

# Ariel Focused Value

Quarter Ended June 30, 2025

The second quarter of 2025 was a period of extremes. Stocks tumbled in early April as the “Liberation Day” tariff announcement pushed the S&P 500 to the brink of bear market territory. Yet, after the initial plan was put on “pause,” equities staged a remarkable recovery. Reignited enthusiasm for artificial intelligence (AI) themed stocks, solid economic data and robust corporate earnings drove U.S. indices to new all-time highs. Growth beat value and large caps continued to outperform their small cap brethren. Although policy uncertainty and rising geopolitical risks will likely result in heightened volatility, we continue to view macroeconomic developments through the lens of our long-term investment horizon. Against this backdrop, the Ariel Focused Value Composite advanced +4.98% gross of fees (+4.88% net of fees) in the quarter, outpacing the Russell 1000 Value Index’s +3.79% gain, but underperforming the S&P 500 Index’s +10.94% return.

Shares of global leader in enterprise software, **Oracle Corporation (ORCL)**, accelerated following a significant top- and bottom-line beat and impressive full year 2026 outlook driven by accelerating demand for its cloud and AI capabilities. This supports our view that ORCL’s positioning as the leading provider of database software and cloud-based infrastructure is entrenched, making it a key beneficiary of global demand for generative AI development.

Producer and marketer of crop nutrients, **Mosaic Co. (MOS)**, also traded higher following the delivery of solid quarterly earnings results. The company expects phosphate markets to remain tight through 2025 supported by limited new supply, lower inventories and a reduction in imports driven by tariffs. MOS remains focused on cost discipline, improved free cash flow generation and maintaining an investment grade credit profile, while continuing to return significant capital to shareholders. Given management’s renewed discipline on capital allocation, we continue to believe the company is well positioned.

Additionally, supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** advanced following solid quarterly earnings results highlighted by organic revenue growth and margin expansion. Synergies from the integration of Snap One are also ahead of expectations. Meanwhile, REZI expects to substantially mitigate any headwinds from tariffs by increasing prices, repositioning inventory and by running its factories at different utilization rates. We believe REZI’s earnings

potential is underappreciated. The company is entering a new phase of sustainable growth driven by a secular preference for more connected smart home solutions and product innovation.

In contrast, leading manufacturer of consumer food products, **J.M. Smucker Co. (SJM)** declined during the period. Quarterly earnings benefitted from the company’s legacy businesses anchored by the Uncrustables brand and coffee portfolio, however continued challenges at Hostess weighed on results. Meanwhile, management delivered disappointing fiscal year 2026 guidance due to expected profit declines driven by inflation related to higher expected coffee costs, tariffs and continued weakness at Hostess. SJM remains focused on stabilizing revenue and management believes SKU and display rationalization alongside marketing investments will help. Longer-term, we continue to believe SJM’s portfolio of iconic and emerging foods brands, coupled with its broad-based innovation and productivity agenda, supports an attractive total shareholder return opportunity.

Oil and natural gas explorer, **APA Corporation (APA)** also detracted from relative performance in the quarter amid poor investor sentiment across the energy sector due to concerns of slowing global growth. The company continues to execute on its cost reduction plan and announced the divestiture of its Permian Basic assets in New Mexico to payday debt. Management remains laser-focused on increasing the operational efficiency of the Callon assets, free cash flow generation and returning capital to shareholders. We believe the company trades at a significant discount to its intrinsic value.

Lastly, oil services company, **Core Laboratories, Inc. (CLB)** declined in the quarter on mixed earnings results. Although increased demand for diagnostic services in U.S. onshore and offshore markets aided the Production Enhancement segment, this growth was neutralized by weaker-than-expected Reservoir Description performance due to seasonality, geopolitical tensions, tariff concerns and commodity price volatility. Importantly, management noted tariffs should not have a significant impact on the business given its service-related revenue. CLB’s product sales are also primarily manufactured and consumed domestically. Looking ahead, the company continues to project international growth from projects in the Middle East, Asia Pacific and West Africa and remains laser focused on generating positive free cash flow, reducing debt and improving its return on invested capital.



Also in the quarter, we bought shares of a company held in other Ariel portfolios during the quarter, **Generac Holdings, Inc. (GNRC)**, a leading global manufacturer of power generation equipment. The company has an unmatched distribution network, product portfolio and enjoys strong brand advantages. We believe this creates a wide moat for this niche business which commands around 80% market share in the North American residential market. Historically, growth has been limited due to a lack of awareness of the benefits of a home standby generator, as well as its high price point. More recently, however, more frequent weather-related and aging infrastructure related power outages have tipped the scales of awareness in both the residential and commercial markets. This awareness should continue to drive growth, margin expansion and free cash flow generation. The stock came under pressure due to concerns that tariffs and a weakening consumer environment would be penalized near-term demand, giving us an opportunity to acquire shares in a unique, high-quality business.

We did not exit any positions in the quarter.

It's impossible to control tariff policies, global trade negotiations and/or how geopolitics may reverberate across the economic landscape. As such, in times like these, we remain measured, deliberate and actively patient—with a willingness to take advantage of volatility with an eye towards long-term gains. Our current pro-cyclical positioning reflects our bottom-up conviction in undervalued businesses rather than macroeconomic prognostication.

In our view, underlying U.S. growth appears healthy, and we expect corporate profits will prove resilient. Although interest rates will likely remain “higher for longer,” tax cuts and deregulation should support the broadening of the current market rally beyond the AI trade. Consensus earnings estimates across a variety of sectors suggest the Russell 2000 Index could significantly outpace the Russell 1000 Index over each of the next two years<sup>1</sup>. Meanwhile, small cap stocks are trading at their biggest discount to large cap shares since the dot-com boom<sup>1</sup>. Once the performance gap between mega-cap growth stocks and smaller company counterparts narrows, we believe our portfolios should be rewarded.

Investing in equity stocks is risky and subject to market volatility. A focused portfolio may be subject to greater volatility than a diversified portfolio. The intrinsic value of the stocks in which the portfolio invests may never be recognized by the broader market. The portfolio is often concentrated in fewer sectors than its benchmarks, and its performance may suffer if these sectors underperform the overall stock market.

Past performance does not guarantee future results. For the period ended 6/30/25, the performance (net of fees) for the Ariel Focused Value Composite for the 1-, 5-, and 10-year periods was +10.39%, +11.68% and +7.13%, respectively. For the period ended 6/30/25 the performance for the Russell 1000 Value Index and the S&P 500 Index for the 1-, 5-, and 10-year periods was +13.70%, +13.93% and +9.19%, and +15.16%, +16.64% and +13.64%, respectively. Ariel Composite Net of Fees returns are calculated by deducting: (1) for the period from inception to December 31, 2013, the maximum advisory fee in effect for the respective period, applied on a monthly basis; and (2) for the period from January 1, 2014 onwards, the actual monthly advisory fee (on an asset-weighted basis) accrued for the accounts in the composite, using the fee rates in place as of the most recent calendar quarter-end. Gross returns do not reflect the deduction of advisory fees. Client returns will be reduced by advisory fees and such other expenses as may be incurred in the management of the account. Advisory fees are described in Part 2 of Ariel's Form ADV. Returns assume the reinvestment of dividends and other earnings. Returns are expressed in U.S. dollars. Current performance may be lower or higher than the performance data quoted. The Ariel Focused Value Composite differs from its benchmark with dramatically fewer holdings concentrated in fewer sectors.

The 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. There is no guarantee that any of the views expressed will come to fruition or any investment will perform as described.

As of 6/30/25, Oracle Corporation constituted 5.0% of the Ariel Focused Value Composite (representative portfolio); Mosaic Company 3.8%; Resideo Technologies, Inc. 5.2%; J.M. Smucker Company 4.4%; APA Corporation 3.9%; Core Laboratories, Inc. 1.7% and Generac Holdings, Inc. 3.7%. Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Ariel Focused Value Composite.

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 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

<sup>1</sup> Source: FactSet Market Aggregates



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.

