

Ariel Small Cap Value Concentrated

Quarter Ended September 30, 2026

U.S. equities advanced in the third quarter, with the S&P 500 gaining +2.3% and the Nasdaq up +2.6%, but the headline gains masked a more bifurcated market beneath the surface. Strong earnings and enduring enthusiasm for artificial intelligence (AI) propelled a small group of technology giants higher, while rising interest rates, energy prices and geopolitical uncertainty weighed on the rest of the market. The Federal Reserve's September rate increase, against a backdrop of persistent inflation and resilient economic growth pushed treasury yields sharply higher and added to the pressure on small- and mid-cap companies.

As capital crowds into the market's most popular names, good businesses can fall from view—companies with sustainable competitive advantages, sound balance sheets and compelling long-term economics. When market euphoria becomes disconnected from the durability of company fundamentals, opportunities abound. Against this backdrop, the Ariel Small Cap Value Concentrated Composite posted a -5.99% gross return (-6.13% net of fees) for the quarter, lagging the Russell 2000 Value Index's -4.91% return but outpacing the Russell 2000 Index, which declined -7.23%.

Bar-code manufacturer, **Zebra Technologies (ZBRA)** was the top contributor during the quarter following a strong earnings report and raise to full-year guidance. Revenue growth accelerated across end markets and geographies, while margins and earnings exceeded expectations as management effectively navigated ongoing memory supply constraints through pricing actions and operational execution. According to management, demand remains robust, with component availability, rather than end-market weakness, serving as the primary constraint on growth. The company also continues to return capital to shareholders through buybacks. We believe ZBRA remains well positioned to benefit from secular adoption of automation, digital workflows and supply chain modernization, with improving fundamentals supporting further earnings growth.

Charles River Laboratories (CRL) advanced following a strong earnings report and an increase to full-year guidance. Results reflected improving demand across biopharma and biotechnology customers, supported by stronger bookings in Discovery & Safety Assessment and early signs of stabilization in research funding markets. Profitability also improved, driven by portfolio optimization and efficiency initiatives, including increased automation within Manufacturing Solutions. Additionally, the company

continues to repurchase shares while maintaining a strong balance sheet. We believe CRL will continue to benefit from a recovery in biopharmaceutical R&D spending, supporting sustainable growth and earnings expansion over time.

Boutique asset manager, **Affiliated Managers Group, Inc. (AMG)** rose during the quarter—due to earnings momentum and healthy demand for its alternative investment strategies. The business continues to benefit from a more diversified and durable earnings mix, supporting higher quality growth. Strong fund flows reinforced confidence in the strength of the platform, while ongoing buybacks further enhanced earnings growth. Overall, results reflected rising investor confidence in AMG's strategy, execution and long-term positioning.

By comparison, wellness services provider for cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)**, traded lower during the quarter despite reporting better-than-expected results and raising full-year guidance. The company continued to benefit from strong consumer spending trends, robust pre-booking activity and improving profitability, but shares came under pressure as investors questioned the sustainability of recent gains following a period of strong performance. We believe the weakness was driven primarily by profit taking rather than any deterioration in fundamentals. Management highlighted continued demand, opportunities to expand its MedSpa offering, early benefits from AI-driven initiatives and an accelerated pace of share repurchases. In our view, the market's reaction overlooked OSW's differentiated competitive position, favorable industry backdrop and multiple avenues for future earnings growth. We like the company's long-term prospects given its resilient demand, expanding service platform and ongoing operational improvements.

Norwegian Cruise Line Holdings (NCLH) declined as investors focused on weaker yield expectations, uneven booking trends and ongoing execution challenges. Sentiment was further pressured by softer demand, particularly for European itineraries. In the wake of higher fuel costs and geopolitical uncertainty, near-term guidance softened. While management has taken steps to improve commercial execution, revenue management and cost discipline, the market remains focused on near-term margin pressure and the pace of the turnaround. We believe NCLH's efforts to strengthen its premium brands, enhance destination offerings, improve the guest experience and reduce leverage, position the



business for more sustainable earnings growth over the longer term.

Lastly, leading global manufacturer of power generation equipment, **Generac Holdings (GNRC)** detracted from performance as investors weighed regulatory uncertainty surrounding foreign-made equipment used in the U.S. bulk power system and tempered expectations following a period of strong share price gains. These concerns overshadowed solid underlying results, including continued strength in the Commercial & Industrial (C&I) segment, margin expansion and a significant increase in the company's data center backlog. GNRC also secured a second hyperscaler agreement, further validating its growing role in critical power infrastructure and enhancing long-term growth visibility. While sentiment toward data center-related beneficiaries became more selective during the period, we believe GNRC's fundamentals are getting stronger. In our view, expanding exposure to data center power demand coupled with the resilience of its core residential business is enabling the company to evolve into a more diversified provider of mission-critical power solutions.

Also during the quarter, we received shares of **ADI Global Distribution, Inc. (ADIG)** and **Midera Food Processing, Inc. (MFP)** following their respective separations from our existing holdings, **Resideo Technologies, Inc. (REZI)** and **Middleby Corporation (MIDD)**. While both companies possess attractive business characteristics and favorable industry positions, we parted ways with both in order to redeploy the proceeds into higher-conviction names.

The U.S. economy remains remarkably resilient, supported by healthy corporate earnings, a strong labor market and sustained investment in AI. At the same time, lingering inflation, higher interest rates and elevated valuations leave less room for error.

This tension between economic strength and a more restrictive cost of capital is likely to shape the period ahead. While market leadership may remain concentrated, it has also created a bevy of opportunities beyond the handful of companies commanding investors' attention. As returns become increasingly driven by earnings rather than multiple expansion, we expect greater differentiation between businesses with durable growth, strong balance sheets and consistent cash generation and those that rely on optimistic assumptions.

We expect continued market volatility given the ongoing uncertainty looming around inflation, monetary policy and economic growth. We view volatility as our friend, since it enables actively patient investors to "buy low" which is the best way to make money. Looking ahead, we believe the environment should increasingly reward a disciplined, fundamental approach focused on businesses whose intrinsic

value and long-term earnings power are not fully reflected in current share prices.

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 period ended 9/30/2026 and since inception on April 30, 2020, the performance (net of fees) for the Ariel Small Cap Value Concentrated Composite was +5.57%, +4.86% and +12.97%, respectively. For the 1- and 5-year period ended 9/30/2026 and since inception on April 30, 2020 of the Ariel Small Cap Value Concentrated Composite, the performance for the Russell 2000 Value Index was +20.77%, +7.80% and +15.99%, respectively. And over the same periods the Russell 2000 Index delivered +16.20%, +6.34% and +14.04%, 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. 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 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 9/30/2026, Zebra Technologies Corporation constituted 4.7% of the Ariel Small Cap Value Concentrated Composite (representative portfolio); Charles River Laboratories



International, Inc. 5.2%; Affiliated Managers Group, Inc. 8.3%; OneSpaWorld Holdings, Ltd. 9.9%; Norwegian Cruise Line Holdings, Ltd. 4.9%; Generac Holdings, Inc. 6.7%; ADI Global Distribution, Inc. 0.0%; Resideo Technologies, Inc. 2.6%; Midera Food Processing, Inc. 0.0% and The Middleby Corporation 2.9%. 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. The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on The Nasdaq Stock Market. Its inception date is February 5, 1971.

