



## MONTHLY COMMENTARY

• Value • Deep value • Global

Month Ended June 30, 2017

Index Returns		
Index	June 2017	Year-to-Date 2017
MSCI EAFE Index	-0.18%	+13.81%
S&P 500 Index	+0.62%	+9.34%
Russell Midcap Index	+0.99%	+7.99%
Russell 2000 Index	+3.46%	+4.99%

**Past performance does not guarantee future results.**

Domestically, Ariel hunts for value primarily amongst the small- and mid-cap universes. We also scour the globe for international companies of all sizes for our international and global portfolios. The aforementioned benchmarks track the performance of these asset classes.

At mid-year, all the major indexes have generated positive returns. While small-cap stocks have lagged year to date, June was a particularly strong month for the Russell 2000 Index. Conversely, international stocks generated a small loss for the month. Meanwhile mid- and large-cap issues continued to steadily drift higher.

Beyond 2017, the last 12 months have clearly been a great year for stocks.

One Year Return as of June 30, 2017			
Index	Value	Core	Growth
MSCI EAFE Index	+25.01%	+20.27%	+15.70%
Russell 1000 Index	+15.53%	+18.03%	+20.42%
Russell Midcap Index	+15.93%	+16.48%	+17.05%
Russell 2000 Index	+24.86%	+24.60%	+24.40%

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All the major equity indexes have generated strong double digit returns. In the large- and mid-cap universes, growth has handily outperformed value, while the opposite has been true within international equities. Small-cap stocks have seen little differentiation across styles. Focusing on the big picture, the trend of strong above average returns continues across the equity spectrum.

As we reach the mid-point of the year, U.S. equity valuations remain elevated but not at extremes. The BNY Mellon data for the Russell 2000 Index dates back to 1999. Since that time, its forward P/E ratio has averaged 17.6X. At the end of the second quarter of 2017, it reached 19.3X. This is certainly at a historically significant level but still well below the peak of 28.1X reached in 2001.

As we look ahead, we could easily focus on the ongoing spectacle of U.S. politics, but we would be remiss to ignore the remarkable transformation currently underway at American shopping malls. As Amazon continues to dominate with consumers, mall traffic is falling at a record pace. Retail stores are closing at their fastest rate in history, with closures in the United States up 97% in the last

12 months. Year to date, closures have surpassed 2008 totals, previously the worst year on record. As retailers scramble to reinvent themselves, some of the properties that once housed thriving malls are being transformed into mixed use, communal spaces. The success of these developments will be closely monitored by many, including us, to see what opportunities may arise from this latest chapter of creative destruction.

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**Past performance does not guarantee future results. Investing in equity stocks is risky and subject to the volatility of the markets. Investing in micro, small and mid-cap companies is more risky and more volatile than investing in large companies. The intrinsic value of the stocks in which a value portfolio invests may never be recognized by the broader market. Investments in foreign securities may underperform and may be more volatile than comparable U.S. stocks because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, foreign currencies and taxes. The use of currency derivatives and exchange-traded funds (ETFs) may increase investment losses and expenses and create more volatility. Investments in emerging markets present additional risks, such as difficulties in selling on a timely basis and at an acceptable price.**

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