

Ariel Focus Fund

Quarter Ended March 31, 2023

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 Focus Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2023 the average annual returns of Ariel Focus Fund (investor class) for the 1, 5, and 10 year periods were -12.39%, +5.31%, and +7.36%, respectively.

Markets worldwide proved resilient in the first quarter, despite a wild ride of volatility. The Fed's balancing act between inflation and financial stability reached an unexpected tipping point, as rapid rate hikes stressed the banking system spurring a loss of consumer confidence, the closure of three U.S. regional banks after a run on deposits, and a forced takeover of Credit Suisse. Meanwhile, the economy has begun to show signs of cooling and credit conditions have started to tighten, both of which should help dampen inflation. Against this backdrop, Ariel Focus Fund traded up +0.35% in the quarter, trailing the +1.01% return posted by Russell 1000 Value Index and the +7.50% gain of the S&P 500 Index.

Several stocks in the portfolio had strong returns in the quarter. Leading supplier of solutions for combustion, hybrid and electric vehicles **BorgWarner, Inc. (BWA)** increased following a top- and bottom-line earnings beat, as well as a solid financial guidance for 2023, despite foreign currency headwinds. Meanwhile, BWA continues to successfully execute on its Charging Forward initiative and remains on track to deliver \$4 billion in electric vehicle sales by 2025. In our view, BWA's electric motor and driveline technology offerings position the company to grow intrinsic value throughout the evolution in the hybrid and electric vehicles market.

Entertainment holding company, **Madison Square Garden Entertainment Corporation (MSG)** advanced following an earnings beat driven by strength in its core entertainment business, including the *Christmas Spectacular*. The company is moving forward with the spin-off of its live entertainment business which will be named Madison Square Garden Entertainment. The remaining company will be called MSG Sphere Corporation and will include MSG Networks, TAO Hospitality Group and MSG Sphere, its upcoming Las Vegas property. In our view, this divestiture, which is expected to close in April, will address different investor bases. We think MSG Sphere Corporation will offer higher growth plus reasonable cash flow initiatives. Meanwhile, although the remaining assets are generally slower growing, they are also

stable cash flow generators which should enable deleveraging. Looking ahead, we remain bullish on premium live entertainment, digital access to sports, as well as the opportunity at the Sphere. We believe the underlying value of MSGE's physical assets coupled with management's expertise make this an attractive opportunity.

Additionally, global leader in enterprise software, **Oracle Corporation (ORCL)** traded higher in the quarter, driven by solid quarterly earnings, a material increase in the dividend as well as forward looking guidance that implies a substantial acceleration in organic cloud growth for full year 2023. We believe these results highlight ORCL's ability to effectively cross-sell and upsell apps and infrastructure, as well as the emergence of the company's cloud platform as a competitive offering.

Alternatively, several positions weighed on performance. Oil and natural gas explorer, **APA Corporation (APA)** traded materially lower alongside increased volatility across commodity markets at the end of the quarter. We view this price action to run counter to the company's solid business fundamentals. APA delivered strong earnings results in the period highlighted by solid U.S. well performance and greater production volumes in the North Sea and Egypt. Management remains focused on higher-margin oil developments, driving safety and operational improvements, as well as tightly managing costs. APA is also prioritizing a reduction in carbon intensity. At today's valuation, APA is currently trading at a 39% discount to our estimate of private market value.¹

Broad-based selling across the banking sector drove shares of regional banking services provider, **BOK Financial Corporation (BOKF)** materially lower, as a sudden run on Silicon Valley Bank's deposits sparked investor concerns about the health of the U.S. financial system. While we believe the actions taken by the Fed were well constructed and have proved effective thus far in walling off contagion, we acknowledge BOKF may be impacted by a reduced earnings trajectory in the near-to-mid-term. Meanwhile, the company continues to exhibit solid loan growth, healthy net interest

¹**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.



margins, strong capital levels and balance sheet liquidity, while asset quality also remains very strong. We therefore continue to believe BOKF remains well positioned for success, with strong underwriting standards, proven credit discipline, diversified business model (which includes banking and fee service businesses), and an experienced management team.

Finally, leading manufacturer and distributor of medical devices specializing in spine and dental products, **ZimVie, Inc. (ZIMV)** declined as disappointing financial results and 2023 guidance weighed on shares. Macroeconomic pressures, a slowdown in customer purchases, rising costs related to a new enterprise resource planning system as well as the anticipated impact of volume-based procurement in China presented challenges. Nonetheless, we believe recent headwinds will soften and expect the management team to continue to focus on research and development, as well as expand the product portfolio across its core value chain.

We did not add or exit any positions in the quarter.

As the market swings from one scenario to another, our sole consideration of recent events and macroeconomic developments is to consider their effect on the long-term intrinsic worth of our names over the next five-to-ten years. Given our “slow and steady” approach, we remain confident in our portfolio positioning, especially with our domestic strategies trading at a discount relative to their relevant indices. Looking ahead, we firmly believe the patient investor that stays the course and consistently owns differentiated businesses, with solid competitive positioning and robust balance sheets will likely achieve strong returns over the long run.

Investing in equity stocks is risky and subject to the volatility of the markets. 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 Fund invests may never be recognized by the broader market. Ariel Focus Fund is a non-diversified fund and more diversified investment, and therefore may be subject to greater volatility than a more diversified investment. The Fund is often concentrated in few sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

Per the Fund’s Annual Report for the year ended September 30, 2022, the Fund’s Investor Class had an annual net expense ratio of 1.00% and an annual gross expense ratio of 1.13%. Currently, expense ratio cap of 1.00% for the Investor Class is in place to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments, LLC (the Adviser) is contractually obligated to maintain this expense ratio cap through 9/30/24.

This commentary candidly discusses a number of individual companies. These opinions 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 opinion are as of the date of this commentary and can change without notice. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 3/31/23, BorgWarner, Inc. constituted 6.7% of Ariel Focus Fund; Madison Square Garden Entertainment Corporation 3.4%; Oracle Corporation 5.0%; APA Corporation 5.4%; BOK Financial Corporation 5.4%; and ZimVie, Inc. 1.8%. 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 Focus 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 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. 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



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