

Ariel Appreciation Fund

Quarter Ended March 31, 2025

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 Appreciation Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2025, the average annual returns of Ariel Appreciation Fund (Investor Class) for the 1-, 5-, and 10-year periods were -4.94%, +13.56%, and +4.93%, respectively.

Given the significant downturn since the quarter ended, we are closely monitoring the turn of events and assessing the situation daily. As we write, the commentary below reflects our current thinking in this ever-changing landscape.

Most major U.S. indices ended the first quarter of 2025 in the red, with investors fleeing to safety as optimism for another year of U.S. outperformance driven by economic momentum and the new administration's pro-business stance was quickly replaced by tariff fears and policy uncertainty. The Magnificent Seven¹, which drove most of the markets gains over the last three years, led the decline, falling nearly -15%. Value bested growth and large caps held up better than their small cap brethren. International equity markets, led by Europe and China, surged—delivering their strongest quarterly outperformance versus the U.S. in 15 years. Meanwhile, deteriorating confidence and apprehension about a global trade war is fueling recession fears. While Wall Street sits on edge and markets remain erratic, we are actively leaning into the volatility by judiciously acquiring the downtrodden shares of quality companies whose value should be realized over the long term. Against this backdrop, Ariel Appreciation Fund decreased -6.94% in the quarter, underperforming both the Russell Midcap Value and Russell Midcap indices, which returned -2.11% and -3.40%, respectively.

Several stocks in the portfolio delivered solid returns in the quarter. Toy manufacturer **Mattel, Inc. (MAT)** advanced over the quarter, following strong earnings results highlighted by solid sales growth, margin expansion and robust free cash flow generation. Management also provided full year 2025

guidance ahead of Wall Street expectations. With buyback activity expected to accelerate and the company poised to grow market share in 2025, we believe shares remain undervalued at current levels. Attractive opportunities to exploit its intellectual property through future film and TV projects only heighten our conviction.

Shares of leading food equipment manufacturer **Middleby Corporation (MIDD)** increased following management's announcement that the company is conducting a strategic review of its business portfolio. The news came shortly after activist firm, Garden Investments, acquired a minority stake in the company to gain board representation. They are seeking a potential divestiture of the Food Processing and Residential businesses to unlock value in the Commercial Foodservice segment. While the shares have been under pressure given the challenging macro backdrop and related concerns around new restaurant openings, we view these headwinds as transient. Longer term, MIDD's differentiated brands and focus on innovation should enable the company to benefit from secular demand for more automation and efficiency in the food service industry.

Leading provider of automated security solutions **ADT, Inc. (ADT)** also traded higher on solid earnings results. Despite the challenging macro backdrop, the company is demonstrating pricing power, a historically low attrition rate and growing free cash flow generation. Notably, ADT continues to improve its balance sheet through significant debt reduction. Management expects to maintain this momentum into 2025 with strong cash flow growth as well as a new share repurchase plan. With ADT's industry-leading brand and national presence, coupled with its Google and State Farm

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).



strategic partnerships, the company is well-positioned to be a prime beneficiary of growing demand for smart home technologies, including fully monitored residential security.

Alternatively, manufacturer and developer of laboratory equipment and biological testing, **Bio-Rad Laboratories Inc. (BIO)**, declined over the period after the National Institutes of Health (NIH) announced significant cuts to its internal funding structure. Management also issued disappointing guidance on continued softness in the biopharma and academic research segments as well as uncertainty in the funding environment. Despite the challenging backdrop, we believe the company offers a solid financial profile, including recurring revenue streams and rising operating profit margins.

Leading provider of audio components and precision electrical devices, **Knowles Corporation (KN)**, also traded lower following a quarterly earnings miss as slower than expected shipments of new specialty film products weighed on results. Meanwhile, demand from hearing aid companies for speakers/receivers is accelerating and management noted the industrial market appears to be stabilizing. Longer-term, we believe KN will benefit from a focus on niche and market leading positions in hearing health and precision devices, generating attractive revenue growth and free cash flows. At current levels, KN is trading at a meaningful discount to our estimate of private market value.

Lastly, new holding, **Norwegian Cruise Line Holdings Ltd. (NCLH)** declined alongside the sector during the period, following investor concerns about a potential new tax on cruise lines. Although, we believe the risk of any potential exposure is currently priced in, we note cruise lines operate globally and determining taxable income on a jurisdiction basis can be extremely complex. Generally, operators benefit from exemptions under Section 883 of the IRS code and bilateral tax treaties that relieve them from paying corporate income tax on profits beyond the taxes already paid in their operating regions. The elimination of the carve-out would require a Congressional vote. Meanwhile, NCLH continues to deliver robust quarterly earnings, highlighted by strong consumer demand, healthy onboard spending, attractive pricing, solid cost containment and sustained progress on leverage reduction. Looking ahead, NCLH remains focused on right sizing its cost base and improving margins to further strengthen its foundation for sustainable and profitable growth.

We purchased three new positions during the quarter.

We initiated two positions in the leisure and travel industry, cruise ship operator, **Norwegian Cruise Line Holdings Ltd. (NCLH)** and global health and wellness provider onboard cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)**. Shares of both companies traded meaningfully lower on investor concerns around a deterioration in consumer sentiment and related softening in discretionary spend due to

the economic slowdown. A potential new tax on cruise lines also weighed on NCLH's shares. In our view, these risks are currently priced in and present an attractive entry point. Notably, consumer demand and booking trends remain strong and both companies continue to deliver robust earnings growth. OSW's management continues to work to strengthen its balance sheet by paying down debt and returning capital to shareholders through buybacks and dividends.

Additionally, we purchased **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 are key differentiators. 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 sold out of global investment bank, **Goldman Sachs Group, Inc. (GS)**, as the name grew beyond the upper limit of Ariel Appreciation Fund's capitalization range in the quarter. Meanwhile, we exited drilling and production equipment provider, **NOV Inc. (NOV)**, America's largest ski resort operator **Vail Resorts, Inc. (MTN)** and retail drugstore operator, **Walgreens Boots Alliance Inc. (WBA)** to pursue more compelling investment opportunities.

Concerns for slower growth, higher inflation and mounting tail risks amidst tariffs fears and policy uncertainty continue to stoke recessionary fears. Still, the U.S. labor market remains on solid footing and balance sheets of U.S. financial institutions and households are generally in good shape. We are cautiously optimistic that these factors could protect against a severe downturn. Meanwhile, values are abundant when the investment environment feels the most uncomfortable. With 42 years of experience, we are trained and battle-tested for these moments. We believe bear markets and oversold stocks create ripe buying opportunities for long-term, patient investors. We are diligently evaluating the collapsing prices of stocks on our watchlist versus the long-term value embedded in these companies. In times like these, we believe the worst-case scenario gets priced in providing a



margin of safety² to buy and hold our favorite companies with confidence as the market digests the uncertainty. Despite the sell-off, our holdings are statistically cheap—trading at a significant discount to their private market values (PMV)³—also known as intrinsic worth. In the past, dislocations of this magnitude have often served as a prelude to the most robust recoveries.

Investing in mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. Ariel Appreciation 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.

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.

Per the Fund's Prospectus as of February 1, 2025, the Fund's Investor Class shares had an annual expense ratio of 1.14%.

As of 3/31/25, Mattel, Inc. constituted 4.0% of Ariel Appreciation Fund; The Middleby Corporation 2.9%; ADT, Inc. 2.0%; Bio-Rad Laboratories Inc. 2.5%; Knowles Corp. 2.2%; Norwegian Cruise Line Holdings, Ltd. 2.0%; OneSpaWorld Holdings, Ltd. 1.2%; Schlumberger NV 2.5%; Goldman Sachs Group Inc. 0.0%; NOV Inc. 0.0%; Vail Resorts Inc. 0.0% and Walgreens Boots Alliance 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 Appreciation 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 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. 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.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current prospectus or summary 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 prospectus or summary prospectus carefully before investing. Distributed by Ariel Distributors LLC, a wholly-owned subsidiary of Ariel Investments LLC. Ariel Distributors, LLC is a member of the Securities Investor Protection Corporation.

² Attempting to purchase a stock with a margin of safety does not protect investors from the loss of their investment, volatility associated with stocks, declining fundamentals, external forces, or our incorrect assumptions.

³ Discount to Private Market Value is the percentage discount the portfolio trades at relative to Ariel Investments' internal estimate of the portfolio's private market value (PMV). There is no guarantee that companies we invest in will achieve our PMV or projected future earnings.

