Ariel investments

Performance (%) as of December 31, 2024				Annualized			
	QTD	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Ariel Small Cap Value Tax-Exempt							09/30/1983
Gross of Fees	**-0.69**	**9.60**	**9.60**	**2.59**	**9.05**	**7.83**	**12.23**
Net of Fees	**-0.83**	**9.01**	**9.01**	**2.04**	**8.44**	**7.21**	**11.25**
Russell 2000™ Value Index	-1.06	8.05	8.05	1.94	7.29	7.14	10.16
Russell 2000™ Index	0.33	11.54	11.54	1.24	7.40	7.81	9.04
S&P 500® Index	2.41	25.02	25.02	8.94	14.52	13.10	11.57
Ariel Small Cap Value Concentrated							04/30/2020
Gross of Fees	**-0.54**	**12.07**	**12.07**	**2.69**	**-**	**-**	**15.45**
Net of Fees	**-0.67**	**11.46**	**11.46**	**2.21**	**-**	**-**	**14.88**
Russell 2000™ Value Index	-1.06	8.05	8.05	1.94	-	-	15.59
Russell 2000™ Index	0.33	11.54	11.54	1.24	-	-	13.56
S&P 500® Index	2.41	25.02	25.02	8.94	-	-	18.06
Ariel Small/Mid Cap Value							12/31/2000
Gross of Fees	**0.76**	**14.86**	**14.86**	**2.60**	**10.09**	**8.89**	**9.53**
Net of Fees	**0.65**	**14.34**	**14.34**	**2.09**	**9.49**	**8.30**	**8.67**
Russell 2500™ Value Index	-0.26	10.98	10.98	3.81	8.43	7.80	9.00
Russell 2500™ Index	0.62	12.00	12.00	2.39	8.76	8.85	8.88
S&P 500® Index	2.41	25.02	25.02	8.94	14.52	13.10	8.46
Ariel Mid Cap Value							03/31/1990
Gross of Fees	**0.00**	**7.71**	**7.71**	**2.00**	**8.14**	**7.33**	**11.07**
Net of Fees	**-0.14**	**7.14**	**7.14**	**1.46**	**7.57**	**6.76**	**10.13**
Russell Midcap® Value Index	-1.75	13.07	13.07	3.88	8.59	8.10	11.07
Russell Midcap® Index	0.62	15.34	15.34	3.79	9.92	9.63	11.28
S&P 500® Index	2.41	25.02	25.02	8.94	14.52	13.10	10.78

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: 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]

For the quarter, our small, small concentrated and mid-cap value portfolios outpaced the negative returns of their value benchmarks but fell short of the core, while our small/mid cap strategy bested its primary and secondary indices net of fees. For the twelve months ending December 31, 2024, our small cap and small-cap concentrated portfolios outperformed their primary Russell 2000 Value Index net of fees yet lagged the growthier Russell 2000 Index. Simultaneously, our small/mid cap value strategy nicely outperformed its value and core benchmarks net of fees for the year. Only our mid cap portfolio missed on both counts.

Roaring 1920s

A century ago, after World War I, the 1918 flu pandemic and U.S. recession of 1920-1921, the world enjoyed an economic, cultural, social and technological boom, later immortalized as the "Roaring Twenties." Remarkable advancements including electrification, automobiles, mass production, movies and radio communication had a profound effect on people's lives. The U.S. economy was further supercharged by a consumer credit boom spurred by the introduction of stock margin loans and the rise of installment buying. The widespread availability of credit fueled corporate growth and boosted the labor sector. Our modern consumer culture emerged during the age of speakeasies, jazz, flappers and liberal spending on everyday household items such as washing machines, vacuum cleaners and refrigerators. Between 1921 and 1929, the U.S. experienced an astounding +43% increase in GDP and the stock market soared to unprecedented heights. "It was the biggest bull stock market in U.S. history, when you factor in inflation . . . the real total return for the Standard & Poor's Composite Index (an S&P predecessor), including dividends, from September 1919 to September 1929 averaged 20 percent a year . . . implying a sixfold increase in real value over the decade."[3] However, this period of economic prosperity and financial exuberance came to a stunning and abrupt end when the stock market crashed in October 1929, marking the beginning of the Great Depression.

Eerie Similarities of the 2020s

Some find the potential parallels of today's steadily growing economy, era of consumerism, robust stock market returns and improving productivity driven by technological innovation—on the heels of the Covid-19 pandemic and related economic contraction from global lockdowns—obvious. Major technological advancements, coming along at an exponentially faster pace, including internet expansion, smartphones, 5G connectivity, social media, 3D printing, the cloud and artificial intelligence (AI) are transforming lives today. Yet, we remain in the early innings of the AI revolution in terms of adoption and integration. Meanwhile, human behavior remains the same. People are spending money on food, travel, experiences, clothes and technology. They are investing. Day traders armed with FinTech apps and message boards are leveraging their collective scale to "crowd fund" random stocks. Meanwhile, rising valuations for speculative investments, such as cryptocurrencies and non-fungible tokens (NFTs) are placing head-scratching value on any and all things digital. The stock market's rise since 2022 has been equally stunning. Driven by the powerful

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[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.
[3] Shiller, Robert J. "Looking Back at the First Roaring Twenties." The New York Times. 16 April 2021.

technology sector, the S&P 500 jumped +25.0% in 2024 returning its second consecutive annual gain of more than 25% for only the fifth time over the past 100 years.[4] However, this rare back-to-back occurrence masks the extreme bifurcation between the narrow ascent of the magnificent seven throughout 2023 and 2024; and the +14.8% annualized return delivered by the remaining stocks in the S&P 500 over the same period. With the resemblance to the original Roaring 20s seemingly palpable, many question if we can enjoy the party without suffering a similar hangover.

Will History Repeat Itself?

"Not coincidentally, the beginnings of many bubbles are found in periods of profound innovation that have the potential to structurally boost growth. . . [although] valuation extremes alone do not end bull markets."[5] Valuations may dislocate from fundamentals and appear expensive, but history suggests they can remain elevated for extended periods of time.

Figure 1: The Running of the Bulls From FDR to DJT

Start	End	Length (mo)	Return	%Gain/mo
6/1/1932	3/10/1937	58	324%	5.6%
3/31/1938	11/9/1938	7	62%	8.9%
4/11/1939	10/25/1939	7	27%	3.8%
4/28/1942	5/29/1946	50	158%	3.2%
6/13/1949	8/2/1956	87	267%	3.1%
10/22/1957	12/12/1961	50	86%	1.7%
6/26/1962	2/9/1966	44	80%	1.8%
10/7/1966	11/29/1968	26	48%	1.8%
5/26/1970	1/11/1973	32	74%	2.3%
10/3/1974	9/21/1976	24	73%	3.0%
3/6/1978	1/6/1981	35	59%	1.7%
8/12/1982	8/25/1987	61	229%	3.8%
12/4/1987	7/16/1990	32	65%	2.0%
10/11/1990	3/24/2000	115	417%	3.6%
10/9/2002	10/9/2007	61	101%	1.7%
3/9/2009	2/19/2020	133	401%	3.0%
3/23/2020	1/4/2022	22	114%	5.2%
10/13/2022	???	26	65%	2.5%
	Avg (ex. Current)	50	152%	3.3%

Source: Bloomberg, Evercore ISI Research

And with large cap valuations trading at nosebleed levels—even if things get more volatile—small, small/mid and mid cap equity valuations are not over-amped and would have less far to fall in a market decline. To this point, large cap growth stocks currently trade at 28.9x earnings compared to a 20-year historical average of 19.3x.[6] Meanwhile, the Russell 2000 Value Index currently trades at 17.2x compared to a 20-year historical average of 16.8x[7]; and its earnings growth is expected to outpace the Russell 1000 Growth Index as well as the Russell 3000 Index over the next two years. This dynamic suggests it may finally be time to celebrate earnings expansion and broaden the party to stocks beyond the world's largest tech giants.

Opportunities Ahead

The new U.S. administration's promise for tax reform and less regulation presents upside for capital markets and earnings growth in the years ahead. Small cap stocks typically benefit from lower taxes and borrowing costs as well as the associated economic growth monetary easing can generate. Furthermore, subdued

[4] Rotblut, Charles. "Stock Market History After Back-to-Back 20% Gains." American Association of Individual Investors, 9 January, 2025.
[5] Emanuel, Julian, et al. "2025 Through the Roaring '20's." Evercore ISI. 15 December 2024.
[6] Source: FactSet Market Aggregates
[7] Source: FactSet Market Aggregates

valuations, strong balance sheets and favorable credit conditions could set the stage for an acceleration in M&A activity as companies look to boost growth. A growing U.S. economy, moderating inflation and falling interest rates alongside a strong labor market, healthy household spending and borrowing as well as greater business investments further increase our optimism. Meanwhile, the government and Federal Reserve have proven to be far more adept in delivering a soft landing than their predecessors.

These positive indicators appear consistent with an economy that is still expanding. And while our industry exposures are an outcome of our investment process, we continue to lean further into our power alleys—Consumer Discretionary, Financials and Industrial companies—where demand is closely tied to an improving economic cycle.

Risk Factors

As the business cycle matures, we look for inflection points that could signal increasing risk in the economy and stock market. Although the majority of economic indicators suggest the bull market still has room to run, escalating geopolitical tensions, rising deficits, stubborn inflation, trade tariffs, tax reform, immigration restrictions and unpredictable monetary policy pose risks. We expect these uncertainties will likely result in greater volatility and widening dispersion of returns in 2025, creating opportunities for active managers with focused expertise to shine. In our view, higher quality companies with sustainable, profitable growth and robust balance sheets will be the drivers of future outperformance. As such, we remain mindful of valuations, earnings growth and liquidity in the context of economic conditions, consumer sentiment and global events. The Roaring Twenty-Twenties are here. But it is important to remember, booms cannot last forever.

Portfolio Comings and Goings

We continue to exercise patience and "not unlike everyday consumers, we believe the best values are currently to be had in our own 'closet.'"[8] We did not initiate or exit any positions across our portfolios in the quarter.

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

Sincerely,

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

Mellody Hobson
Co-CEO and President

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.

[8] Hobson, Mellody and John W. Rogers Jr. "Leveraging Uncertainty" *The Patient Investor*, 24 October 2022.

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 portfolios invest may never be recognized by the broader market. The portfolios are often concentrated in fewer sectors than their benchmarks, and their performance may suffer if these sectors underperform the overall stock market. A concentrated portfolio may be subject to greater volatility than a more diversified portfolio. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. Performance results are net of transaction costs and reflect the reinvestment of dividends and other earnings. Ariel Composite Net of Fees returns for Small Cap Value, Small/Mid Cap Value and Mid Cap Value 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.

Ariel Composite Net of Fees returns for Small Cap Value Concentrated are calculated by deducting 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. Any extraordinary performance shown for short-term periods may not be sustainable and is not representative of the performance over longer periods. Ariel's small, small concentrated, small/mid and mid cap portfolios differ from their primary benchmarks with fewer holdings and more concentration in fewer sectors. Effective August 1, 2010, the Ariel Mid Cap Value Composite was redefined to exclude pooled funds due to differences in performance calculation methods. The opinions expressed are current as of the date of this commentary but are subject to change. The information provided in this commentary does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. There is no guarantee that any expressed views will come to fruition or any investment will perform as described.

Index returns reflect the reinvestment of income and other earnings. Indexes are unmanaged, and investors cannot invest directly in an index. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios, lower forecast growth and lower sales per share historical growth. Its inception date is June 1, 1993. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index, representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is January 1, 1984.

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. Its inception date is July 1, 1995. 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. Its inception date is June 1, 1990. 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. Its inception date is February 1, 1995. 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. Its inception date is November 1, 1991. 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 (2 year) growth and higher sales per share historical growth (5 years). Its inception date is January 1, 1987.

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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