03/31/14

Ariel Discovery Fund

INCENTIVES DRIVE BEHAVIOR

Performance data quoted represents past performance. Past performance does not guarantee future results. All performance stated in this document assumes the reinvestment of dividends and capital gains and represents returns of the Investor Class shares. We caution shareholders that we can never predict or assure future returns on investments. The investment return and principal value of an investment with our Funds will fluctuate over time so that your 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. Click the following link for the annual expense ratio and standardized performance data current to the most recent quarter and month end periods for Ariel Discovery Fund.

DEAR FELLOW SHAREHOLDER:

Ariel Discovery Fund essentially broke even in the first quarter of 2014, falling by -0.66% during a volatile period for U.S. equities. This result was 244 basis points behind that of our primary benchmark, the Russell 2000 Value Index, which gained +1.78%. That modest shortfall came roughly equally from the Energy and Producer Durables sectors, with no individual name having an outsized effect on performance in either direction.

Ariel Discovery Fund results *ended December 31, 2014*

	1Q14	1-year	3-year	Since 01/31/11 inception
Ariel Discovery Fund	– 0.66%	+16.35%	+10.04%	+10.63%
Russell 2000® Value Index	+ 1.78	+22.65	+12.74	+14.32
S&P 500® Index	+ 1.81	+21.86	+14.66	+15.09

One point I would like to stress is that after 30 years in the business, I have come to understand that short-term results have almost no correlation with the value of the work done in that period. This is especially true, given that our expected holding period is minimally three to five years.

More importantly, the quality of work done by our team this quarter was the best ever. After such strong gains in 2013, I believed it critical to be even more on top of company fundamentals, and to re-double our communications with portfolio management teams. The number of in-person meetings this quarter was easily the highest in my career, and the rigorous debate among team members on existing and potential positions was the best yet. We expect this work to drive performance in the future.

During the quarter, the fund reached its three-year anniversary. The rocky start during the first few months of 2011 continues to weigh on our long-term relative results. Given our deep value strategy, which focuses on seeking a "margin of safety,"* we are not surprised to lag what has been a strong market with few exceptions since inception. We believe that the portfolio is well-positioned going forward, with a collection of attractive investments trading well below our average estimate of intrinsic value.

Top performers for the quarter included Imation Corp. (IMN), gaining +23.29%, Callaway Golf Co. (ELY), which returned +19.60% before our sale, and Emergent

*Attempting to purchase with a margin of safety on price cannot protect investors from the volatility associated with stocks, incorrect assumptions or estimations on our part, declining fundamentals or external forces.

BioSolutions Inc. (EBS), up +19.14% before it was also sold. On the downside, XO Group Inc. (XOXO) lost -31.76%, Spartan Motors Inc. (SPAR) fell by -23.28%, and Mitcham Industries, Inc. (MIND) was down -21.29%.

IF WE COULD OWN JUST ONE STOCK, WHAT WOULD IT BE?

A number of investment websites and magazines ask managers this question. Since 2011, we have been using our first-quarter letter to respond, because while we would never invest that way, a detailed answer effectively illustrates the characteristics we seek in our portfolio holdings.

As deep value investors, we look for underfollowed and misunderstood companies trading at prices that have the potential to provide a "margin of safety" to buyers. We seek protection in asset values, with an emphasis on strong balance sheets. We also want to be invested alongside talented and properly incentivized leadership, and we look to identify upside potential from underappreciated opportunities. Today, the holding that best embodies these traits is Cowen Group, Inc. (COWN).

> "…we seek companies with significant and widespread insider ownership, pay packages that reward long-term value creation, and talented managers and strong boards."

First of all, we believe this company with roughly a $500 million market capitalization is clearly ignored and misunderstood. Followed by only two sell-side analysts, Cowen is commonly thought of as a troubled, sub-scale investment bank and broker dealer. However, Cowen Group was actually formed when Cowen Holdings, a boutique investment bank, was purchased by then privately held asset manager Ramius LLC in 2009. The Cowen brand remains, but top management comes primarily from Ramius. Founded in 1994, Ramius is a highly respected alternative asset manager with nearly $10 billion in assets under management and an outstanding long-term track record.

When we uncover a potential deep value investment, the first step in our research process is to examine the corporate governance and insider ownership profile. We obviously favor talented leadership, but we also believe that incentives drive behavior. Therefore, we seek companies with significant and widespread insider ownership, pay packages that reward long-term value creation, and talented managers and strong boards.

Cowen fits this bill as well as any company we own, with extraordinary leadership starting at the top from CEO Peter Cohen, who led Shearson Lehman from 1983 to 1990. He and his team collectively own roughly 15% of the company, clearly aligning their incentives with ours. Ramius Chair and Cowen Group Vice Chair Thomas Strauss rose to President of Salomon Brothers in 1986. Jeff Solomon, an original Ramius executive, is now leading Cowen & Co., the investment bank and brokerage arm, while Michael Singer joined in 2012 from Third Avenue Management to lead Ramius. This is a savvy team with decades of experience on both sides of the business. We have been extraordinarily impressed with them in our series of meetings and calls over the past few years, as well as by the actions they have taken to build the business to maximize shareholder value.

Two recent decisions highlight this astute decision-making. The first was last year's acquisition of Dahlman Rose, which added highly respected energy and resource expertise to the research and investment banking teams of Cowen & Co. The second was the hiring of Jake Walthour as Vice Chairman of New Business and Product Development for Ramius. Part of Jake's mandate is to find emerging, minority and women-owned alternative managers to add to Ramius's platform. Many pension plans, particularly in the public sector, have the desire and even the mandate to identify emerging managers. Recent studies show that such managers in the alternative world outperform their more established peers[1], yet they are often limited by their ability to create the infrastructure needed to win significant business. Ramius is unique among its peers in that its platform is built perfectly to work with small, talented managers, providing them with operational, legal and marketing expertise, while allowing them to focus on their investment disciplines. Although we have not modeled in any value for this Diversity and Emerging Fund Platform, it could provide a nice addition to assets under management over time.

The combination of the two entities created a firm that now has three profit centers: asset management, a research-driven investment bank and invested firm capital. Ramius's business model is highly scalable; it could manage at least $20 billion on its current platform. With product lines such as US Small-Cap Activism, Global Long/Short Credit, Healthcare Royalties, and Real Estate and Alternative Solutions, Ramius has an attractive and diverse platform. A very significant portion of the firm's highly liquid balance sheet is invested alongside clients; since 1999, Ramius has generated a roughly 15% return on equity on internal capital. And finally, Cowen & Co. looks to have executed an impressive turnaround under Jeff Solomon's leadership and is well-positioned to serve active investment managers and growth companies with a vastly improved cost structure and complete product offering.

> "…short-term results have almost no correlation with the value of the work done in that period."

Finally, we see significant upside potential in Cowen Group stock. We believe that the broker-dealer's troubles prior to and during the financial crisis, and the tough decisions necessary to turn it around, have caused investors to lose sight of the intrinsic value of the rest of company. We value Cowen Group on a sum-of-the-parts basis, using a percentage of assets under management for Ramius and a multiple of tangible book value for the broker-dealer. On top of that, there is a deferred tax asset potentially worth more than $100 million from net operating loss carryforwards. Even if we assume no value for the tax asset, we arrive at an intrinsic value well above current quotes. As we now believe the firm is poised for consistent profitability, the value of the business should become evident, and the tax asset should also start to be realized.

Therefore, we believe Cowen Group offers terrific upside potential and meaningful asset-based downside protection. So, if we could only own one stock, today it would be Cowen Group.

PORTFOLIO COMINGS AND GOINGS

We eliminated three holdings during the quarter. Callaway Golf, Tessera Technologies Inc. (TSRA), and Emergent BioSolutions were each sold as they essentially reached our estimates of fair value. We also added two new positions, thereby ending the first quarter with 36 companies in Ariel Discovery Fund's portfolio:

Orion Energy Systems, Inc. (OESX) – Based in Manitowoc, Wisconsin, Orion is a company we have owned in our micro-cap strategy since 2009, and one that we had previously owned in Ariel Discovery Fund. Under the leadership of John Scribante, appointed CEO in 2012, this maker of energy-efficient lighting has made dramatic improvements in both its cost structure and product lineup. With a clean balance sheet, an underutilized plant providing a runway for growth and a new market in the form of LED lighting to pursue, we are very optimistic about Orion's prospects.

Century Casinos, Inc. (CNTY) – Based in Colorado Springs, Century is a regional operator of domestic and international casinos. Trading just above its book value, Century has significant earnings potential from its operations in Poland and an under-construction racino (horse racing track/casino combination) with a prime location in Calgary. Co-CEOs who have worked together effectively for years and who each own more than 5% of the company add to our enthusiasm for this new holding.

We appreciate your consideration and the opportunity to serve you and welcome any questions or comments you might have. You can also contact us directly at email@arielinvestments.com.

Sincerely,

David M. Maley
Lead portfolio manager

[1] Ramius; Barclays Hedge Fund Pulse, Affirmative Investing: Women and Minority Hedge Funds, June 2011; Rothstein Kass, Women in Alternative Investments, June 2013.

Investing in small-cap stocks is more risky and volatile than investing in large-cap stocks. The intrinsic value of the stocks in which the Fund invests may never be recognized by the broader market.

This commentary candidly discusses a number of individual companies. These opinions are current as of the date of this commentary, but are subject to change. The information provided in this letter is not reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell a particular security.

Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of Ariel Discovery Fund or of the performance of the Fund itself. Click for the most recent holdings for the Ariel Discovery Fund.

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 and lower forecasted growth values. Russell® is a trademark of Russell Investment Group, which is the source and owner of the Russell Indexes' trademarks, service marks and copyrights. The S&P 500® Index is the most widely accepted barometer of the market. It includes 500 blue chip, large cap stocks, which together represent about 75% of the total U.S. equities market.

Investors should consider carefully the investment objectives, risks, and charges and expenses before investing. For a current summary prospectus or full prospectus which contains this and other information about the Funds offered by Ariel Investment Trust, call us at 800-292-7435 or click here. Please read the summary prospectus or full prospectus carefully before investing. Distributed by Ariel Distributors, LLC, a wholly-owned subsidiary of Ariel Investments, LLC.