

Ariel Small Cap Value

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 Tax-Exempt Composite declined -3.34% gross of fees (-3.46% net of fees) in the quarter, outpacing the Russell 2000 Value Index and Russell 2000 Index, which fell -4.91% and -7.23%, respectively.

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.

Developer and distributor of hematology products and solutions, **Haemonetics Corporation (HAE)** also traded higher during the quarter following an earnings beat and an increase to full-year guidance. Stronger than expected growth in the plasma business, improving trends in the vascular closure franchise, solid margin expansion and strong cash flow generation buoyed results. Shares also benefited from a new supply agreement with CSL Plasma, which could meaningfully expand the company's revenue and earnings over time. We believe strengthening operating performance, improving profitability and momentum in the plasma franchise support Haemonetics' long-term growth outlook.

By comparison, **Norwegian Cruise Line Holdings (NCLH)** declined during the quarter 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.

Wellness services provider for cruise ships and destination resorts, **OneSpaWorld Holdings Ltd. (OSW)**, traded lower 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.

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 acquired **ADI Global Distribution, Inc. (ADIG)** following its spin-off from our existing holding, **Resideo Technologies, Inc. (REZI)**. As the market share leader in security, residential audio-visual and fire/life-safety distribution, we believe ADI benefits from significant scale within a highly fragmented industry. Following the spin-off, the share price was muted following soft near-term challenges associated with the recently acquired Snap One smart-home business. We view this weakness as an attractive entry point to owning a durable company with consistent growth, margin expansion potential and strong cash generation, supported by increasing demand for connected technologies and smart-home solutions.

Additionally, we received shares of global provider of food processing technology and automation, **Midera Food Processing, Inc. (MFP)**, following its spin-off from our existing holding, **Middleby Corporation (MIDD)**. The company's equipment is deeply embedded in the preparation, processing, packaging and food safety operations of industrial protein, bakery and snack producers. Since the separation, the stock has been largely stagnant as investors evaluate its ability to expand profitability and build scale through a combination of organic initiatives and strategic acquisitions. We view this uncertainty as an attractive entry point into a durable company with significant market share potential, supported by an expanding portfolio and customer demand for integrated systems that enhance productivity, quality and food safety.

Conversely, we exited **Leslie's, Inc. (LESL)** as continued operating deterioration, elevated leverage and rising liquidity concerns weakened our conviction in the investment case.

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. 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 9/30/2026 the performance (net of fees) for the Ariel Small Cap Value Tax-Exempt Composite for the 1-, 5-, and 10-year periods was +17.48%, +7.08% and +10.02%, respectively. For the period ended 9/30/2026 the performance for the Russell 2000 Value Index and the Russell 2000 Index for the 1-, 5-, and 10-year periods was +20.77%, +7.80% and +9.40%, and +16.20%, +6.34% and +9.84%, 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 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 9/30/2026, Zebra Technologies Corporation constituted 4.1% of the Ariel Small Cap Value Tax-Exempt Composite (representative portfolio); Charles River Laboratories International, Inc. 3.4%; Haemonetics Corporation 3.1%; Norwegian Cruise Line Holdings, Ltd. 2.7%; OneSpaWorld Holdings, Ltd. 5.0%; Generac Holdings, Inc. 3.6%; ADI Global Distribution, Inc. 0.7%; Resideo Technologies, Inc. 1.8%; Midera Food Processing, Inc. 0.7%; The Middleby Corporation 2.3% 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 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

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