Ariel investments

2023 TCFD Climate Report

SLOW AND STEADY WINS THE RACE

TCFD Climate Report

Governance

Senior Oversight

Ariel Investments recognizes climate change presents both risks and opportunities to our business. As such, we have developed governance structures, policies and processes to review such critical issues. Ariel's board undertakes the following activities to ensure climate-related risks and opportunities are reviewed at the highest levels.

- The Corporate Responsibility, Sustainability and Governance Committee of the board reviews climate-related risks and opportunities at least annually.
- The Risk Committee and the ESG Committee report to the board at least annually on corporate-level and investment team strategies and activities.
- Material climate-related operational expenses are reviewed as part of our annual budgeting process.

The Risk Committee is comprised of senior leaders across the firm. The Committee conducts a quarterly review of firm risk exposure related to operational, reputational, compliance, regulatory and other non-investment issues. Climate-related risks are assessed as well. All findings are presented to the finance committee of the board each quarter and to the board as a whole annually.

Our ESG Committee meets quarterly to discuss topics including: firmwide ESG integration and engagement activities, third-party research, disclosure practices, training and professional development, marketplace trends, regulatory shifts, and adherence to the United Nations Principles for Responsible Investment (PRI). The ESG Committee also annually reviews our ESG Policy and facilitates our board's evaluation of each investment team's ESG approach, including their approach to managing climate-related risks and opportunities.

The ESG Committee is chaired by the Director of ESG Investing and is comprised of senior leaders from Domestic, Global and Emerging Markets Equities Research, Institutional Client and Investor Relations, Consultant Relations, Legal and Compliance, as well as Ariel Alternatives.

Our investment teams seek to assess and manage our exposure to climate-related risks and opportunities. They incorporate physical or transition climate risk and opportunity considerations into their analysis and/or direct company engagement when relevant and material.

TCFD Climate Report

Strategy

Climate-related risks, opportunities and impacts

In alignment with the TCFD recommendations, we assess climate-related risks related to our firm and operations, as well as our investment portfolios. With respect to operations, we consider both physical climate issues, i.e., risks stemming from more frequent or severe weather events such as flooding, droughts and storms, and transition issues, including the policy and legal, technology, market and reputational risks associated with the transition to a low carbon economy. We also consider climate-related opportunities both for our business and operations and across our investment portfolios. We consider risks and opportunities over timeframes of 1-2 years (short-term), 3-10 years (medium-term) and 10+ years (long-term).

Our proprietary approach to ESG investing, rooted in financial materiality, incorporates climate risk in our ESG evaluation of prospective and current portfolio companies. Transition risks such as regulatory or land-use policies, energy costs and stranded assets are key risks for many portfolio companies because they can impact business operations and continuity. Physical risks such as exposure to extreme weather patterns may affect supply or production and affect future revenue. Careful consideration of these factors can impact our fundamental analysis and assessment of a company's ability to manage such risks.

On the basis of our analysis, we have identified material climate risks and opportunities as summarized in the chart on the next page.

Climate risks and opportunities in our investment portfolio

At the portfolio level, we perform a quarterly climate risk analysis to monitor carbon footprint and carbon intensity metrics relative to our respective benchmarks. This analysis provides sector and security-level insights into relative contributions to portfolio emissions. It also monitors other metrics such as stranded assets, carbon risk management and climate opportunities. Furthermore, our dashboards monitor ESG opportunities, including those related to climate change to inform our assessments, training exercises, future research priorities and engagement targets.

Our investment teams incorporate physical or transition climate risk and opportunity assessments into their fundamental analysis and/or direct company engagement when relevant and material. As part of our bottom-up fundamental research process, the Domestic and Global investment teams assign a Proprietary ESG risk rating for a company. The EMV investment team develops a proprietary ESG view factoring in a company's risks and opportunities. Such assessments can be based on objective data or subjective judgment, including industry risk exposure, quality of ESG disclosure, forward-looking assessments of management performance, as well as other factors. Each team integrates their ESG assessments into financial valuations. As a result, ESG factors incorporated into our financial modeling and valuation work can directly impact portfolio construction.

Our Domestic ESG research process includes an assessment of companies' exposure to physical, regulatory and reputation-based climate transition risk, identification of climate-related business opportunities, review of companies' Scope 1, Scope 2 and Scope 3 disclosure practices, and evaluation of TCFD disclosures.

Climate risks and opportunities in our operations

Climate-related risks can negatively impact the ongoing operations of Ariel. We continue to monitor potential issues arising from carbon pricing, increased regulation and global supply chain disruption. Additionally, we seek to identify opportunities to achieve operational improvements specific to energy efficiency, water management and firmwide emissions. We actively monitor climate-related risks and have implemented various policies and procedures to mitigate climate impacts to our business operations, as follows:

- Our Chicago headquarters is located in an LEED Silver certified building
- Our New York City office (330 Madison Avenue) is located in an LEED Gold certified building

CLIMATE-RELATED RISKS | TRANSITION RISKS			
CATEGORY/TOPIC	**RISK/OPPORTUNITY**	**POTENTIAL FINANCIAL IMPACTS**	**TIMEFRAME**
MARKET RISK	• Changing customer behavior • Uncertainty in market signals	Reduced demand for goods and services due to shift in consumer preferences	Medium and long term
POLICY AND LEGAL RISKS	• Regulation of existing products and services • Exposure to litigation	Increased operating costs (e.g., higher compliance costs) Increased costs and/or reduced demand for products and services resulting from fines and judgments	Short, medium and long term
REPUTATION RISK	• Shifts in consumer preferences • Stigmatization of sector • Increased stakeholder concern or negative stakeholder feedback	Reduced capital availability	Short, medium and long term
CLIMATE-RELATED RISKS | PHYSICAL RISKS			
ACUTE RISK	• Increased severity of extreme weather events such as cyclones and floods	Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) Increased capital costs (e.g., damage to facilities) Reduced revenues from lower sales/output	Short term
CLIMATE-RELATED OPPORTUNITIES			
ENERGY SOURCE	• Use of lower-emission sources of energy • Participation in carbon market	Reduced operational costs (e.g., through use of lowest cost abatement) Reduced exposure to future fossil fuel price increases Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon	Short and medium term
PRODUCTS AND SERVICES	• Development and/or expansion of low emission goods and services	Better competitive position to reflect shifting consumer preferences, resulting in increased revenues	Short term

TCFD Climate Report

Risk Management

Climate Risk Management in Operations

Our Risk Management Committee maintains a Risk Assessment Heatmap to document and map identified risks to the appropriate Ariel owner. In consultation with the Risk Committee, Ariel's Chief Compliance Officer (CCO) maintains and updates the Risk Assessment Heatmap quarterly. With input from the Director of ESG, the Heatmap leverages TCFD's framework for physical and transition risks to identify and monitor key climate-related risks.

The Committee tracks the progress of any outstanding initiatives to address these identified risks.

Climate Risk Management in the Investment Process

Our investment teams incorporate physical or transition climate risk and opportunity assessments into analysis and/or direct company engagement when relevant and material as part of the broader review of any current or potential holding. As part of our disciplined approach to ESG integration and focus on risk management, we monitor a range of ESG indicators across our strategies. We regularly assess climate risk exposure at the portfolio level by reviewing metrics such as carbon footprint and carbon intensity relative to our benchmarks. Our ESG databases also track progress on portfolio company adoption of science-based targets, SASB-aligned disclosure and TCFD-aligned reporting. Ariel seeks dialogue with management teams to encourage improvement on ESG disclosure and performance across financially material ESG issues, including climate-related risks.

Metrics[1]

	2022*	2023**
TOTAL EMISSIONS	1,854.13 MTCO2e	2,620.85 MTCO2e
SCOPE 1	0 MTCO2e	0 MTCO2e
SCOPE 2	150.37 MTCO2e	124.42 MTCO2e
SCOPE 3	1,703.76 MTCO2e	2,496.43 MTCO2e
CARBON INTENSITY	15.9 MTCO2e/employee	19.6 MTCO2e/employee

[1] MTCO2e stands for metric tons of carbon dioxide equivalent. Environmental and energy use data included in this report are subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary. Consumption is based on raw data. Third-party data (such as electricity and fuel usage) has been obtained from sources believed to be reliable, but the suitability of the design and effectiveness of the third-party systems and associated controls over the accuracy and completeness of the data has not been independently assessed.

* Total is cumulative from calendar year 2022. Ariel's 2022 emissions inventory is restated using Climate Vault's carbon accounting methodology and includes partial corporate travel data. Our boundary includes our direct emissions for Scope 1, indirect emissions for Scope 2, as well as certain indirect emissions for Scope 3, namely business travel, employee commuting and purchased goods and services. Emissions data is reported under the GHG Protocol making use of activity- and spend-based data and is estimated for completeness where data is unavailable.

**Total is cumulative for calendar year 2023. Our boundary includes our direct emissions for Scope 1, indirect emissions for Scope 2, as well as certain indirect emissions for Scope 3, namely business travel, employee commuting and purchased goods and services. Emissions data is reported under the GHG Protocol making use of activity- and spend-based data and is estimated for completeness where data is unavailable.

Disclaimers

Ariel Investments, LLC ("Ariel") voluntarily provides the information in this report in an effort to align with the TCFD recommendations, respond to investor and other stakeholder requests and further enhance our collective understanding of how climate risk translates into Ariel's key risk categories. Thus, while certain matters discussed in this report may be significant, any significance should not be read as necessarily rising to the level of materiality used for the purposes of complying with U.S. and non-U.S. securities laws and regulations, even if we use the word "material" or "materiality" in this report.

Certain statements in this report are "forward-looking statements," including, but not limited to, those statements regarding our climate goals. Any forward-looking statement speaks only as of the date originally made and is based on management's then-current expectations. Ariel does not undertake to update any forward-looking statement to reflect the impact of circumstances or events that arise after any forward-looking statement was made.

Generally, forward-looking statements are not based on historical facts, but are subject to risks, uncertainties, changes in circumstances and assumptions that are difficult to predict and are often beyond Ariel's control and inherently uncertain. These statements are not guarantees of future results, occurrences, performance or condition and actual results may differ materially from those included in this report. In particular, assumptions, standards, metrics, methodologies and frameworks for measurement, reporting and analysis of climate change continue to evolve, vary across jurisdictions and regulatory bodies and are the subject of proposed regulatory changes in multiple jurisdictions, which may have a material impact on our future measurement and reporting, as well as the results of the efforts set forth in this report.

Ariel's ability to measure many of these goals is dependent on data expected to be measured, tracked and provided by our portfolio companies, vendors and other stakeholders; as a result, Ariel's ability to measure progress and meet its targets is subject to the quality and availability of such data, as discussed in this report. Further, Ariel has not, and does not intend to, independently verify third-party data.

Ariel is not making any recommendation or soliciting any action based upon this information and nothing in this document should be construed as constituting an offer to sell, or a solicitation of any offer to buy, securities in any jurisdiction to any person.