

Ariel Small/Mid Cap Value

Quarter Ended December 31, 2025

U.S. equities delivered a modest gain in the fourth quarter, capping a third consecutive year of double-digit returns—an impressive accomplishment given the volatility earlier in the year. Markets navigated significant headwinds, including a sharp April sell-off following Liberation Day, the longest government shutdown on record and a surge in job cuts. Despite these challenges, resilient corporate earnings, easing inflationary pressure and growing expectations for more accommodative monetary policy helped restore investor confidence as the year progressed. Enthusiasm for artificial intelligence and cloud infrastructure continued to fuel outsized gains in Technology, while Consumer Discretionary benefited from improving sentiment and stabilizing household spending. Looking ahead, geopolitical risks and questions around the durability of economic growth and softening labor market dynamics may contribute to heightened uncertainty. However, investor confidence remains cautiously optimistic. We continue to view macroeconomic developments through the lens of our long-term investment horizon. Against this backdrop, the Ariel Small/Mid Cap Value Composite increased +2.56% gross of fees (+2.43% net of fees) in the quarter, slightly behind the Russell 2500 Value Index's +3.15% return, yet ahead of the +2.22% gain posted by the Russell 2500 Index. Over the trailing one-year period, the Ariel Small/Mid Cap Value Composite jumped +18.22% gross of fees (+17.63% net of fees), significantly outperforming both the Russell 2500 Value and Russell 2500 indices, which returned +12.73% and +11.91%, respectively.

Live entertainment, media and technology company, **Sphere Entertainment Co. (SPHR)** was the top contributor over the period, supported by strengthening business fundamentals due to robust consumer demand for *The Wizard of Oz*. Financial results continue to ramp as Sphere scales its concert residencies, attracts greater interest in immersive original films and drives higher utilization across show types. We believe the success of *The Wizard of Oz* will help accelerate discussions with partners for future Spheres, both in the U.S. and internationally. In our view, Sphere's Las Vegas venue and its scalable franchise potential represent a compelling long-term opportunity for growth.

Boutique asset manager, **Affiliated Managers Group, Inc. (AMG)** also advanced as the company continues to build momentum, with strong demand for differentiated, tax-aware investment solutions, particularly in the U.S. wealth channel. Affiliates like AQR are leading innovation in after-tax optimization strategies, reinforcing AMG's position in liquid

alternatives. Management is also reshaping its U.S. wealth platform, highlighted by the upcoming Brown Brother Harriman (BBH) partnership. This collaboration reflects AMG's ability to provide strategic capital and develop scalable, high-value offerings, including structured credit and expanded wealth solutions. Looking ahead, AMG expects meaningful earnings growth supported by record inflows into alternatives, contributions from recent investments, and disciplined capital allocation. With alternatives already a significant part of its business, AMG is focused on further scaling this segment to drive long-term value for clients and shareholders.

Additionally, **Madison Square Garden Entertainment Corp. (MSGE)** outperformed on strong earnings, driven by robust consumer demand for concerts and *The Christmas Spectacular*, along with healthy sponsorship, food and beverage sales. We believe MSGE has valuable real estate and may benefit from efforts to redevelop Penn Station, with Amtrak expected to select a master developer by May 2026 and begin construction by the end of 2027. With iconic venues like Madison Square Garden, Radio City Music Hall, Beacon Theatre and The Chicago Theatre, we believe MSGE is well-positioned to capitalize on continued demand for live entertainment.

Alternatively, global leader in for-profit education, **Adtalem Global Education (ATGE)** declined despite delivering a top- and bottom-line earnings beat. Total enrollment remained a bright spot, though growth slowed at Chamberlain due to execution challenges in marketing and conversion. Management reiterated that nursing education demand is strong and expects improvements in the coming few quarters. Meanwhile, fiscal 2026 guidance was reaffirmed, disappointing some investors and prompting profit-taking amid macro concerns. To underscore confidence in long-term growth, management accelerated its remaining share repurchase program and authorized a new buyback. We believe these actions, combined with strong fundamentals in healthcare education, position ATGE for durable growth once near-term execution issues are resolved.

Supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** also fell following mixed earnings results and a guidance cut—just one quarter after raising it. Weakness was concentrated in the residential HVAC channel, impacted by regulatory-driven refrigerant changes that disrupted demand for thermostats. While these



headwinds and enterprise resource planning (ERP) related costs weighed on near-term results, management expects HVAC inventory levels to normalize over the next few quarters and views ERP issues as transitory. Despite short-term challenges, underlying trends remain encouraging: original equipment manufacturer sales, security, retail and e-commerce all grew year-over-year, and gross margins expanded for the tenth consecutive quarter. Management reiterated confidence in 2026, noting internal targets above current Street estimates and a record ADI project pipeline. Additionally, the planned spin-off of ADI Global Distribution in the second half of 2026 is expected to unlock value, with margin expansion opportunities for both ADI and Products & Solutions. Long term, we believe REZI's scale, cost discipline, and strategic initiatives position the company for margin improvement and upside as macro conditions stabilize. We remain constructive on its ability to deliver shareholder value through operational execution and the upcoming separation.

Lastly, manufacturer and distributor of floorcovering products, **Mohawk Industries, Inc. (MHK)** traded lower during the period as housing market headwinds continued to pressure consumer demand, pricing and input costs. While earnings results were relatively in-line, management provided lower near-term guidance versus the Street expectations amid macro uncertainty. We believe MHK remains better positioned than peers, with domestically sourced products and ongoing cost restructuring. Meanwhile, new product momentum is driving mix and share gains in North America and the company increased its buyback authorization, reinforcing confidence in its long-term outlook.

Also during the quarter, portfolio holding **Interpublic Group of Companies (IPG)** was acquired by **Omnicom Group Inc. (OMC)**—the world's largest advertising agency holding company—during the quarter. We are holding the combined entity going forward as we believe Omnicom is differentiated by its foundation in creative excellence, breadth of client engagements across sectors and platforms, and its independence and longstanding client relationships. While the market remains concerned about the long-term viability of traditional advertising agencies amid technological disruption and competition from digitally-focused firms and consultancies, we see Omnicom's position as a trusted third-party advisor as increasingly valuable. With the rise of new digital platforms, data analytics, and privacy restrictions, Omnicom's ability to combine creative expertise with advanced analytical capabilities should continue to set it apart from new entrants and reinforce its leadership in a rapidly evolving marketing landscape.

We enter 2026 with a measured and cautious view on U.S. equities. While moderating inflation and generally resilient corporate fundamentals offer areas of support, markets continue to experience elevated volatility and index

performance remains heavily concentrated in a small number of large-cap stocks. These dynamics heighten the risk of sharper swings in sentiment and underscore the importance of selectivity.

Structural trends—particularly the continued adoption of artificial intelligence—are contributing to productivity gains and shifting competitive positioning across industries. However, the benefits of these developments are unevenly distributed, reinforcing the narrowness of market leadership and raising questions about the durability of recent performance patterns. At the same time, the U.S. economy may see some incremental improvement as financial conditions ease and targeted fiscal measures filter through, though the trajectory and breadth of any reacceleration remain uncertain.

Against this backdrop, we remain disciplined and long-term in our approach, grounding our decisions in bottom-up fundamentals rather than macro assumptions. We are mindful of key risks, including geopolitical tensions, fiscal constraints and evolving labor-market dynamics, as well as the potential for valuations in highly concentrated areas of the market to come under pressure. Still, solid corporate balance sheets, operational flexibility and the possibility of supportive policy actions help mitigate some of these concerns.

On balance, we believe our portfolios are well-positioned to navigate this environment. Our focus on robust balance sheets, durable fundamentals, valuation discipline, capable management teams and strong brands gives us confidence in our ability to capture attractive upside as market leadership evolves and opportunities broaden.

Investing in small-cap and mid-cap stocks is more risky and volatile than investing in large-cap stocks. 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 12/31/25 the performance (net of fees) for the Ariel Small/Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +17.63%, +10.74% and +10.30%, respectively. For the period ended 12/31/25 the performance for the Russell 2500 Value Index and the Russell 2500 Index for the 1-, 5-, and 10-year periods was +12.73%, +10.02% and +9.72%, and +11.91%, +7.26% and +10.40%, 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/Mid Cap Value 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 12/31/25, Sphere Entertainment Company constituted 4.7% of the Ariel Small/Mid Cap Value Composite (representative portfolio); Affiliated Managers Group, Inc. 5.5%; Madison Square Garden Entertainment Corporation 4.6%; Adtalem Global Education, Inc. 2.9%; Resideo Technologies, Inc. 2.7%; Mohawk Industries, Inc. 2.6% and Omnicom Group, Inc. 1.7%. 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 Small/Mid Cap Value 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 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 cap and current index membership. Its inception date is June 1, 1990. 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

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