Ariel investments

Quarterly Commentary

Ariel Global 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 Global Fund may be obtained by visiting our website, arielinvestments.com. For the period ended March 31, 2025 the average annual total returns of Ariel Global Fund (Investor Class) for the 1, 5, and 10-year periods were +6.11%, +10.88%, and +6.52%, 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.

The first quarter of 2025 tested the long-held belief in "American exceptionalism." After reaching record highs in January, U.S. markets struggled as the new administration's pro-business policies were quickly replaced by tariff fears and policy uncertainty. The Magnificent Seven[1], which drove most of the market's gains over the last three years, led the decline, falling nearly 15% as America's leadership in Artificial Intelligence (AI) came into question. International equity markets surged delivering their strongest quarterly outperformance versus the U.S. in 15 years. Meanwhile, defensive sectors delivered standout gains, and capital inflows into European markets reached their highest levels in a decade. Chinese equities emerged as an unexpected bright spot for investors as well-publicized technological breakthroughs rekindled investors' interest in the Chinese internet and technology sectors. While market volatility may persist in the near term, decades of investing have shown us that periods of disruption often create compelling opportunities. As disciplined, long-term investors, we remain confident that our portfolio companies are well-positioned to navigate this uncertain environment. Against this backdrop, Ariel Global Fund traded +6.31% higher in the quarter, outpacing both its primary and secondary benchmarks, the MSCI ACWI and MSCI ACWI Value indices, which returned -1.32% and +4.77%, respectively.

Ariel's non-consensus approach seeks to identify undervalued, out-of-favor, franchises that are misunderstood and therefore mispriced. Ariel Global Fund was overweight Financials, Consumer Discretionary, Health Care and Utilities, meaningfully underweight Information Technology, Industrials, Consumer Staples and Communication Services, as well as lacked exposure to Energy and Materials. At the sector level, our stock selection within Information Technology, Consumer Discretionary and Health Care was the greatest contributor to returns, while currency forwards, Consumer Staples holdings and our avoidance of Energy were the largest performance detractors.

American healthcare company, **CVS Health Corporation (CVS)** outperformed in the period. Solid quarterly earnings results, better-than-expected 2025 guidance and the release of the preliminary 2026 Medicare Advantage Rate Notice, which proposes a meaningful increase for Medicare Advantage (MA) payments, drove performance. Meanwhile, management continues its focus on improving margins and enhancing its positioning in MA. CVS believes the program can remain an attractive business for Aetna and CVS Health over time as it implements a multi-year repricing strategy across plan level benefits. Meanwhile, CVS continues to take actions to drive long-term success, including the appointments of longtime company executive, David Joyner, as President and CEO and industry veteran, Steve Nelson, as President of Aetna to lead the turnaround efforts. CVS also added four new board members.

Israeli-based provider of products for information technology security, **Check Point Software Technologies Ltd.** also advanced on solid quarterly earnings results, highlighted by a significant beat in product revenues and double-digit billings

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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).

growth. Consumers are adopting more pillars of Check Point's platform and engaging in larger strategic commitments with Infinity and Quantum Force. Meanwhile, new CEO Nadav Zafrir, expanded the executive team to balance corporate and go-to-market leadership roles as well as bring more attention to customer facing functions. Check Point continues to be an astute steward of capital, pursuing organic growth and utilizing surplus cash to return capital to shareholders; and we like the company's exposure to the fast-growing cloud security market and its industry leading profitability.

Japanese video game publisher, **Bandai Namco Holdings, Inc.** traded higher following robust quarterly earnings results highlighted by strength across the digital home console business as well as the toys and hobby segments. Their latest title, *Dragon Ball: Sparking! ZERO* surpassed market expectations and was a key driver of earnings growth. Subsequently, management raised full year guidance and provided a three-year outlook inclusive of an enhanced shareholder payout policy.

Alternatively, market leader for computer storage systems, **NetApp Inc.** traded lower over the period following an earnings miss and disappointing fiscal fourth quarter guidance. While the outlook should represent the high point of NetApp's component costs, foreign exchange headwinds, weakness in global public sector demand and the impact of a divestiture also present headwinds. Meanwhile, the company continues to refresh its product solutions and expects rising demand for Artificial Intelligence (AI) infrastructure across geographies and verticals.

Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC) shares declined on weakening sentiment regarding Artificial Intelligence (AI) growth, the impact of tariffs and global macroeconomic uncertainty. TSMC has a dominant share of the global foundry market and is an industry leader in terms of scale, technology, customer service and execution. As such, we expect the company's earnings will benefit from secular growth trends of AI longer-term. Meanwhile, TSMC remains committed to returning capital to shareholders through buybacks and dividends.

Lastly, American software company, **Teradata Corporation (TDC)** fell during the period following disappointing quarterly earnings results and weaker-than-expected 2025 guidance as its cloud business continues to struggle. As a result, we exited the name to pursue more compelling opportunities.

We initiated five new positions in the quarter.

We purchased renewable energy and utility services provider, **Algonquin Power & Utilities Corporation**. We believe newly hired CEO, Rod West, will improve operations faster than Wall Street's expectations. We see a high likelihood that the Missouri State Bill 4 (SB 4) legislation passes, which includes several modifications and provisions related to utilities in the state. This is a positive catalyst for shares, as it's expected to facilitate more timely recovery of capital spent by utilities.

We also added **Bank Negara Indonesia**, which is one of the four largest banks in Indonesia. The bank has been repositioning its portfolio by phasing out expensive deposits and writing off higher risk assets while being selective on new loan origination with the help of a new standardized credit scoring system. Meanwhile, the bank is delivering modest earnings growth on higher quality loans and lower cost deposits. We see room for net-interest-margin expansion and an improvement in return-on-equity from current levels. We also believe the company has a long runway to increase penetration within the enterprise and commercial banking segments, particularly with initiatives aimed at gaining large customers across the social/public services, manufacturing and utilities sectors. Additionally, given the country's improving macroeconomic outlook, we expect a greater portion of the economy will become fully banked as the middle class continues to grow.

We initiated a position in one of the world's leading financial institutions, **Bank of America Corporation (BAC)**. We think the firm's revenue momentum across its capital markets group is underappreciated at current levels. We also expect the company's net interest income growth to exceed Wall Street expectations, despite a conservative outlook for loan growth and re-pricing. Meanwhile, a more favorable regulatory landscape, highlighted by a less restrictive capital rule should lead to a substantial increase in share buybacks. Taken together, we view the company's earnings outlook to be attractive, supported by higher profitability and free cash flow generation amidst an improving operating environment.

We bought Italian bank, **Intesa Sanpaolo SpA**. The company is laser-focused on organic growth and maximizing shareholder value by concentrating on its existing operations and client base. The bank's robust profit guidance for 2025 and beyond is primarily driven by asset inflows, growth in fees and insurance as well as cost control measures. This outlook supports the potential for high double-digit return-on-tangible-equity (ROTE) which could yield a re-rating. In our view, Intesa Sanpaolo is well-positioned to pursue its return targets, as well as give back capital to shareholders via dividends and share repurchases over the long-term.

Finally, we purchased global manufacturer of residential and commercial building materials, **Owens Corning (OC)**. The company's roofing segment is its primary profit driver, benefiting from a concentrated market with resilient revenues and high margins. OC's insulation business also offers solid profitability and long-term growth potential, given its focus on sustainability and CO2 footprint reduction, while the Door and Composite segments further diversify end market exposure. OC operates within an industry with high barriers to entry due to the requirements for localized manufacturing and robust distribution across channels. In our view, the company's leading market share in key product categories, such as U.S. asphalt shingle roofing and the North American fiberglass market, suggests significant scale advantages. We think management's focus on productivity and efficiency enhancements will lead to margin expansion and solid earnings growth over the long-term.

By comparison, in addition to exiting American software company, **Teradata Corporation (TDC)**, we also sold out of China's internet search and online community leader, **Baidu, Inc.**, leading electric utility across Asia, **CLP Holdings Ltd**, manufacturer of aluminum and magnesium die casting products, **Catcher Technology Co., Ltd.**, leading electric utility in Spain, **Endesa S.A** and one of the largest homebuilders in the U.S., **Lennar Corporation** to pursue more compelling investment opportunities. Meanwhile, we successfully exited Italian bank, **Banca Monte dei Paschi** and leading provider of dialysis services, **DaVita, Inc.** on valuation.

The U.S. administration's recent tariff announcements triggered an immediate shift in investor sentiment away from U.S. mega-cap technology companies toward less cyclical, defensive stocks. With persistent inflation concerns and signals pointing to a broader global economic slowdown, we anticipate continued market volatility and price dislocations. However, thoughtful active management can deliver significant value in this environment. Our international and global holdings currently trade at compelling valuations relative to their growth prospects, while maintaining the financial strength needed for operational resilience. We believe these fundamental characteristics—disciplined capital allocation, pricing power, and strategic positioning—will be the key differentiators to outperform over the long run.

Investments in non-U.S. securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving non-U.S. economies, markets, political systems, regulatory standards, currencies and taxes. The use of currency derivatives and exchange-traded funds (ETFs) may increase investment losses and expenses, and create more volatility. Investments in emerging markets present additional risks, such as difficulties in selling on a timely basis and at an acceptable price. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market. The 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.

As of February 1, 2025, Ariel Global Fund Investor Class had an annual net expense ratio of 1.14% and an annual gross expense ratio of 1.53%. Currently, an expense ratio cap of 1.13% is in place for the Investor Class to waive fees and reimburse certain expenses that exceed this cap. Ariel Investments LLC (the Advisor) is contractually obligated to maintain this expense ratio cap through 1/31/26. The net expense ratio for the Investor Class does not correlate to the Expense Cap due to the inclusion of acquired fund fees and certain other expenses which are excluded from the Expense Cap.

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.

As of 3/31/2025, CVS Health Corporation constituted 4.1% of Ariel Global Fund; Check Point Software Technologies Ltd. 3.7%; Bandai Namco Holdings Inc. 2.3%; NetApp, Inc. 1.4%; Taiwan Semiconductor Manufacturing Company, Ltd. 2.7%; Teradata Corporation 0.0%; Algonquin Power & Utilities Corporation 0.7%; Bank Negara Indonesia Persero Tbk PT 1.0%; Bank of America Corporation 1.7%; Intesa Sanpaolo SpA 1.6%; Owens Corning 0.9%; Baidu, Inc. 0.0%; Banca Monte dei Paschi di Siena SpA 0.0%; CLP Holdings Ltd. 0.0%; Catcher Technology Co. Ltd 0.0%; DaVita, Inc. 0.0%; Endesa SA 0.0% and Lennar Corporation 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 Global Fund.

A glossary of financial terms provided herein may be found on our website at www.arielinvestments.com.

Indexes are unmanaged. An investor cannot invest directly in an index. The MSCI ACWI (All Country World Index) Index is an equity index of large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. Its inception date is January 1, 2001. The MSCI ACWI Value Index captures large and mid-cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 24 Emerging Markets (EM) countries. Its inception date is December 8, 1997. All MSCI Index net returns reflect the reinvestment of income and other earnings, including the dividends net of the maximum withholding tax applicable to non-resident institutional investors that do not benefit from double taxation treaties. MSCI uses the maximum tax rate applicable to institutional investors, as determined by the company's country of incorporation. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

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