MONTHLY COMMENTARY

• Value • Deep value • Global

Investing in small- and mid-cap stocks is riskier and more volatile than investing in large-cap stocks. The intrinsic value of the stocks in which Ariel Fund invests may never be recognized by the broader market. Ariel Fund often invests a significant portion of its assets in companies within the financial services and consumer discretionary sectors, and its performance may suffer if these sectors underperform the overall stock market.

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance assumes the reinvestment of dividends and capital gains, and represents returns of the Investor Class shares. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the period ended September 30, 2016, the average annual total returns of Ariel Fund (Investor Class) for the 1-, 5- and 10-year periods were +15.55%, +18.42% and +6.96%, respectively. The Fund's Investor Class shares had an annual expense ratio of 1.02% for the year ended September 30, 2015. Performance data current to the most recent month-end for Ariel Fund may be obtained by visiting our website, arielinvestments.com.

Month Ended October 31, 2016

As you know, we are celebrating the 30th anniversary of Ariel Fund, which has been continually managed by John W. Rogers, Jr. since its November 6, 1986 inception. It is very rare for any fund to survive 30 years, especially with the same manager. Many may not know just how rare it is.

According to Morningstar, there are currently 2,288 U.S. Equity mutual funds—one share class per fund. Setting aside funds lacking key data, we examined 2,279 funds. The table below shows groups of fund by longevity—the first column showing how many funds fall in an age range and the next showing how many funds have a manager whose tenure falls in that range.

U.S. Equity Mutual Fund Longevity		
# of Years	**# of Funds**	**# of Managers**
50+	57	0
40-49	42	2
30-39	108	17
25-29	144	34
20-24	330	90
15-19	504	234
10-14	392	482
5-9	305	636
<5	397	784

As you can see, very old funds and very long manager tenures are rare, but the latter more so. Of the 2,279 funds in the table above, only 207, or 9% of this group, have 30 years like Ariel Fund does. That is *ten times* more common than a manager who has tenure of 30 years or more on the same fund: only 19 managers representing 0.8% of the funds in this group have done so.

We were also so struck by the brevity of most track records and manager tenures. Nearly one-third (31%) of U.S. equity mutual funds are less than ten years old. Moreover, almost two-thirds (62%) lack a manager with more than a decade's experience on the fund. Admittedly this statistic does not fully measure manager experience; our own David Maley has managed Ariel Discovery Fund since its inception in 2011—despite decades managing money. Still, it is noteworthy that only half of the U.S. equity funds have a manager dating back to the Great Financial Crisis of 2007-2009.

Finally, a quick peek at returns. As you know, the subject now dominating discussions about investing is active versus passive, where the latter has captured consensus—a subject we addressed in our most recent traditional value quarterly letter. This month, we looked at funds with returns from November 6, 1986 through September 30, 2016. True, the S&P 500 Index did beat most of the funds. And yet, nearly one-third of the funds beat the broad market benchmark. Moreover, the top fund, Fidelity Contrafund, more than doubled the large-cap index's cumulative return. Ariel Fund was among the funds trouncing the index, with a +11.19% annualized and +2,284.15% cumulative return, well above the +10.05% and +1,652.27% gains of the S&P 500 Index. All too often, the argument is constructed win/lose. We think it is worth remembering: this is investing, which is not measured in binary lead/lag terms but in dollars. And dozens of long-tenured managers have compounded dollars better for investors the last 30 years than a passive stake in an S&P 500 Index fund would have.
