

# Ariel 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 Fund may be obtained by visiting our website, [arielinvestments.com](http://arielinvestments.com). For the period ended March 31, 2023, the average annual returns of Ariel Fund (investor class) for the 1-, 5-, and 10-year periods were -8.74%, +5.80%, and +9.06%, 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 Fund advanced +6.66% in the quarter, outperforming both the Russell 2500 Value Index and the Russell 2500 Index, which returned +1.40% and +3.39%, respectively.

Several stocks in the portfolio had strong returns in the quarter. Entertainment holding company, **Madison Square Garden Entertainment Corporation (MSGE)** 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.

Shares of leading entertainment company, **Paramount Global (PARA)** also increased in the period, as the company's fresh array of hit global content drove subscriber momentum worldwide. Paramount+ added a record 9.9 million subscribers

in the quarter, with global direct-to-consumer subscriptions rising above 77 million. Additionally, Paramount Pictures opened six #1 films in the U.S. box office in 2022 and regained its position as the most-watched media family in linear television. While we acknowledge investments in content and international expansion continue to weigh on cash flow, we expect spending to moderate as the company enhances its focus on profitability for its streaming service, which should drive free cash flow in 2024 and beyond. In our view, the company's long-term opportunity in streaming and the value of its proprietary content remain meaningfully underappreciated.

Additionally, Global cruise vacation company, **Royal Caribbean Cruises Ltd. (RCL)** advanced following a significant top- and bottom-line earnings beat, driven by strong consumer demand, higher occupancy, further improvement in onboard revenue and solid cost containment. Forward booking trends are also within historical ranges at record pricing. This gave management visibility to provide full year guidance, which includes RCL's expectation for yields to set a new record in 2023 and for the company's adjusted EBITDA to reach an all-time high. This forecast is in-line with the company's three-year initiative, the Trifecta Program to drive financial performance. At today's valuation, RCL is currently trading at a 37% discount to our estimate of private market value.<sup>1</sup>

Alternatively, several positions weighed on performance. Leading provider of automated security solutions **ADT, Inc. (ADT)** underperformed in the period. Although ADT reported solid quarterly earnings results, with revenue and EBITDA ahead of consensus as well as the solar segment returning to profitability, management provided a disappointing financial outlook for 2023. Longer-term, we believe ADT's industry-leading brand and national presence, coupled with its Google and State Farm strategic partnerships, position the company to be a prime beneficiary of growing demand for smart home technologies, including fully monitored residential security.

<sup>1</sup>**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.



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 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, boutique asset manager, **Affiliated Managers Group, Inc. (AMG)** declined in the period. Although global equity and quantitative outflows continue to moderate, AMG is experiencing strong investment performance within the alternatives segment as well as generating higher performance fees across its diversified set of strategies. Looking ahead, we remain excited about its pipeline of new investments in secular growth areas such as private markets, dedicated ESG strategies, liquid alternatives and wealth management. Meanwhile, AMG continues to take advantage of the company's low valuation, actively retiring 26% of AMG's shares outstanding since 2019.

Also during the quarter, we initiated a position in **Leslie's Inc. (LESL)**, the leading direct-to-consumer pool and spa care services company in the U.S. The company differentiates itself through its loyal client base, vertically integrated supply chain, scale advantage and seamless customer experience. Shares have recently sold off on near-term operational issues at a distribution facility, as well as concerns around the sustainability of the company's growth profile in a normalized, post-pandemic environment. Although we believe new pool installations will likely experience a slowdown, the install base has materially increased and ~80% of LESL's business is tied to recurring maintenance. We found this entry point as an attractive opportunity to own a differentiated retailer, well positioned to benefit from secular tailwinds in an industry, permanently elevated by the pandemic.

We did not exit any holdings in the period.

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 small- and 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 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 Annual Report for the year ended September 30, 2022, the Fund's Investor Class shares had an annual expense ratio of 0.98%.

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, Madison Square Garden Entertainment Corporation constituted 5.8% of Ariel Fund; Paramount Global 3.6%; Royal Caribbean Cruises, Ltd. 4.2%; ADT, Inc. 2.5%; BOK Financial Corporation 1.9%; Affiliated Managers Group, Inc. 3.5%; and Leslie's, Inc. 2.2%. 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 Fund.

A glossary of financial terms provided herein may be found on our website at [www.arielinvestments.com](http://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 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



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## Ariel Investment Trust

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