

# Ariel Small 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 Cap Value Tax-Exempt Composite traded up +1.05% gross of fees (+0.92% net of fees) in the quarter, trailing the Russell 2000 Value Index's +4.96% return but slightly ahead of the +0.89% gain posted by the Russell 2000 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.

Luxury adventure travel company **Lindblad Expeditions (LIND)** also advanced following an earnings beat, as cruise occupancy continues to recover and pricing remains strong. Near-term profitability was tempered by planned investments in fleet maintenance, marketing and the expanded Disney partnership, as well as higher fuel costs. We view these cost pressures and investments as intentional and strategic, positioning the company to support long-term demand, enhance brand equity and drive sustainable growth. The Land Experiences segment continues to scale, supported by recent acquisitions that diversify revenue and reduce seasonal cash flow volatility. Looking ahead, we see management's full year 2026 outlook as conservative given booking trends, expanded fleet capacity and the growing earnings contribution from land based offerings. With a strengthened Disney/National Geographic partnership, an expanded branded platform and increasing scale, we believe Lindblad is well positioned for long-term multiple expansion.

Additionally, shares of leading supplier of circuit protection products, **Littelfuse, Inc. (LFUS)** rose after issuing solid revenue and earnings guidance, signaling a recovery in its core Electronics business. Littelfuse's circuit protection and high voltage power solutions are benefiting from increased demand from data centers and utility infrastructure. While some end markets remain uneven, management noted improving industrial trends and continued share gains in higher value applications. Under new leadership, the company is focusing on its most strategic, higher return platforms while streamlining less differentiated areas. With improving cyclical conditions, an expanding data center opportunity and disciplined capital allocation, we believe Littelfuse is positioned for durable growth and long-term shareholder value.

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

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.

Finally, shares of logistics and cash management services provider, **Brink’s Company (BCO)** traded sharply lower during the period despite stronger than expected revenue and earnings growth as well as continued momentum in its ATM Managed Services and Digital Retail Solutions businesses. The decline followed the announced acquisition of NCR Atleos, which raised investor concerns around increased leverage, potential dilution and near-term free cash flow pressure. With an expected close in early 2027, the combination more than doubles Brink’s growth opportunity in ATM Managed Services. Meanwhile, the cost synergies would be accretive to EPS. Given its core business resilience and management’s strong track record of execution, we believe the market is underappreciating the company’s long-term earnings power.

We did not initiate or exit any positions during the quarter.

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.

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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 3/31/2026 the performance (net of fees) for the Ariel Small Cap Value Tax-Exempt Composite for the 1-, 5-, and 10-year periods was +26.01%, +4.41% and +9.63%, respectively. For the period ended 3/31/2026 the performance for the Russell 2000 Value Index and the Russell 2000 Index for the 1-, 5-, and 10-year periods was +28.09%, +5.80% and +9.61%, and +25.72%, +3.77% and +9.88%, 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 3/31/2026, Generac Holdings, Inc. constituted 2.9% of the Ariel Small Cap Value Tax-Exempt Composite (representative portfolio); Lindblad Expeditions Holdings, Inc. 3.5%; Littelfuse, Inc. 2.6%; Norwegian Cruise Line Holdings, Ltd. 3.4%; Mattel, Inc. 1.7% and Brink's Company 3.5%. 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](http://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.

