

Ariel Small/Mid Cap Value

Quarter Ended March 31, 2026

U.S. equities experienced a volatile, risk off start with major indices declining and briefly entering correction territory amid a sharp March selloff. The S&P 500 posted its worst quarterly return since the third quarter of 2022, driven by an escalating Middle East conflict that pushed energy prices higher, disrupted global supply chains and revived inflation concerns. Rising bond yields pressured valuations and accelerated a shift away from the mega-tech leaders toward Energy and more defensive sectors. Expectations for rate cuts waned, weighing on market sentiment despite resilient underlying earnings. Although late quarter headlines suggesting a cease fire sparked a brief relief rally, ongoing uncertainty underscored the value of fundamentals driven investing.

Periods of stress often widen the disconnect between price and value, particularly for companies with sustainable earnings power. Anchored in our private market value discipline—refined over more than four decades and five market cycles—we maintain a patient, long-term perspective, grounded in the belief that durable investment outcomes are achieved through thoughtful ownership of high-quality businesses across full market cycles. We know investment opportunities grow when uncertainty is elevated and risk appetite is limited. Against this backdrop, the Ariel Small/Mid Cap Value Composite declined -1.02% gross of fees (-1.13% net of fees) in the quarter, underperforming both the Russell 2500 Value Index's +4.77% return and the +2.04% gain posted by the Russell 2500 Index.

Leading global manufacturer of power generation equipment, **Generac Holdings (GNRC)** was the top contributor this quarter as investors looked beyond near-term earnings softness toward the company's long-term growth potential. At investor day, management highlighted a multi-year growth trajectory supported by powerful tailwinds including rising electricity demand, higher power costs, grid reliability challenges and rapid growth in AI and data centers. Generac reaffirmed its 2026 outlook and introduced a three-year plan through 2028 targeting strong revenue growth, margin expansion and nearly 90% EBITDA growth. Strength in the Commercial & Industrial (C&I) segment, fueled by increasing data center and hyperscaler demand and a growing backlog, further boosted confidence. We believe investors are increasingly recognizing Generac's evolution from a home backup leader to a critical power infrastructure provider. We believe a durable residential base and expanding C&I opportunity driving sustained growth should drive higher margins and strong free cash flow.

Live entertainment, media, and technology company, **Sphere Entertainment Co. (SPHR)** traded higher during the quarter, supported by solid earnings and improving operating fundamentals. Strong demand for *The Wizard of Oz* is driving operating leverage as fixed costs are spread across higher attendance, supporting margin expansion. Momentum continues to build as the company expands concert residencies, broadens its immersive film offering and increases venue utilization. The success of the Las Vegas Sphere has also sparked growing interest from partners to develop additional locations in the U.S. and internationally, including a smaller-format Sphere planned for National Harbor and a larger venue under development in Abu Dhabi. We believe sustained demand for the Las Vegas Sphere, combined with the opportunity to build a global network of Spheres, underpins an attractive long-term growth trajectory for the company.

Shares of pure-play professional sports content company, **Madison Square Garden Sports Corp. Class A (MSG)** also advanced following the company's announcement that its board approved plans to explore a potential tax-free spin-off of the New York Knicks and New York Rangers into separate public companies. The news drew investor attention to the underlying value of the two franchises and raised expectations that a separation could provide greater transparency and clearer valuation benchmarks. The move came alongside favorable external data points, including higher published valuations for professional sports franchises and recent on-court success by the Knicks.

By comparison, alternative asset manager **Carlyle Group (CG)** traded lower during the quarter as investors weighed ongoing volatility across equity and credit markets against an otherwise constructive long-term outlook. While the firm outlined ambitious three-year financial targets and announced a sizeable share repurchase authorization at its investor day, the guidance largely reinforced longer-dated expectations rather than providing a near-term catalyst. Softer private credit activity amid market uncertainty, coupled with continued investment in platform capabilities, further pressured near-term sentiment. As a result, concerns around timing and earnings visibility outweighed CG's longer-term growth ambitions and shareholder return framework during the quarter.

Shares of **Norwegian Cruise Line Holdings Ltd. (NCLH)** also declined during the quarter after earnings guidance came



in below investor expectations. The results reflect a transitional period under new leadership as the company works through residual operational inefficiencies and a higher cost environment, including elevated fuel expenses. Booking trends were uneven, while pricing pressures and economic uncertainty weighed on sentiment. Although we believe recent board changes and increased shareholder engagement are constructive, the market has remained focused on near-term cost and execution risks rather than the longer-term benefits of improving governance and strategic realignment. Importantly, premium brands at the higher end of the portfolio—particularly Oceania Cruises—are showing materially improved booking trends, reinforcing the company’s brand strength and pricing power. In addition, Norwegian maintains solid liquidity and continues to make progress reducing debt to investment grade status, an important driver of long-term shareholder value.

Lastly, toy manufacturer, **Mattel, Inc. (MAT)** detracted from performance during the quarter after reporting weaker-than-expected earnings and guidance amid soft consumer demand. Results were also pressured by tariff uncertainty and elevated promotions, which pinched margins. During the period, management outlined a package of strategic investments aimed at reigniting growth, with a focus on digital gaming, direct to consumer capabilities and brand initiatives that go beyond traditional toys. While these investments are expected to drag down near-term profits, management anticipates they will ultimately generate attractive returns and become self-funding in 2027. Combined with ongoing cost efficiency efforts and a meaningful stock buy-back program, we believe the market is underestimating Mattel’s ability to unlock value from its iconic intellectual property through higher margin content, entertainment and brand extensions. In our view, the stock remains undervalued because this long-term monetization potential has yet to be reflected in today’s share price.

We did not initiate any new positions in the quarter; however, we exited asset manager, **Janus Henderson Group PLC (JHG)**, as shares began trading above our estimate of private market value.

We approach the remainder of the year with a measured and increasingly cautious outlook for U.S. stocks. While moderating inflation in select areas and generally resilient corporate fundamentals offer pockets of support, recession risks have risen amid persistent trade policy uncertainty and ever-growing geopolitical tensions. Although job growth remains solid, economic momentum and labor market conditions could soften if tariffs continue and inflation re-emerges. The U.S. consumer continues to show resilience, however, lower- and middle-income households are vulnerable to higher energy prices and broader cost pressures.

Globally, growth remains modest and uneven, with developments in the Middle East creating unforeseen economic shocks. Against this backdrop, we believe narrow large-cap tech leadership heightens the risk of abrupt shifts in sentiment and underscores the importance of selectivity.

In response, we remain disciplined and long-term in our approach, emphasizing bottom-up fundamentals over macroeconomic forecasting. We believe our focus on durable business models, strong balance sheets, capable management teams and leading brands should enable us to navigate near-term uncertainty while capturing 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 3/31/2026 the performance (net of fees) for the Ariel Small/Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +23.78%, +6.74% and +10.15%, respectively. For the period ended 3/31/2026 the performance for the Russell 2500 Value Index and the Russell 2500 Index for the 1-, 5-, and 10-year periods was +25.43%, +7.65% and +9.88%, and +23.45%, +5.48% and +10.59%, 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. Advisory fees paid by an account may be higher than the actual fee that applies to the composite as a whole, since the actual fee is asset-weighted and aggregated across all accounts. Advisory fee schedules are described in Part 2 of Ariel’s Form ADV. 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. 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 3/31/2026, Generac Holdings, Inc. constituted 3.1% of the Ariel Small/Mid Cap Value Composite (representative portfolio); Sphere Entertainment Company 4.4%; Madison Square Garden Sports Corporation 3.3%; Carlyle Group, Inc. 3.6%; Norwegian Cruise Line Holdings, Ltd. 3.4%; Mattel, Inc. 1.9% and Janus Henderson Group PLC 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/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 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.

