale or a quicker earnings recovery. Taken together, we see a reasonable path for Barclays to pursue its return targets, which include the distribution of £3 billion and £10 billion to shareholders through dividends and share repurchases between 2024 and 2026 and achieving a return on tangible common equity of about 12%.

We initiated a position in specialty insurance company, **Beazley plc**. The firm's diversified portfolio offerings include commercial property, specialty risk and cyber insurance. We find the growth and profitability profile of its property segment to be attractive as 100% of its business in North America is being generated by the booming Excess and Surplus (E&S) market—an area that caters to non-traditional, high-risk insurance needs. Cyber also presents an exciting structural growth opportunity for the company, particularly since insurance penetration of information assets is low. Looking ahead, we find Beazley's earnings outlook to be attractive, supported by its robust business mix, solid margins and improving capital profile.

We also bought leading European telecommunications services operator, **Orange SA**. The company offers mobile, fixed-line and broadband services to roughly 300 million customers across 26 countries. Orange SA has a strong market presence in France and Spain and is expanding operations across the Middle East and Africa (MEA). We believe positive subscriber trends and rational price increases across these markets will support long term revenue growth. For instance, Orange is gaining market share on its network and service quality in France; benefitting from merger synergies and monetizing the fiber business in Spain; and offering mobile data services to significantly under-penetrated regions in MEA. Meanwhile, as the company completes its fiber-roll-out in France, we expect higher profitability, free cash flow generation and increasing shareholder returns.

We purchased **Redeia Corp SA**, a Spain-based electricity provider. We believe Redeia's ability to generate robust earnings growth with further upside from additional regulatory drivers is currently being underappreciated by the market.

We added shares of leading pure-play producer of memory semiconductor products, **SK Hynix Inc**. In our view, SK Hynix is well positioned to benefit from increased deployment of its leading-edge High Bandwidth Memory (HBM) products, which are experiencing rapid demand growth to power Artificial Intelligence (AI).

We initiated a position in **Sega Sammy Holdings Inc.**, a Japanese holding company specializing in the development of video games and the production of pachinko and pachislot machines. We believe the company is poised to deliver higher earnings, driven by robust growth within its video game segment. This is largely due to the company's new multiplatform storytelling strategy centered around the firm's core intellectual property: Sonic, Atlus, and Like a Dragon. We believe it will help drive sales of both old and new titles, thereby boosting margins. Meanwhile, the pachinko and pachislot segment remains a profitable and stable cash flow generator for the company.

Lastly, we added **Vanguard FTSE Developed Markets ETF** as a cash alternative during the quarter.

By comparison, we successfully exited German reinsurer, **Munich Re.**, international supplier of systems and equipment in aerospace, defense, and security, **Safran SA** as well as high-tech solutions and services provider in the defense and satellite space, **Thales SA** on valuation. We also sold out of British home and auto insurer, **Direct Line Insurance Group Plc** and Korean-based leading manufacturer of mobile phones and smartphones, **Samsung Electronics Company, Ltd** to pursue more compelling opportunities.

The stock market dynamics of 2024 highlight a transformative shift in the global economy, fueled by advancements in artificial intelligence and geopolitical fragmentation. While the narrow ascent of AI themed stocks have driven market returns in recent years, opportunities should broaden to companies utilizing AI to create real-world efficiencies. As we head into 2025, there may be an over-reliance on the U.S. stock market to drive returns. With uncertainty surrounding rate cuts as well as the policy agenda for the new US administration, we expect heightened market volatility. We see this environment as conducive for active managers, whose knowledge, expertise and forward thinking enables them to look beyond the short-term noise and identify opportunities. Accordingly, we are finding many mispriced global and international stocks trading at a discount to their U.S. counterparts. Their valuation is attractive, profitability less vulnerable and balance sheets remain strong. Against this backdrop, our international and global portfolios are well-positioned to deliver stronger returns over the long run.

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 and exchange-traded funds (ETFs) 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 Fund invests may never be recognized by the broader market. The Fund is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market. Investing in equity stocks is risky and subject to the volatility of the markets.

Per the Fund's Prospectus as of February 1, 2024, Ariel International Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.29%. Currently, an expense ratio cap of 1.13% 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 12/31/2024, Fresenius Medical Care AG constituted 4.5% of Ariel International Fund; Banca Monte dei Paschi di Siena SpA 2.8%; Emaar Properties (P.J.S.C) 1.6%; Michelin 4.2%; Sanofi 4.9%; JD.com, Inc. 1.6%; Barclays PLC 2.7%; Beazley PLC 1.6%; Orange SA 1.6%; Redeia Corp SA 2.6%; SK Hynix Inc. 1.0%; Sega Sammy Holdings Inc. 2.0%; Vanguard FTSE Developed Markets ETF 0.2%; Direct Line Insurance Group PLC 0.0%; Munich Re 0.0%; Safran SA 0.0%; Samsung Electronics Co Ltd 0.0%; and Thales SA 0.0%.

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

Indexes are unmanaged. An investor cannot invest directly in an index. 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. Its inception date is 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 US and Canada. Its inception date is December 8, 1997. 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. Its inception date is 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. Its inception date is December 8, 1997. 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.

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 or Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

Ariel Investments

200 E. Randolph St., Suite 2900
Chicago, IL 60601

312.726.0140

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

SLOW AND STEADY WINS THE RACE