

Ariel Small/Mid Cap Value

Quarter Ended June 30, 2026

U.S. equities rebounded sharply in the second quarter, delivering their strongest quarterly gains since 2020. Easing geopolitical tensions, lower oil prices and resilient corporate earnings supported the advance, while leadership returned to growth-oriented sectors, particularly technology, semiconductors and AI-related businesses. Although macro uncertainty around inflation, interest rates and Fed policy persisted, improving earnings expectations helped sustain investor confidence. Periods of volatility often create opportunities as market sentiment moves more quickly than underlying fundamentals. Through it all, we remain focused on the long term as we seek to own high-quality businesses at attractive valuations. Despite the strong market recovery, performance dispersion remained significant, reinforcing the importance of fundamental research, valuation discipline, and a clear-eyed view of long-term business quality. Against this backdrop, the Ariel Small/Mid Cap Value Composite rose +15.08% gross of fees (+14.95% net of fees) in the quarter, falling short of both the Russell 2500 Value Index's +18.50% return and the +20.26% gain posted by the Russell 2500 Index.

Live entertainment, media, and technology company, **Sphere Entertainment Co. (SPHR)** was the top contributor during the quarter on 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 continued to spark growing interest from partners seeking 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 ongoing 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.

Leading global manufacturer of power generation equipment, **Generac Holdings (GNRC)** rose following a margin-driven earnings beat and subsequent raise in its full-year commercial revenue and margin guidance. Performance was fueled by strong demand in the Commercial & Industrial (C&I) segment, particularly from data centers and a growing backlog with visibility through 2027. Profitability benefited from pricing, a firmer residential backdrop and operating leverage

as the commercial business scales. The announcement of a global supply agreement with a leading hyperscaler further reinforced the company's expanding role in critical power infrastructure. We believe investors are increasingly recognizing Generac's evolution from a residential generator provider into a diversified, mission-critical power solutions platform. Additionally, expanding exposure to data center infrastructure, combined with a stable residential base, should yield a more resilient revenue mix, higher margins and stronger cash flow generation over time.

Shares of **Madison Square Garden Entertainment (MSGE)** also advanced following better-than-expected results, fueled by continued strength in concerts and solid growth in sponsorship and advertising. Earnings exceeded expectations, underscoring resilient demand for live entertainment. Sentiment was further supported by news that Amtrak selected a master developer for the Penn Station redevelopment project, which includes taking over MSGE's Infosys Theater. Our thesis remains centered on MSGE's ownership of iconic, irreplaceable venues with strong pricing power and high barriers to entry. A robust event pipeline, including marquee residencies and flagship productions like *The Christmas Spectacular*, supports sustained growth and cash flow visibility. Combined with a strong balance sheet and disciplined capital allocation, we view MSGE as a distinctive, asset-backed investment with durable demand tailwinds.

Conversely, shares of **Prestige Consumer Healthcare (PBH)** moved lower following disappointing earnings, driven primarily by ongoing supply constraints in its eye care segment and extended lead times in the Middle East. These issues weighed on revenue, EBITDA and earnings, while temporary disruptions tied to upgrades at the Pillar5 manufacturing facility further pressured performance. Despite these near-term headwinds, management continues to prioritize product quality, debt paydown and pursue strategic acquisitions, including Breathe Right and LaCorium Health, to expand into adjacent consumer health categories. Looking ahead, we believe Prestige is well positioned to navigate near-term challenges and drive long-term growth through portfolio strength, disciplined execution and targeted expansion.

Shares of alternative asset manager **Carlyle Group (CG)** fell following a modest earnings miss where flat AUM, net outflows, and slower fee-related earnings growth weighed on investor sentiment. Healthy fundraising and a growing pool of dry powder were offset by mixed investment performance and



the added pressure of elevated stock-based compensation. More broadly, concerns surrounding private credit, particularly potential stress in software lending tied to AI-driven disruption, impacted alternative asset manager stock prices. Given private credit's important contribution to industry asset growth, especially across wealth and retail channels, increased redemption activity raised questions about the durability of this growth trajectory. We continue to hold Carlyle as our long-term investment thesis remains intact, supported by strong fundraising momentum, significant undeployed capital and achievable targets for accelerating inflows and fee-related earnings. As deployment and realization activity recover, we see meaningful upside to both earnings power and valuation.

Finally, oil services company **Core Laboratories (CLB)** declined over the quarter as geopolitical tensions, weather disruptions and softer U.S. land drilling activity impacted performance. These factors weighed on revenue and margins, particularly as Middle East disruptions affected operations. While the company had previously flagged these challenges and delivered results in line with updated expectations, shares moved lower as investors focused on near-term earnings pressure. Despite this backdrop, management continued to return capital through dividends and share repurchases. In our view, CLB's global footprint and specialized services offer an attractive way to participate in future energy development cycles.

Also during the quarter, we initiated a position in **Haemonetics Corporation (HAE)**, a developer and distributor of a broad portfolio of hematology products and solutions. The company operates across three primary segments: Plasma, Blood Center and Hospital. The Plasma segment provides automated plasma collection systems and donor management software, while the Blood Center segment offers apheresis-based technologies that enable the collection, filtration and separation of blood components, returning remaining elements safely to the donor. The Hospital segment encompasses interventional technologies such as vascular closure devices and sensor-guided systems alongside comprehensive blood management solutions. With management's continued emphasis on life-sustaining healthcare applications, we believe Haemonetics stands to benefit from favorable demographic trends, rising demand for plasma-based therapies and continued innovation in critical care technologies.

We also purchased specialty insurer **RLI Corp. (RLI)**. RLI is among the industry's top underwriters, having generated underwriting profits for thirty consecutive years across multiple economic cycles. The company's expertise in niche areas of the market and their unique compensation program tied to underwriting profits that are paid over the life of an insurance product sets them apart from peers. Near-term results face headwinds as growth slows in a softening property

market while casualty loss trends remain elevated due to inflation. However, we believe RLI's proven underwriting discipline and long-term orientation will allow the company to navigate the current cycle and sustain attractive earnings growth over time.

By comparison, we exited specialty cutting tool insert maker, **Kennametal, Inc. (KMT)** on valuation as well as **Paramount Skydance Corporation (PSKY)** as the name approached our estimate of private market value.

We enter the second half of the year with a measured outlook. Globally, growth remains modest and uneven, while ongoing geopolitical tensions have the potential to create periods of economic and market volatility. At the same time, market leadership is still concentrated in a narrow group of large-cap technology companies, increasing valuation sensitivity and the potential for shifts in sentiment. The U.S. consumer continues to be an important source of support, though higher borrowing costs and persistent inflationary pressures are likely to weigh on certain segments of the economy.

Still, we remain focused on long-term value creation rather than short-term macroeconomic forecasts. Our investment approach is grounded in rigorous bottom-up research and emphasizes durable business models, strong balance sheets, capable management teams and sustainable competitive advantages. Armed with this time-tested framework, we seek to navigate near-term uncertainty while capitalizing on opportunities as market leadership broadens and company-specific fundamentals become increasingly important drivers of returns.

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 6/30/2026 the performance (net of fees) for the Ariel Small/Mid Cap Value Composite for the 1-, 5-, and 10-year periods was +31.95%, +8.43% and +12.02%, respectively. For the period ended 6/30/2026 the performance for the Russell 2500 Value Index and the Russell 2500 Index for the 1-, 5-, and 10-year periods was +38.54%, +10.28% and +11.28%, and +36.72%, +8.30% and 12.25%, 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 6/30/2026, Sphere Entertainment Company constituted 3.8% of the Ariel Small/Mid Cap Value Composite (representative portfolio); Generac Holdings, Inc. 3.9%; Madison Square Garden Entertainment Corporation 5.3%; Prestige Consumer Healthcare, Inc. 2.2%; Carlyle Group, Inc. 3.0%; Core Laboratories, Inc. 0.9%; Haemonetics Corporation 1.9%; RLI Corporation 1.2%; Kennametal, Inc. 0.0% and Paramount Skydance Corp. 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

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