

Ariel Small 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 Cap Value Tax-Exempt Composite advanced +3.17% gross of fees (+3.03% net of fees) in the quarter, slightly behind the Russell 2000 Value Index's +3.26% return but ahead of the +2.19% gain posted by the Russell 2000 Index. Over the trailing one-year period, the Ariel Small Cap Value Tax-Exempt Composite increased +12.06% gross of fees (+11.46% net of fees), just shy of both the Russell 2000 Value and Russell 2000 indices returns of +12.59% and +12.81%, 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, specialty cutting tool insert maker, **Kennametal, Inc. (KMT)** traded higher after posting a strong earnings beat and raising full-year guidance. Organic growth was solid, supported by share gains, improving end markets, and favorable tungsten pricing. Margins exceeded expectations and the outlook for pricing remains positive. Meanwhile, KMT continues to maintain its commitment to shareholder returns via cash dividends, while executing on simplification and modernization initiatives. Its scale, product quality and low-cost production continue to help offset pricing pressures, while strategic initiatives aimed at enhancing economies of scale support future margin expansion. We remain constructive on KMT's disciplined execution and long-term growth potential.

Alternatively, 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.

Leading global manufacturer of power generation equipment, **Generac Holdings, Inc. (GNRC)** also 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.

Lastly, **Norwegian Cruise Line Holdings Ltd. (NCLH)** shares 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.

Also during the quarter, we purchased leading information services provider to the financial services industry, **FactSet Research Systems, Inc (FDS)**. The company's financial data and analytics are highly embedded into buy side and sell side workflows, making switching costs extremely high. Additionally, its data is aggregated and scrubbed across multiple public and private sources, making it hard to replicate and highly scalable across clients and use cases. The stock has been under extreme pressure recently as a moderating growth and margin profile have raised existential fears around artificial intelligence. Not only do we think these fears are overblown, but believe FactSet's highly predictable and profitable fundamental profile will be enhanced by more advanced features for its clients and more efficiency within the company.

We bought specialty insurance company, **RLI Corp. (RLI)** during the quarter. We believe RLI is differentiated by their expertise in niche areas of the market and their disciplined underwriting focus. They are one of the best underwriters in the U.S., having generated direct underwriting profits for 29 consecutive years across different economic environments. Currently, earned premiums for their Property segment are falling as RLI walks away from unprofitable business in a softening market. Combined ratios in their Casualty business have also increased due to inflationary pressures. While these factors are near-term headwinds, we believe RLI's disciplined underwriting approach positions the company to successfully navigate this cycle and sustain healthy earnings growth over the long term.

We reinitiated a position in bar-code manufacturer, **Zebra Technologies (ZBRA)** as the name traded back within the limit of Ariel Small Cap Value's capitalization range. The company's brand strength, distribution network and commitment to innovation enable it to take share, earn industry-leading profitability and penetrate new markets. We view this as an excellent opportunity to buy a wide moat, technology leader who stands to benefit from several secular trends that have both accelerated and expanded in recent years, particularly in the areas of operational and supply chain efficiency.

By comparison, we exited **Paramount Skydance Corp (PSKY)** on strong price appreciation, prompting us to realize gains once the stock reached our estimate of its private market value.

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. 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 Cap Value Tax-Exempt Composite for the 1-, 5-, and 10-year periods was +11.46%, +7.04% and +9.61%, respectively. For the period ended 12/31/25 the performance for the Russell 2000 Value Index and the Russell 2000 Index for the 1-, 5-, and 10-year periods was +12.59%, +8.88% and +9.26%, and +12.81%, +6.09% and +9.61%, 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 12/31/25, Sphere Entertainment Company constituted 3.3% of the Ariel Small Cap Value Tax-Exempt Composite (representative portfolio); Affiliated Managers Group, Inc. 4.7%; Kennametal, Inc. 1.8%; Resideo Technologies, Inc. 3.0%; Generac Holdings, Inc. 2.2%; Norwegian Cruise Line Holdings, Ltd. 4.5%; FactSet Research Systems, Inc. 1.4%; RLI Corporation 1.4%; Zebra Technologies Corporation 1.2% and Paramount Skydance Corporation 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.

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.

