

Ariel Small Cap Value Concentrated

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 Cap Value Concentrated Composite gained +1.43% gross of fees (+1.30% net of fees) in the quarter, lagging the Russell 2000 Value Index's +3.26% return and the Russell 2000 Index's +2.19% gain. Over the trailing one-year period, the Ariel Small Cap Value Concentrated Composite advanced +10.40% gross of fees (+9.79% net of fees), underperforming both the Russell 2000 Value and Russell 2000 indices, which returned +12.59% and +12.81%, respectively.

Boutique asset manager, **Affiliated Managers Group, Inc. (AMG)** 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.

Charles River Laboratories (CRL) also traded higher on solid quarterly results, reinforcing its position as a leader in outsourced drug development services. While biotech funding and large pharma budgets have moderated, outsourcing demand remains resilient and we believe CRL's scale and capabilities position it well for recovery. Although near-term growth is pressured as big pharma prioritizes clinical programs over nonclinical work, we view these shifts as temporary since nonclinical testing is essential to replenishing pipelines. Longer term, CRL's diversified portfolio and investments in high-growth areas like cell and gene therapy support durable growth and margin expansion. The company is streamlining operations, divesting non-core assets and maintaining leverage below 3x, while a new \$1B share repurchase authorization underscores confidence in its outlook. Despite macro uncertainty and near-term headwinds, we believe CRL's market opportunity is large, regulated and enduring; and its breadth and pricing power position it for renewed growth as demand normalizes.

Additionally, **Madison Square Garden Entertainment Corp. (MSG)** 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 MSG 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 MSG is well-positioned to capitalize on continued demand for live entertainment.

Conversely, supplier of residential thermal, comfort and security solutions, **Resideo Technologies, Inc. (REZI)** declined 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.

Norwegian Cruise Line Holdings Ltd. (NCLH) shares also fell as the cruise industry faces renewed skepticism following peer earnings, slowing yield growth and cautious guidance. While near-term cost pressures and market volatility persist, NCLH continues to show strength with record bookings, robust customer deposits, and a solid forward-booked position. Meanwhile, management remains confident in long-term demand, supported by strategic capacity expansion and enhancements to its private island, Great Stirrup Cay, which should boost Caribbean performance. With healthy liquidity and a clear path to further balance sheet improvement, we believe NCLH is positioned for sustained profitability.

Finally, leading global manufacturer of power generation equipment, **Generac Holdings, Inc. (GNRC)** traded lower on disappointing earnings results. Revenue, EBITDA and EPS all missed expectations and full year guidance was revised downward. The weakness was primarily in the company's core residential business, which faced softer demand due to fewer power outages. On the positive side, GNRC's commercial segment continues to perform well and management emphasized strong momentum and significant long-term growth potential in the data center market—a sector benefiting from rising energy needs and artificial intelligence infrastructure expansion. While near-term pressures remain, management is confident in the secular trends driving long-term growth, including increased demand for backup power solutions and energy resiliency. In our view, Generac's home standby generator business, combined with its expanding commercial and industrial opportunities, provide a compelling runway for market penetration, margin expansion and robust free cash flow generation over time.

Also in the quarter, we initiated a position in global leader in for-profit education, **Adtalem Global Education, Inc. (ATGE)**. The company's brand strength, diverse program offerings and hybrid campus-online presence distinguish it within a fragmented and competitive landscape. After several divestitures and the acquisition of Walden, investor concerns have shifted to the lingering pandemic headwinds to healthcare education demand, as well as the next wave of regulation targeted at for-profits. Despite regulatory uncertainty in U.S education, we view ATGE as well insulated. With strong fundamentals, consistent free cash flow, and leadership in nursing and the largest producer of African

American MDs and PhDs in the country, we believe ATGE is well-positioned to benefit from the ongoing healthcare labor shortage.

By comparison, we exited **Leslie's Inc. (LESL)**, a U.S. direct-to-consumer pool and spa care services company, to pursue more compelling opportunities.

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 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 12/31/25 and since inception on April 30, 2020, the performance (net of fees) for the Ariel Small Cap Value Concentrated Composite was +9.79%, +6.43% and +13.97%, respectively. For the 1- and 5-year period ended 12/31/25 and since inception on April 30, 2020 of the Ariel Small Cap Value Concentrated Composite, the performance for the Russell 2000 Value Index was +12.59%, +8.88% and +15.06%, respectively. And over the same periods the Russell 2000 Index delivered +12.81%, +6.09% and +13.43%, 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 12/31/25, Affiliated Managers Group, Inc. constituted 7.2% of the Ariel Small Cap Value Concentrated Composite (representative portfolio); Charles River Laboratories International, Inc. 4.1%; Madison Square Garden Entertainment Corporation 5.8%; Resideo Technologies, Inc. 4.6%; Norwegian Cruise Line Holdings, Ltd. 7.8%; Generac Holdings, Inc. 3.5%; Adtalem Global Education, Inc. 2.7% and Leslie's, 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.

