

# Ariel

**Ticker** ARGFX **Status** Open **Yield** 0.0% **Total Assets** \$2,062 mil **Mstar Category** Mid-Cap Blend

## Governance and Management

### Stewardship Grade:

### Portfolio Manager(s)

John Rogers, founder of Ariel Capital Management and architect of the firm's investment strategy, has managed this fund since its inception. He has more than 20 years of investment experience, specializing in small- and mid-cap stocks. John Miller formally became comanager on Nov. 20, 2006; he's been with Ariel since 1989 and has worked on the fund for years. Rogers works with about eight analysts. The analysts follow companies on their assignment lists closely, providing regular updates and recommendations.

### Strategy

Managers John Rogers and John Miller seek smaller-cap stocks that are selling at a discount of 40% or more to their estimate of their intrinsic values. They favor firms with strong brands or franchises that operate in consistent and stable industries, have sound balance sheets, generate lots of cash, and have strongly motivated management teams. The portfolio is typically concentrated in about 40 or fewer stocks.

### Performance 05-31-10

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2006	8.11	-6.21	2.42	6.25	10.35
2007	3.94	7.89	-6.02	-6.73	-1.70
2008	-11.21	-9.15	-2.38	-34.28	-48.25
2009	-16.10	34.75	34.11	7.79	63.42
2010	9.00	—	—	—	—

Trailing	Total Return%	+/- S&P 500	+/- S&P 400 TR	%Rank Cat	Growth of \$10,000
3 Mo	4.48	5.37	0.82	11	10,448
6 Mo	12.64	12.24	0.46	12	11,264
1 Yr	51.93	30.94	17.41	1	15,193
3 Yr Avg	-8.31	0.38	-3.86	60	7,708
5 Yr Avg	-0.67	-0.98	-4.75	88	9,669
10 Yr Avg	7.44	8.26	1.27	8	20,496
15 Yr Avg	9.95	3.17	-1.20	25	41,489

Tax Analysis	Tax-Adj Rtn%	%Rank Cat	Tax-Cost Rat	%Rank Cat
3 Yr (estimated)	-8.94	55	0.69	39
5 Yr (estimated)	-1.52	85	0.85	37
10 Yr (estimated)	6.40	5	0.96	35

Potential Capital Gain Exposure: -4% of assets

### Morningstar's Take by Michael Breen 04-29-10

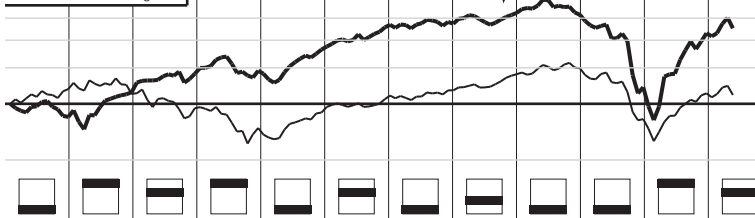
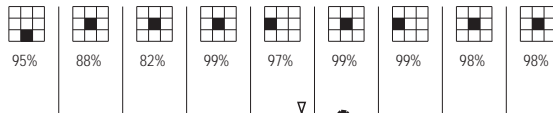
Ariel knows when to hold 'em and when to fold 'em.

Like most of their value-leaning brethren, managers John Rogers and John Miller revisit their analysis when holdings fall, trimming those with lessened fundamentals to load up further on those that look more attractive. Difference is, they've been more accurate than most with such calls. As the market slipped throughout 2008 they trimmed consumer products firm Energizer and winemaker Constellation as their prospects dimmed. But they steadily added to publisher Gannett as its shares fell from the low teens to near \$3 per share. They quadrupled their stake, with most purchases occurring near the stock's lowest point ever. The firm's copious cash flow and P/E of just 2.1 bolstered the duo's confidence. Gannett rebounded and now trades near \$18 per share, and the managers have been harvesting big gains.

Going its own way and accepting short-term pain in exchange for long-term gain gives the fund a distinct risk/reward profile. Over the past decade it

### Historical Profile

**Return** Average High  
**Risk** ★★  
**Rating** Below Avg



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	05-10
31.11	33.61	37.72	35.24	45.12	53.17	50.07	51.81	46.39	23.60	38.56	40.33
-5.76	28.77	14.21	-5.18	28.04	21.97	0.92	10.35	-1.70	-48.25	63.42	4.59
-26.80	37.87	26.10	16.92	-0.64	11.09	-3.99	-5.44	-7.19	-11.25	36.96	6.09
-20.48	11.26	14.82	9.35	-7.58	5.49	-11.64	0.03	-9.68	-12.02	26.04	-0.96
0.19	0.79	0.33	0.00	0.00	0.05	0.30	0.00	0.31	0.82	0.03	0.00
-5.95	27.98	13.88	-5.18	28.04	21.92	0.62	10.35	-2.01	-49.07	63.39	4.59
94	10	26	20	95	46	95	70	85	87	5	41
0.08	0.25	0.11	0.00	0.00	0.02	0.15	0.00	0.15	0.38	0.01	0.00
6.04	5.75	0.53	0.52	0.00	1.79	3.48	3.40	4.50	0.00	0.00	0.00
1.25	1.24	1.19	1.19	1.10	1.07	1.03	1.07	1.03	1.07	1.14	—
0.27	0.65	0.59	-0.12	-0.05	0.06	0.08	0.19	0.05	0.76	0.41	—
38	48	24	6	4	16	19	28	25	24	45	—
205	286	619	1,190	2,380	4,197	4,703	4,214	3,437	1,091	1,898	2,055

### Rating and Risk

Time Period	Load-Adj Return %	Morningstar Rtn vs Cat	Morningstar Risk vs Cat	Morningstar Risk-Adj Rating
1 Yr	51.93			
3 Yr	-8.31	Avg	High	★★
5 Yr	-0.67	-Avg	High	★
10 Yr	7.44	+Avg	+Avg	★★★★
Incept	10.82			

Other Measures	Standard Index S&P 500	Best Fit Index Mstar Mid Value
Alpha	8.8	3.3
Beta	1.54	1.25
R-Squared	82	94
Standard Deviation	34.91	
Mean	-8.31	
Sharpe Ratio	-0.12	

### Portfolio Analysis 03-31-10

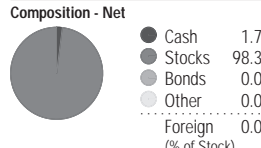
Share change since 12-09	Total Stocks:37	Sector	PE	Tot Ret%	% Assets
⊕	Hewitt Associates, Inc.	Business	13.8	-3.01	4.22
⊖	Gannett Co., Inc.	Media	9.4	14.88	4.18
⊕	Jones Lang LaSalle, Inc.	Financial	52.4	30.60	4.16
⊕	Interpublic Group of Com	Media	34.4	20.73	4.01
⊕	CB Richard Ellis Group,	Financial	—	16.65	3.88
⊖	Hospira, Inc.	Health	22.7	5.47	3.80
⊕	Janus Capital Group, Inc	Financial	17.5	4.68	3.42
⊖	CBS Corporation B	Media	38.9	—	3.31
⊕	Lazard, Ltd.	Financial	—	2.15	3.20
⊖	Bio-Rad Laboratories Inc	Hardware	17.5	15.79	3.13
⊕	Royal Caribbean Cruises,	Consumer	21.9	41.77	3.06
⊕	Newell Rubbermaid, Inc.	Goods	16.2	14.06	3.06
★	Stanley Black & Decker	Ind Mtrls	57.8	21.30	2.94
⊕	J.M. Smucker Co.	Goods	14.0	-0.53	2.88
⊕	International Game Tech.	Hardware	45.3	12.63	2.82
⊕	Mohawk Industries, Inc.	Ind Mtrls	31.9	33.91	2.80
⊖	Tiffany & Co.	Consumer	21.4	6.12	2.78
⊖	Nordstrom, Inc.	Consumer	19.8	10.40	2.68
⊕	Dun & Bradstreet Corpora	Software	14.4	-12.66	2.49
⊕	City National Corporatio	Financial	49.8	36.80	2.41

### Current Investment Style

Value	Blind Growth	Market Cap	%
Large	Mid	Small	Micro
0.0	0.0	84.1	15.9
0.0	0.0	0.0	0.0
Avg \$mil: 3,576			

Value Measures	Rel Category
Price/Earnings	17.58 1.17
Price/Book	1.94 1.24
Price/Sales	1.18 1.69
Price/Cash Flow	7.18 1.47
Dividend Yield %	1.07 0.49
Growth Measures	% Rel Category
Long-Term Erngs	10.17 0.89
Book Value	-1.12 NMF
Sales	-4.78 NMF
Cash Flow	-3.07 NMF
Historical Erngs	-16.58 NMF

Profitability	% Rel Category
Return on Equity	7.83 0.89
Return on Assets	2.78 0.95
Net Margin	1.43 0.29



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