

BEST ETFS & MUTUAL FUNDS

Ariel's John Rogers Shares Insights About Stocks And Race Relations

Q&A

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Ariel Investments Chairman, co-CEO and Chief Investment Officer John Rogers, the first African American founder of a mutual fund complex, offers shrewd advice about investments. He also shares insights about what this summer of agitation is telling Americans.

Speaking from experience, Rogers also has valuable views about why more Black people are not asset managers, let alone top executives of asset management firms. And he shares his views about what America can do to help reverse that.

Further, he has advice for young African Americans who want to achieve success, whether in asset management or other fields.

Rogers does not shy away from public discussion of these topics. Just last month, he testified before the House of Representatives' Financial Services Committee about how Congress should aid Black-owned businesses in its efforts to foster economic recovery from the coronavirus pandemic.

Rogers put his observations about the importance of nurturing Black wealth into a personal perspective by noting that he is the great grandson of the man who owned the Stradford Hotel in Tulsa, Okla. The hotel was torched during the notorious 1921 race riots in that city. That sort of violence in many locations across the centuries, he told the com-



Ariel's John Rogers expects MSG Entertainment to rebound from its coronavirus market slump.

mittee, has wiped out billions of dollars in wealth, preventing many Black families from passing "down wealth through generations like many other white families."

About a year earlier, Rogers testified before a Financial Services subcommittee about the importance of removing barriers to young African Americans' entry to the asset management industry.

In addition to his executive duties, Rogers is lead manager of \$1.7 billion **Ariel Fund**^{ARGFX}, which over the 10 years ended July 31 outperformed 59% of its midcap value rivals tracked by Morningstar Direct.

He comanages several additional funds, including \$992

million **Ariel Appreciation**^{CAAPX}.

Rogers' wide-ranging philanthropic activities include service as a trustee to the University of Chicago. Additionally, he is a trustee of Rush University Medical Center and a life trustee of the Chicago Symphony Orchestra. Rogers is also a member of the American Academy of Arts and Sciences, and a director of the Robert F. Kennedy Center for Justice and Human Rights.

Rogers, who is 62 years old, spoke with IBD from his home in Chicago about his investment approach, personal background and his views about current events.

IBD: John, you were introduced to investing by your dad,

who gave you shares in stocks on your birthday and Christmas, right?

John Rogers: Yes. I liked to read about stocks my dad bought. I enjoyed the newsletter he got. It was from Kiplinger. And of course I enjoyed the dividends I got in the mail.

I also played stock market games. We played it all the time. I enjoyed that.

IBD: What did you learn from the game?

Rogers: The game rewarded a long-term perspective. And that's par for my investment approach now.

IBD: When you got older, you also learned more working for a gentleman named Stacey Adams, whom you've told me

was the first African American broker on LaSalle Street, Chicago's financial center, right?

Rogers: Yes.

IBD: Am I correct in guessing that a key lesson you learned from your dad was perseverance and how to overcome obstacles? He was a World War II fighter pilot. He was a member of the Tuskegee Airmen, right?

Rogers: Yes, both of his parents had died by the time he was 12. He was born in Knoxville, Tenn. He came to Chicago to live with an uncle. When he was young, he became a short-order cook. He went to college. And he became a math teacher.

IBD: He had to overcome prejudice against African Americans to become a pilot, didn't he?

Rogers: He had a love for learning to fly. He realized he was going to get drafted. He wanted to enlist in the Army Air Corps. After training at Tuskegee, he was in the original group of fighter pilots that went overseas. He flew over 100 missions in North Africa and Italy.

IBD: Your parents were both lawyers. Did they run into discrimination?

Rogers: After the war, the University of Chicago Law School turned him down because of his race. He went back in his captain's uniform, and he got in.

My mom was already at law school. She was the first African American woman to graduate from the school, in 1946.

Now, both of their pictures hang in the lobby of the law school.

IBD: What's your advice for young African Americans who hope to achieve success, especially in asset management?

Rogers: Whenever I speak to young people in college, I tell them to get an internship in their college endowment office. That's no surprise, since we developed a program like that at the University of Chicago. Kids learn what the chief investment officer of a major endowment does and about private equity and other forms of investing. It can also be a steppingstone to jobs in investing.

IBD: My recollection is that program has proved a jackpot for



Now co-CEOs of Ariel Investments, John Rogers and Mellody Hobson have long championed Black investing. At this 1999 conference, Hobson described factors discouraging African American women from investing.

Ariel as well as for interns, right?

Rogers: We have had college students as summer interns from the first summer of the firm's existence. That's how we met Mellody Hobson (co-CEO of Ariel Investments and former chairwoman of DreamWorks Animation), and many leaders in our firm started out as interns. That's been a core value at Ariel.

IBD: Why aren't more African Americans running asset management firms?

Rogers: You learn about personal finances from your parents, grandparents, aunts and uncles. Because of the way African Americans came to the U.S. and because of Jim Crow (repression), we don't have multigenerational wealth. We often don't have family members to teach youngsters about markets and compound interest. If you're not exposed to the basics, much less to the industry, it's hard to think about the industry as a career.

IBD: What can be done about it?

Rogers: Exposure is the key. We try to do some things at Ariel. During the Obama

Administration, I chaired the Council for Financial Literacy. I was picked for that because President Obama (whom Rogers knows from Chicago) was aware we had started the Ariel Community Academy (which is a small school with small classes that offer instruction in regular academic subjects as well as in finance and investment). We gave kids real money to invest in real stocks.

Other financial institutions need to partner with inner city schools and teach kids about markets, compounding, how to invest. They need to provide role models about how to think about financial management careers, lucrative careers.

IBD: Is this moment in history telling us we need to change anything about America?

Rogers: I come back to something Dr. King once said. I'm paraphrasing. But it was something like, white Americans deplore prejudice but accept economic injustice.

Many problems we face in housing, health care, education, unemployment — all of those things are because we are not fully engaged in our economy. Dr. King made the

case strongly that economic opportunity is at the heart of many of our problems.

IBD: Let's talk about investments. Summarize your approach.

Rogers: We're focused on small companies. We take Warren Buffett's approach. We're looking for outstanding businesses that can grow earnings per share a minimum of 10% a year over the next three to five years.

We want companies with a real (competitive) moat, so they can still be leaders in 10 to 15 years. We learned the hard way in 2008-09, during the financial crisis, that we want companies that are careful with their balance sheets, that have an extra margin of safety during stressful periods.

And we want companies while they are cheap. We want to buy them when they are trading at a 40% discount to our private market value analysis.

IBD: You're a value investor, so what stocks did you buy or add to during the coronavirus pullback?

Rogers: We added to **ViacomCBS**^{VIA}. That stock got crushed in February and

March. But we believe in (President and CEO) Bob Bakish's vision, so we added heavily on weakness.

Another interesting name we added to was Nielsen^{NLSN}. They're a household word when it comes to audience ratings services and counting eyeballs watching content. They are a trusted name when it comes to keeping track of eyeballs.

IBD: What new buys did you make?

Rogers: **MSG Entertainment**^{MSGE}, which had been spun off from **Madison Square Garden Sports**^{MSGS}. MSG Entertainment owns Madison Square Garden itself and surrounding land in midtown Manhattan and air rights above it. It owns Radio City Music Hall, the Rockettes, the Tao Group Hospitality restaurant chain, the Chicago Theater. And they're building new entertainment sites called Sphere in Las Vegas and London.

The stock got crushed on fears that no one could go to

the Garden to watch the (NBA basketball) Knicks or the (NHL hockey team) Rangers or ice shows or concerts.

But we're long-term investors. They have the balance sheet to weather this storm. And the stock was selling for not much more than the cash on their balance sheet. It's a real bargain. A real undervalued security. They'll be back.

IBD: What's another bargain-bin buy you made during the pandemic market low?

Rogers: A company called **Envista**^{NVST}. They're one of the major makers of dental products. During the pandemic, dental offices closed except for dire emergencies. So that hurt them.

They were spun off last year from **Danaher**^{DHR}. The new business is big in dental implants (and has other business lines producing orthodontics and digital imaging technologies).

IBD: Ariel Fund and Ariel Appreciation owned just 34 and 44 holdings respectively as of March 31. Why do you prefer a concentrated approach?

Rogers: There aren't that many great ideas. Concentrate on your best ones so you know everything in your portfolio really well.

IBD: What's your thesis for **Masco**^{MAS}, which makes plumbing and home improvement products?

Rogers: The next generation of families will buy bigger, better homes. Masco has a great brand in their market. They have paints, plumbing, many things. It's a nice niche business. They have scale and a brand name. It does not have a lot of competitors.

Buffett has a competitive product, Benjamin Moore (owned by **Berkshire Hathaway**^{BRKA}). But the (Manoo-gian) family has been involved in Masco for generations. It's quite a legacy. They're focused. They've made strategic, shareholder-friendly initiatives, like selling lower-margin businesses so they can focus on higher-margin growth areas.

Masco should do well as the

economy and housing market recover.

IBD: Is **Laboratory Corp. of America**^{LH} a play on the hunt for a Covid-19 vaccine or a broader health care play?

Rogers: You see Lab Corp. everywhere. Every doctor, every hospital uses them. They're kind of a duopoly between them and **Quest Diagnostics**^{DGX}.

They do benefit in the new world of the coronavirus. But they're positioned for traditional testing too. They got hurt when the pandemic made people afraid to pursue elective medical procedures. That slashed the number of lab tests. So Lab Corp. has pluses and minuses.

But overall the pandemic is a net benefit for their brand. It shows how important their services are to the medical profession.

And they've made a good management change. (Adam Schechter was named president and CEO in November.) And (Ariel health care analyst) Sabrina Carollo loves them.