

Ariel Small Cap Value Concentrated

Quarter Ended September 30, 2025

U.S. equities advanced meaningfully in the third quarter, propelled by the Federal Reserve's first rate cut of the year, robust corporate earnings growth, and broadening market participation. Investor enthusiasm for artificial intelligence continued to drive outsized gains in technology, particularly among the Magnificent Seven¹, while small caps outperformed as capital rotated into undervalued segments of the market. Despite persistent concerns around tariffs, inflation, and labor market softness, the macro backdrop remained supportive. GDP growth proved resilient, and both consumer spending and core inflation held steady, reinforcing the bullish narrative. Although lingering policy and geopolitical risks may contribute to heightened volatility, investor sentiment remains upbeat; and we continued to view macroeconomic developments through the lens of our long-term investment horizon. Against this backdrop, the Ariel Small Cap Value Concentrated Composite jumped +15.08% gross of fees (+14.93% net of fees) in the quarter, outpacing the +12.60% return posted by the Russell 2000 Value Index, and the Russell 2000 Index's +12.39% gain.

Supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** was the top contributor in the quarter driven by strong earnings and a subsequent raise in guidance. Organic revenue, EBITDA and adjusted EPS all exceeded expectations. The company also finalized its agreement with Honeywell, eliminating future financial obligations under their indemnification arrangement. In our view, REZI remains undervalued, with long-term growth supported by rising demand for connected smart home solutions and continued product innovation.

Brink's Company (BCO), a provider of logistics and cash management services, also advanced after surpassing quarterly earnings expectations and raising guidance. Financial highlights included broad-based organic revenue growth, stronger-than-anticipated profitability, and accelerating free cash flow generation. Additionally, the ATM Managed Services and Digital Retail Solutions segments notably expanded, with management anticipating sustained momentum through 2026. BCO continues to drive organic growth, expand margins, enhance free cash flow conversion, and maximize shareholder value. Strategic investments in technology and ongoing share repurchases further underscore

the company's commitment to long-term growth and capital discipline.

Additionally, **Norwegian Cruise Line Holdings Ltd. (NCLH)** traded higher following strong quarterly results underpinned by resilient consumer demand, healthy onboard spending, attractive pricing, and a reacceleration in booking trends. The company is allocating more capacity to the Caribbean next year and substantially enhancing its private island, Great Stirrup Cay. NCLH continues to de-leverage its balance sheet—reducing interest expense and extending debt maturities beyond 2030—positioning the company to exceed its long-range EPS target for 2026. Despite broader industry concerns surrounding the global minimum tax, NCLH remains unaffected due to its Bermuda tax domicile exemption. Looking ahead, the company is focused on optimizing its cost structure and improving margins to support sustainable, profitable growth.

In contrast, distributor of over-the-counter pharmaceutical drugs and products, **Prestige Consumer Healthcare Inc. (PBH)**, declined following mixed earnings results and a downward revision to full year guidance. Sales were impacted by limited inventory in the eye care segment, but the announced acquisition of Pillar5, a leading sterile ophthalmic manufacturer, is expected to strengthen supply over time. While ophthalmic recovery will be gradual, PBH reaffirmed its free cash flow outlook, supporting continued share repurchases and strategic acquisitions. Outside of eye care, the core portfolio delivered as expected, including gross margin expansion. We believe PBH has room to close its valuation gap relative to peers in the consumer healthcare sector.

Toy manufacturer **Mattel, Inc. (MAT)** also traded lower on mixed earnings, which were impacted by timing shifts in retailer order patterns due to tariff uncertainty while consumer demand remained healthy. Despite macro headwinds, gross margins expanded and EPS topped consensus, reflecting continued progress on profitability initiatives. While 2025 guidance was set slightly below initial expectations, management still expects revenue growth and market share gains. With resilient point of sale, disciplined cost control and active buybacks, we believe the quarter highlights operational momentum. Mattel's ability to monetize its IP through future

¹ The Magnificent Seven include Nvidia, Alphabet, Meta Platforms, Microsoft, Tesla, Apple and Amazon.com.



media projects supports our view that shares remain undervalued.

Lastly, wellness services provider for cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)** detracted from performance despite beating top- and bottom-line estimates and raising full-year guidance. Strong demand for spa and medi-spa treatments continues to grow earnings, even amid concerns around a deterioration in consumer sentiment and related softening in discretionary spend. OSW also announced AI-driven initiatives aimed at improving yields and expanding margins through automation and cost efficiencies. Meanwhile, management continues to pay down debt and return capital to shareholders through buybacks and dividends.

Also in the quarter, we initiated a position in **Middleby Corporation (MIDD)**, which is a leading food equipment manufacturer. While the shares have been under pressure due to the challenging macro-backdrop and related concerns around new restaurant openings, we view these headwinds as transient. Longer term, MIDD's differentiated brands and focus on innovation should enable the company to benefit from secular demand for more automation and efficiency in the food service industry.

By comparison, we exited specialty cutting tool insert maker, **Kennametal, Inc. (KMT)** to pursue more compelling opportunities.

As we enter the fourth quarter, U.S. markets are delicately balancing elevated valuations against a backdrop of emerging macroeconomic headwinds. The Federal Reserve's recent rate cut and possibility of further easing provides a measure of support, even as signs of moderating consumer demand and softening labor market dynamics suggest slowing growth. Yet, the underlying resilience of the U.S. economy and continued strength in corporate earnings remain constructive. Investor sentiment continues to be buoyed by AI-driven momentum, though risks tied to market concentration, policy uncertainty, and the ongoing government shutdown may contribute to heightened volatility. In this environment, we remain measured, deliberate, and actively patient—ready to capitalize on dislocations with a long-term lens. Our pro-cyclical positioning reflects bottom-up conviction in undervalued businesses rather than macroeconomic forecasts. We see compelling value in small-cap equities and select cyclicals, many of which are trading at historically attractive levels. Consensus earnings projections suggest the Russell 2000 Index may outpace the Russell 1000 Index over the next two years², with small caps currently trading at one of the steepest discounts to large caps since the dot-com era.² As the

performance gap narrows, we believe our positioning is well-aligned to capture the upside.

Investing in small-cap companies is more risky and volatile than investing in large cap companies. A concentrated portfolio may be subject to greater volatility than a more 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. Investing in equity stocks is risky and subject to the volatility of the markets.

Past performance does not guarantee future results. For the 1- and 5-year ended 9/30/25 and since inception on April 30, 2020, the performance (net of fees) for the Ariel Small Cap Value Concentrated Composite was +7.66%, +12.78% and +14.39%, respectively. For the 1- and 5-year period ended 6/30/25 and since inception on April 30, 2020 of the Ariel Small Cap Value Concentrated Composite, the performance for the Russell 2000 Value Index was +7.88%, +14.60% and +15.13%, respectively. And over the same periods the Russell 2000 Index delivered +10.76%, +11.56% and +13.64%, respectively. Ariel Composite Net of Fees returns are calculated by deducting the actual monthly advisory fee (on an asset-weighted basis) applicable to all 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 Concentrated Composite differs from its primary benchmark in that it has dramatically 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 9/30/25, Resideo Technologies, Inc. constituted 6.9% of the Ariel Small Cap Value Concentrated Composite (representative portfolio); Brink's Company 9.9%; Norwegian

² Source: FactSet Market Aggregates



Cruise Line Holdings, Ltd. 8.1%; Prestige Consumer Healthcare, Inc. 3.7%; Mattel, Inc. 3.2%; OneSpaWorld Holdings, Ltd. 10.4%; The Middleby Corporation 2.9% and Kennametal 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 Concentrated Composite.

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.

