

Ariel Small Cap 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 Small Cap Value Tax-Exempt Composite advanced +7.72% gross of fees (+7.58% net of fees) in the quarter, outperforming the Russell 2000 Value Index’s +4.97% return, but falling short of the +8.50% gain posted by the Russell 2000 Index.

Wellness services provider for cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)**, was the top contributor to performance in the period. Strong demand for spa services and next generation medi-spa treatments continued to drive robust earnings growth despite investor concerns around a deterioration in consumer sentiment and related softening in discretionary spend. Meanwhile, management is paying down debt and returning capital to shareholders through buybacks and dividends.

Luxury adventure travel services company, **Lindblad Expeditions Holdings, Inc. (LIND)** also aided results in the quarter. Improved occupancy levels and net yield growth helped propel robust top- and bottom-line results. Additionally, full year 2025 and 2026 bookings are meaningfully ahead of the prior year as the company announced its entrance into the popular European river cruise market through a new partnership with Transcend Cruises. Meanwhile, LIND’s long-standing affiliation with Disney/National Geographic continues to evolve and be an important piece of its overall marketing and customer acquisition strategy. With the strengthened Disney/National Geographic relationship, expanded fleet capacity and increased scale of its branded portfolio, we believe the company is well-positioned for long-term multiple expansion.

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, 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.

Title insurer, **First American Financial Corporation (FAF)** also traded lower in the quarter as investors remain concerned that elevated interest rates and a weakening consumer environment will keep housing activity muted. Additionally, uncertainty remains over whether regulation to improve housing affordability will negatively impact demand for title insurance. Despite the noise and continued economic uncertainty, FAF delivered a top-and bottom-line earnings beat with broad-based revenue strength continuing to underscore steady margin improvement. While this year’s financial performance is off to a better start than management anticipated, FAF expects earnings to grow from current levels and believes the mortgage origination market is in the early stages of recovery. In our view, investors continue to underappreciate FAF’s scale, operating leverage and investment portfolio.

Lastly, **WEX, Inc. (WEX)**, a niche payment solutions provider for the fleet, travel and healthcare benefits industries, declined in the quarter. Although earnings were in-line with consensus expectations, management lowered full year guidance due to headwinds from fuel prices, interest rates and



foreign exchange. Nonetheless, share repurchases demonstrate management's confidence in the long-term momentum of the business. Looking ahead, we view WEX as a market leader in attractive, recurring and high margin niches, poised to benefit from growing payments outsourcing over the long-term.

Also in the quarter, we bought shares of bar-code manufacturer, **Zebra Technologies (ZBRA)**, which is held in other Ariel portfolios. ZBRA's brand strength, distribution network and commitment to innovation enable it to take share, earn industry-leading profitability and penetrate new markets. A recent pullback in the stock price provided an attractive entry point. Shares have come under pressure due to investor concerns around supply chain disruptions and tariffs. At current the valuation, we think the market is underappreciating ZBRA's alignment with the global effort to improve supply chain efficiency. At the same time, the company is leveraging the wide moat in its core business to expand into faster growing markets including warehouse robotics and machine vision. Meanwhile ZBRA continues to deliver prodigious free cash flow which we believe will continue to be deployed towards both growth and share repurchases.

By comparison, we exited leading provider of commercial credit data and analytics, **Dun & Bradstreet Corporation (DNB)** to pursue more compelling opportunities.

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.¹ Meanwhile, small cap stocks are trading at their biggest discount to large cap shares since the dot-com boom.¹ Once the performance gap between mega-cap growth stocks and smaller company counterparts narrows, we believe our portfolios should be rewarded.

Investing in small-cap companies is more risky and volatile than investing in large cap companies. 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. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. For the period ended 6/30/25 the performance (net of fees) for the Ariel Small Cap Value Tax-Exempt Composite for the 1-, 5-, and 10-year periods was +4.96%, +12.25% and +6.59%, respectively. For the period ended 6/30/25 the performance for the Russell 2000 Value Index and the Russell 2000 Index for the 1-, 5-, and 10-year periods was +5.54%, +12.47% and +6.72, and +7.68%, +10.04% and +7.12%, 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 Small Cap Value Tax-Exempt Composite differs from its primary benchmark in that it has fewer holdings and more concentration in fewer sectors.

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 6/30/25, OneSpaWorld Holdings, Ltd. constituted 5.8% of the Ariel Small Cap Value Tax-Exempt Composite (representative portfolio); Lindblad Expeditions Holdings, Inc. 4.5%; Resideo Technologies, Inc. 3.6%; Core Laboratories, Inc. 2.0%; First American Financial Corporation 4.1%; WEX, Inc. 2.9%; Zebra Technologies Corporation, Class A 1.5% and Dun & Bradstreet Holdings 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 the Ariel Small Cap Value Tax-Exempt Composite.

¹ Source: FactSet Market Aggregates



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 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios, lower forecast growth and lower sales per share historical growth. Its inception date is June 1, 1993. The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Its inception date is January 1, 1984. 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.

