

ARIEL INVESTMENT, LLC
JOHN ROGERS PORTFOLIO



Portfolio Date: 2019-01-10

Updated on 2019-01-11

Portfolio Overview

Portfolio:	Ariel Investment, LLC
Fund Type:	Mutual Fund Company
Portfolio Date:	2018-09-30
13D/13G Date:	2019-01-10
Number of Stocks:	154
Equity Value:	\$9.03 Billion
Number of New Buys:	4
Q/Q Turnover:	3%

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I. Portfolio Overview, Profile

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Profile

John Rogers is the Founder of Ariel Investment, LLC, which he started in 1983. As of 2008, the firm had over \$15.5 billion in assets under management. John manages Ariel's small and mid-cap institutional portfolios as well as the Ariel Fund (ARGFX) and Ariel Appreciation Fund (CAAPX). He is also a long-term Forbes columnist writing a column called "Patient Investor."

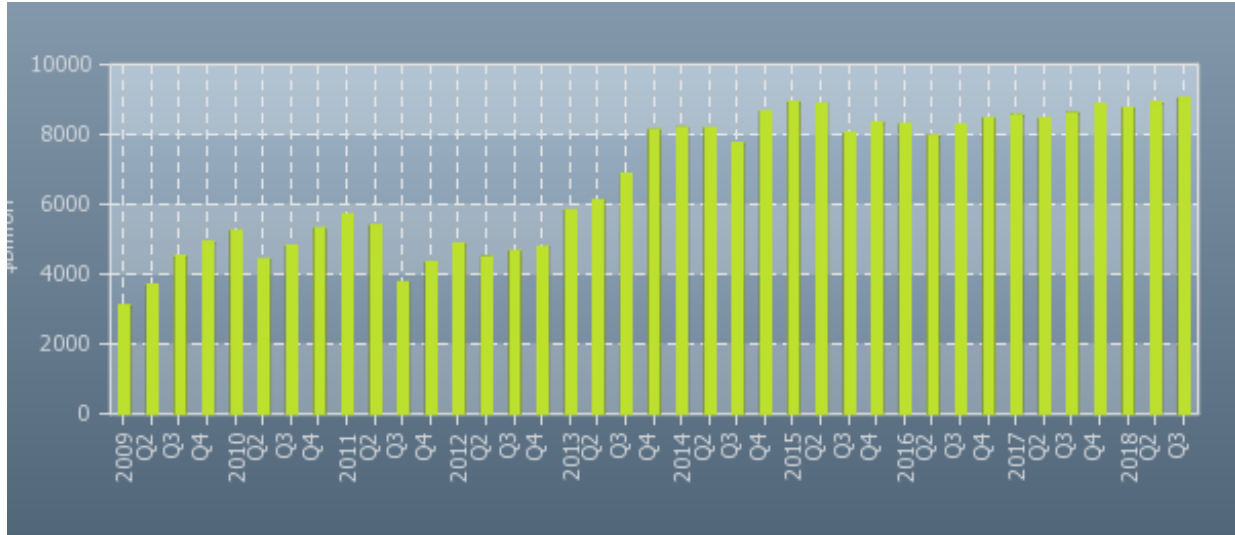
Investing Philosophy

Rogers has concentrated his investment selection on small and medium-sized companies whose share prices are undervalued. He believes that patience, independent thinking, and a long-term outlook are essential to achieving good returns. His fund seeks to purchase companies whose prospects include high barriers to entry, sustainable competitive advantages, and predictable fundamentals that allow for double digit cash earnings growth. Rogers purchases companies when they are trading at a low valuation relative to potential earnings (p/e less than 13x forward cash earnings) and/or a low valuation relative to intrinsic worth (40% discount to private market value - PMV).

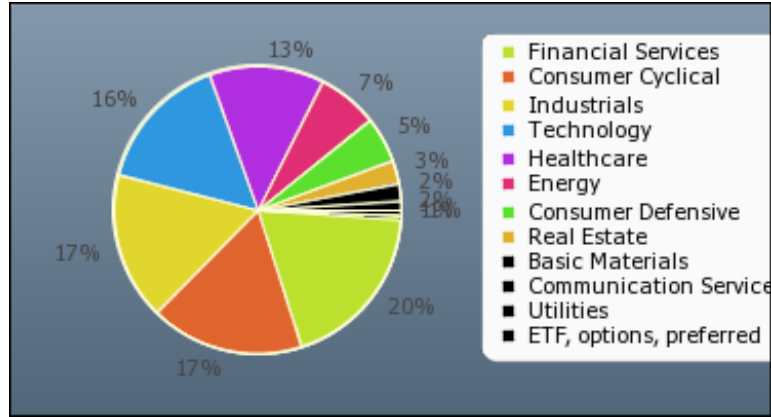
II. Performance of Ariel Fund

Year	Return (%)	S&P 500 (%)	Excess Gain (%)
2017	15.88	21.71	-5.8
2016	15.56	11.99	3.6
2015	-4.1	1.24	-5.3
2014	10.95	13.47	-2.5
2013	44.68	32.3	12.4
5-Year Cumulative (Average)	106.1 (15.6%/year)	107.2 (15.7%/year)	-1.1 (-0.1%/year)
2012	20.32	15.99	4.3
2011	-11.34	1.9	-13.2
2010	25.97	15.05	10.9
2009	63.42	26.35	37.1
2008	-48.25	-36.79	-11.5
10-Year Cumulative (Average)	134.3 (8.9%/year)	125 (8.4%/year)	9.3 (0.5%/year)
2007	-1.7	5.14	-6.8
2006	10.35	15.85	-5.5
2005	0.92	4.83	-3.9
2004	21.97	10.7	11.3
2003	28.04	28.19	-0.1
15-Year Cumulative (Average)	300.5 (9.7%/year)	307.7 (9.8%/year)	-7.2 (-0.1%/year)
2002	-5.18	-21.58	16.4
2001	14.21	-11.76	26.0
2000	28.77	-9.75	38.5
1999	-5.76	20.4	-26.2
1998	9.89	28.7	-18.8
20-Year Cumulative (Average)	478.4 (9.2%/year)	294.5 (7.1%/year)	183.9 (2.1%/year)
1997	36.44	33.47	3.0
1996	23.51	22.49	1.0
1995	18.52	38.04	-19.5
1994	-4.22	0.4	-4.6
1993	8.73	10.08	-1.4
25-Year Cumulative (Average)	1103.1 (10.5%/year)	883.9 (9.6%/year)	219.2 (0.9%/year)
1992	11.73	7.62	4.1
1991	32.72	30.47	2.3
1990	-16.08	-3.1	-13.0
1989	25.11	31.69	-6.6
1988	39.92	16.61	23.3
30-Year Cumulative (Average)	2520.8 (11.5%/year)	1955.8 (10.6%/year)	565 (0.9%/year)
1987	11.4	5.1	6.3

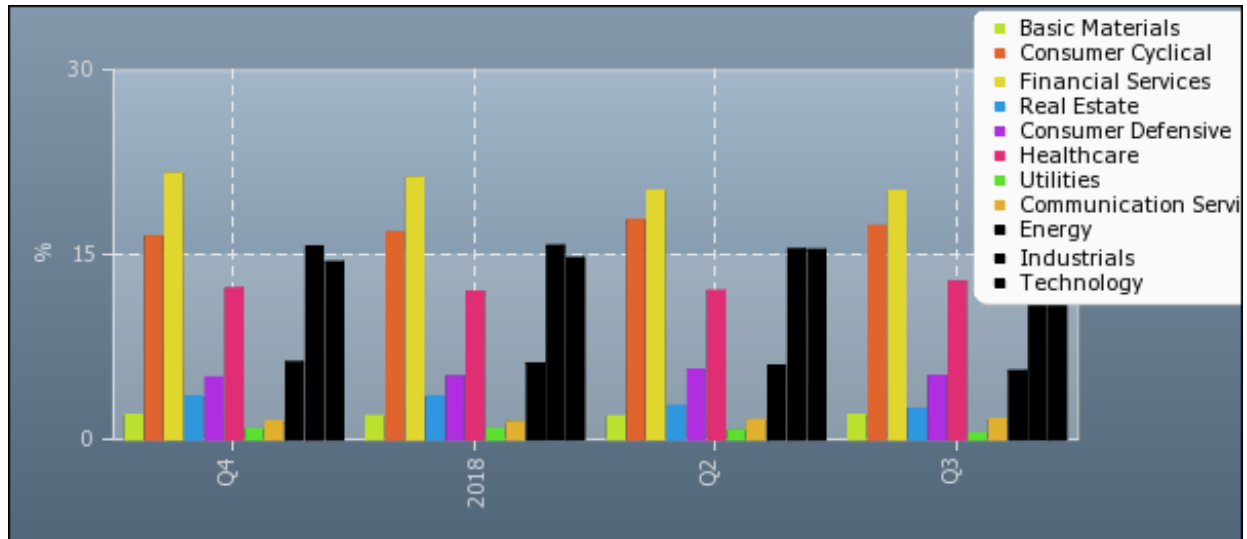
III. Historical Total Value (\$Billion) of Filings



IV. Industry/Sector Overview



V. Industry/Sector Shift in Past 12 Months



VI. Top Holdings (Up to 25)

These are the top holdings of John Rogers as of 2018-09-30 in the order of significance.

Ticker	Company	Shares (1000)	Value (\$Mil)	Weighting (%) ↓	Share # Change from Last Period	Current Price (\$)	Price Change Since Quarter End (%)
MSFT	Microsoft Corp	2,853	326	3.61%	+2.53%	102.80	-10.1%
BIDU	Baidu Inc	1,283	293	3.25%	+8.33%	166.11	-27.4%
KMT	Kennametal Inc	5,500	240	2.65%	+0.74%	36.11	-17.1%
FAF	First American Financial Corp	4,447	229	2.54%	-1.61%	47.07	-8.8%
LAZ	Lazard Ltd	4,539	218	2.42%	+2.39%	36.86	-23.4%
MSGN	MSG Networks Inc	7,986	206	2.28%	-12.38%	25.25	-2.1%
PM	Philip Morris International Inc	2,376	194	2.15%	+8.60%	69.50	-14.8%
KEYS	Keysight Technologies Inc	2,819	187	2.07%	-27.18%	67.24	1.4%
GILD	Gilead Sciences Inc	2,404	186	2.06%	+3.21%	68.16	-11.7%
ZBRA	Zebra Technologies Corp	1,039	184	2.03%	-2.25%	163.20	-7.7%
SJM	JM Smucker Co	1,762	181	2%	-0.28%	102.19	-0.4%
NTRS	Northern Trust Corp	1,749	179	1.98%	-3.36%	85.65	-16.1%
MAT	Mattel Inc	11,361	178	1.98%	+1.58%	12.25	-22.0%
LH	Laboratory Corp of America Holdings	1,012	176	1.95%	-10.70%	131.92	-24.0%
SNA	Snap-on Inc	920	169	1.87%	-1.10%	160.33	-12.7%
IPG	The Interpublic Group of Companies Inc	7,377	169	1.87%	-4.27%	22.28	-2.6%
CRL	Charles River Laboratories International Inc	1,254	169	1.87%	-4.83%	119.21	-11.4%
KKR	KKR & Co Inc	5,899	161	1.78%	-12.75%	20.90	-23.4%
SLCA	US Silica Holdings Inc	8,432	159	1.76%	+45.37%	12.46	-33.8%
NLSN	Nielsen Holdings PLC	5,441	150	1.67%	+11.23%	25.68	-7.2%
JNJ	Johnson & Johnson	1,025	142	1.57%	+2.26%	129.75	-6.1%
VIAB	Viacom Inc	4,080	138	1.53%	+15.39%	29.44	-12.8%
NOK	Nokia Oyj	24,133	135	1.49%	-0.45%	6.08	9.0%
SSD	Simpson Manufacturing Co Inc	1,775	129	1.42%	-2.66%	58.30	-19.5%
BRK.B	Berkshire Hathaway Inc	560	120	1.33%	+1.54%	196.29	-8.3%

VII. Top Purchases of John Rogers

These are the top purchases of John Rogers as of 2018-09-30 in the order of significance.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%)
SRCL	Stericycle Inc	1,915	76	0.68%	Add 120.12%	\$63.84	\$39.54	-38.1%
SLCA	US Silica Holdings Inc	8,432	105	0.55%	Add 45.37%	\$23.2	\$12.46	-46.3%
AMG	Affiliated Managers Group Inc	268	27	0.41%	New holding	\$147.64	\$102.11	-30.8%
SLB	Schlumberger Ltd	1,732	72	0.37%	Add 46.49%	\$64.38	\$41.74	-35.2%
DOX	Amdocs Ltd	502	30	0.31%	Add 562.12%	\$66.15	\$60.00	-9.3%
BIDU	Baidu Inc	1,283	213	0.25%	Add 8.33%	\$235.02	\$166.11	-29.3%
VIAB	Viacom Inc	4,080	120	0.2%	Add 15.39%	\$29.99	\$29.44	-1.8%
NLSN	Nielsen Holdings PLC	5,441	140	0.17%	Add 11.23%	\$26.92	\$25.68	-4.6%
OAK	Oaktree Capital Group LLC	2,079	85	0.17%	Add 22.53%	\$41.12	\$40.83	-0.7%
PM	Philip Morris International Inc	2,376	165	0.17%	Add 8.60%	\$82.09	\$69.50	-15.3%

VIII. Top Sales of John Rogers

These are the top sales of John Rogers as of 2018-09-30 in the order of significance.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%)
DNB	Dun & Bradstreet Corp	190	27	-0.78%	Reduce -74.72%	\$135.87	\$143.55	5.7%
KEYS	Keysight Technologies Inc	2,819	190	-0.7%	Reduce -27.18%	\$62.06	\$67.24	8.3%
MSG	The Madison Square Garden Co	275	77	-0.33%	Reduce -25.96%	\$311.24	\$280.09	-10.0%
MSGN	MSG Networks Inc	7,986	202	-0.3%	Reduce -12.38%	\$23.99	\$25.25	5.3%
AXP	American Express Co	605	60	-0.3%	Reduce -31.30%	\$104	\$98.55	-5.2%
ATGE	Adtalem Global Education Inc	1,185	56	-0.27%	Reduce -29.34%	\$50.38	\$47.37	-6.0%
SRE	Sempra Energy	13	2	-0.26%	Reduce -93.82%	\$115.74	\$114.06	-1.5%
LH	Laboratory Corp of America Holdings	1,012	134	-0.24%	Reduce -10.70%	\$177.04	\$131.92	-25.5%
KKR	KKR & Co Inc	5,899	123	-0.24%	Reduce -12.75%	\$26.72	\$20.90	-21.8%
COST	Costco Wholesale Corp	138	29	-0.22%	Reduce -39.99%	\$225.1	\$210.51	-6.5%

IX. Top Bargain Candidates of John Rogers

John Rogers bought these stocks in the quarter ended on 2018-09-30. You can buy these stocks at lower prices.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%)	Share # Change from Last Period	Average Cost	Current Price (\$)	Price Change(%) ↓
JHG	Janus Henderson Group PLC	2,372	51	0%	Add 0.17%	\$29.16	\$21.37	-26.7%
BIO	Bio-Rad Laboratories Inc	233	56	0%	Add 0.30%	\$310.35	\$241.42	-22.2%
TNAV	Telenav Inc	3,852	16	0%	Add 0.30%	\$5.49	\$4.11	-25.1%
MTSC	MTS Systems Corp	1,746	79	0%	Add 0.35%	\$53.53	\$45.13	-15.7%
HMN	Horace Mann Educators Corp	249	10	0%	Add 0.40%	\$45.49	\$38.97	-14.3%
CARS	Cars.com Inc	254	6	0%	Add 0.47%	\$27.95	\$23.07	-17.5%
MATW	Matthews International Corp	155	7	0%	Add 0.52%	\$53.85	\$44.68	-17.0%
SYNC	Synacor Inc	4,011	7	0%	Add 0.86%	\$2	\$1.71	-14.5%
EDGW	Edgewater Technology Inc	2,823	13	0%	Add 1.19%	\$5.14	\$4.44	-13.6%
TS	Tenaris SA	890	21	0%	Add 1.23%	\$34.69	\$23.74	-31.6%
MAT	Mattel Inc	11,361	139	0.03%	Add 1.58%	\$16.01	\$12.25	-23.5%
EOG	EOG Resources Inc	434	42	0.01%	Add 1.81%	\$121.57	\$96.87	-20.3%
PXD	Pioneer Natural Resources Co	363	52	0.01%	Add 1.90%	\$178.82	\$142.24	-20.5%
CLB	Core Laboratories NV	500	34	0.01%	Add 1.92%	\$112.82	\$68.91	-38.9%
AYI	Acuity Brands Inc	32	4	0%	Add 1.98%	\$143.51	\$121.73	-15.2%
LAZ	Lazard Ltd	4,539	167	0.06%	Add 2.39%	\$49.72	\$36.86	-25.9%
FLR	Fluor Corp	1,083	40	0.02%	Add 2.57%	\$54.48	\$36.64	-32.7%
BSMX	Banco Santander Mexico SA	1,461	9	0%	Add 2.74%	\$7.84	\$6.42	-18.1%
TPR	Tapestry Inc	196	7	0%	Add 2.95%	\$48.93	\$36.35	-25.7%
USB	US Bancorp	394	19	0.01%	Add 2.97%	\$52.97	\$47.44	-10.4%

X. Consensus Picks of John Rogers and Other Gurus

These are the stocks that John Rogers bought. They are also bought by other Gurus tracked by GuruFocus.

Ticker	Company	Current Shares (1000)	Value (\$Mil)	Impact to Portfolio (%) ↓	Share # Change from Last Period
ACIA	Acacia Communications Inc	51	2,100	2%	10000.00
BSMX	Banco Santander Mexico SA	1,461	11,337	13%	2.74
CARS	Cars.com Inc	254	7,012	8%	0.47
CNTY	Century Casinos Inc	3,905	29,128	32%	8.18
DRAD	Digirad Corp	940	1,411	2%	13.92
EDGW	Edgewater Technology Inc	2,823	14,169	16%	1.19
GSIT	GSI Technology Inc	1,828	12,615	14%	7.37
JCAP	Jernigan Capital Inc	160	3,094	3%	10000.00
MIND	Mitcham Industries Inc	2,974	12,342	14%	0.65
PRCP	Perceptron Inc	915	8,918	10%	10.73
SYNC	Synacor Inc	4,011	6,417	7%	0.86
TNAV	Telenav Inc	3,852	19,454	22%	0.30

XI. International Stocks

These are the international stocks in the portfolio of John Rogers.

Ticker	Company	Country/Region	Shares (1000)	Value (\$Mil)	Weighting as of 2018-09-30 (%)	Share # Change from Last Period
LAZ	Lazard Ltd	Bermuda	0.0	225,703.1	2.42%	+2.39%
FN	Fabrinet	Cayman Islands	0.0	7,812.2	0.09%	-0.14%
BSAC	Banco Santander Chile	Chile	0.0	28,236.1	0.32%	+3.96%
BIDU	Baidu Inc	China	0.0	301,446.5	3.25%	+8.33%
NOK	Nokia Oyj	Finland	0.0	133,939.1	1.49%	-0.45%
CHL	China Mobile Ltd	Hong Kong	0.0	50,835.7	0.6%	
TS	Tenaris SA	Luxembourg	0.0	30,857.9	0.33%	+1.23%
NLSN	Nielsen Holdings PLC	Netherlands	0.0	146,465.0	1.67%	+11.23%
CLB	Core Laboratories NV	Netherlands	0.0	56,450.6	0.64%	+1.92%
NVS	Novartis AG	Switzerland	0.0	5,806.3	0.07%	+1.96%

XII. ETF Holdings

These are the ETF stocks in the portfolio of John Rogers.

Ticker	ETF	Shares (1000)	Value (\$Mil) ↓	Weighting as of 2018-09-30 (%)	Share # Change from Last Period
VEA	Vanguard FTSE Developed Markets	1,116.2	42.3	0.49%	+321.26%
IWN	iShares Russell 2000 Value	154.7	15.7	0.18%	New Buy
VWO	Vanguard FTSE Emerging Markets	330.2	13.2	0.15%	+327.33%
VOO	Vanguard S&P 500	56.2	10.6	0.12%	New Buy
VT	Vanguard Total World Stock Index	162.6	9.8	0.11%	+19.03%
VPL	Vanguard FTSE Pacific	35.1	2.0	0.02%	-42.72%
VGK	Vanguard FTSE European	36.9	1.9	0.02%	
EWU	iShares MSCI United Kingdom	51.3	0.9	0.01%	New Buy

XIII. Comments by John Rogers on Stocks in the Portfolio

John Rogers Comments on Stericycle

Stericycle (SRCL) is a waste management service provider. Although the company boasts high net margin versus competitors, we believe it is trading at a significant discount due to some pricing pressures, an increase in capital spend for the implementation of an enterprise resource planning system and a levered balance sheet resulting from acquisition activity. Our contrarian call has the potential to be significantly rewarded as transformation initiatives bear fruit over the next several years.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Affiliated Managers Group

Affiliated Managers Group ([AMG](#)) purchases meaningful equity interests in small to mid-size boutique asset managers for a fixed percentage of revenues. While AMG maintains operational autonomy, it provides its affiliates with strategic, operational and technological support, as well as access to its global distribution network. We believe the market underestimates the strength of AMG's franchise and its focus on alternative investments and global equities.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Mohawk Industries

Leading global floor product manufacturer, Mohawk Industries, Inc. ([NYSE:MHK](#)) was another notable detractor, falling -18.16% in the quarter on weaker than expected earnings. MHK is experiencing operating margin pressure due to raw material price and wage inflation, higher transportation costs, changes in product mix and lower than anticipated revenue due to delays in luxury vinyl tile sourcing. To address these issues, MHK introduced initiatives to improve pricing, increase sales in growing channels and reduce overall costs. We have confidence in this owner-operated management team and believe that the company's pricing power, benefits from recent heavy capital spend and its strong balance sheet will overcome the headwinds. At current levels, MHK is trading at a -35% discount to our estimate of private market value.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Jones Lang LaSalle

Real estate expert Jones Lang LaSalle ([NYSE:JLL](#)) also underperformed, trading -13.06% lower during the period. We believe this price action runs counter to its strong operational performance. JLL delivered a top and bottom line earnings beat in the quarter, highlighted by organic revenue growth across all of its business segments, progress on its digital agenda and technology transformation initiatives, record private equity assets under management and the extension of its credit facility maturity with improved pricing to support the company's growth strategy. Despite a rising interest rate environment in the United States and intensifying global economic uncertainty, real estate fundamentals remain resilient in most markets. As such, we expect JLL to continue to benefit from accelerating trends of globalization, the outsourcing of real estate services and institutional demand for commercial real estate.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on U.S. Silica Holdings

Alternatively, several positions weighed on performance. Producer and supplier of sand, U.S. Silica Holdings, Inc. ([NYSE:SLCA](#)) traded -26.48% lower due to investor concerns regarding the supply and demand mix for silica and noise around potential slowdowns in activity in the second half of 2019, due to rising labor costs, trucking congestion and outflow capacity. We believe the market is overestimating the volume and delivery time of silica coming to market and although there have been announcements for mines coming on line in West Texas, the competitors lack the capital required to begin production. SLCA is insulated from some of these issues due to their national footprint and close proximity of its mines to major rail lines and waterways. In addition, SLCA has received commitments from several customers to prepay for volume at attractive margins. Beyond supply concerns, investors continue to underappreciate the company's industrial business relative to competitors. We believe the contributions from these less volatile return businesses such as the investment in SandBox and EP Minerals, and the company's stable balance sheet has SLCA positioned for favorable risk/reward going forward. At current levels, SLCA is trading at a 63% discount to our estimate of private market value and we have been adding to our position on weakness.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Kennametal

Specialty cutting tool insert maker Kennametal Inc. ([NYSE:KMT](#)) was another notable contributor, advancing +21.97% during the period. Fourth quarter and fiscal year end results highlighted solid execution on its 3- year strategic plan to improve economies of scale and profitability. Organic sales increased 10% in the quarter and margins expanded across each business segment. This momentum and price cost balance is expected to continue into 2019. KMT is a high conviction holding that continues to trade at a significant discount to our estimate of private market value.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Royal Caribbean Cruises

Global cruise vacation company, Royal Caribbean Cruises Ltd. ([NYSE:RCL](#)) also benefitted performance, jumping +26.09% in the quarter. Robust consumer demand and sustained strength in the company's earnings growth continues to overcome headwinds from foreign exchange and fuel costs. Significant insider buying over the past month shows management shares our stance that there is upside from current levels. Furthermore, we expect new hardware, ship upgrades and technological innovation to bolster yields and earnings in 2019 and beyond.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund third-quarter 2018 [shareholder commentary](#).

John Rogers Comments on Zebra Technologies

Bar code manufacturer, Zebra Technologies ([NASDAQ:ZBRA](#)) traded up +23.44% during the quarter. Broad-based strength, both geographically and by product end market, drove the top and bottom line earnings beat. ZBRA also made significant progress reducing its financial leverage to the top end of its target range at 2.5x. Given the strength of the company's results, ZBRA raised the full year outlook for sales growth and free cash flow. We view ZBRA as an industry leader with a strong management team. We think the company is well-positioned to benefit from secular global demand for asset tracking solutions across several industries and believe ZBRA remains underpriced relative to its intrinsic value.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund third-quarter 2018 [shareholder commentary](#).

Ariel Funds Comments on CBS Corp

During the quarter, we initiated a position in CBS Corporation ([NYSE:CBS](#)), a leading entertainment company that is also held within Ariel Appreciation Fund. With its collection of valued media assets, growing retransmission fees for the right to carry the CBS signal, reverse compensation from its affiliates, video streaming deals, political advertising revenues, strong balance sheet, solid free cash flow generation and a seasoned management team focused on return on investment, we believe CBS is well positioned for continued growth.

From Ariel Funds' Ariel Focus Fund second quarter 2018 [shareholder letter](#).

Ariel Funds Comments on BorgWarner

Leading supplier of solutions for combustion, hybrid and electric vehicles, BorgWarner, Inc. ([NYSE:BWA](#)) also weighed on performance, declining -13.78% in the quarter. Uncertainty around tariffs and concerns that we are at the peak of the automotive cycle have weighed on shares. Additionally, the CEO announced his retirement furthering investor skepticism. We continue to believe that BWA's scale, global presence and leading edge technology properly position the company to deal with these potential issues. We expect the increased complexity required for auto manufacturers to meet higher fuel efficiency and lower emissions requirements worldwide to provide a tailwind to demand for BWA's products. At current levels, the company is trading at 9.6x forward cash EPS and a 35% discount to our estimate of private market value.

From Ariel Funds' Ariel Focus Fund second quarter 2018 [shareholder letter](#).

Ariel Funds Comments on J.M. Smucker Company

There were a few notable positions that detracted from our quarterly results. Branded food and beverage product company, J.M. Smucker Company ([NYSE:SJM](#)) finished the period down -12.74%, after falling short of consensus expectations. Investors were also disappointed with the company's full year 2019 guidance, which was mostly driven by higher than anticipated expenses. While we acknowledge increased marketing spend is necessary to support branded growth and Fiscal 2019 will be an investment year with lower than expected margins, we believe SJM has a portfolio of iconic, market leading brands that produce consistent returns. Additionally, SJM's strong cash generation capabilities should continue to allow the company to deploy capital towards brand investment and business expansion initiatives, as well as return cash to shareholders.

From Ariel Funds' Ariel Focus Fund second quarter 2018 [shareholder letter](#).

Ariel Funds Comments on Apache Corp

Energy company, Apache Corporation ([NYSE:APA](#)) also benefitted quarterly performance, trading +22.22% higher on strong operational results and U.S. oil production that was above guidance. The outperformance in the United States was driven by a combination of shorter completion cycle times, improving efficiencies and excellent performance from new wells. The company's international exposure to Brent oil pricing contributed to high margins, high cash returns and strong free cash flow. In our view, the performance was solid from an execution and cost-control standpoint, and we are encouraged that management sees continued momentum going forward. Additionally, a number of insiders purchased shares of APA during the quarter, highlighting

confidence in the business outlook.

From Ariel Funds' Ariel Focus Fund second quarter 2018 [shareholder letter](#).

Ariel Funds Comments on First American Financial Corp

Leading provider in specialty industrial services, Team, Inc. ([NYSE:TISI](#)) also advanced considerably in the quarter, jumping +68.00% after posting year-over-year growth in revenues, adjusted EBITDA and free cash flow. Management believes the market is showing signs of improvement, as the Inspection and Heat Treating segment was stretched during the quarter due to growth in large project activity levels and expanded scopes. TISI is also rapidly deploying a new regional, cross-segment operating model that is expected to increase revenues, improve efficiency and decrease overall operating expenditures. The model should align responsibility for all services and products, promote cross selling and optimize resource allocations across locations to leverage the size and scale of the enterprise.

From Ariel Funds' Ariel Focus Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on First American Financial Corp

Title insurer, First American Financial Corporation ([NYSE:FAF](#)) also weighed on quarterly performance, falling -11.22%. FAF reported mixed results for the seasonally unimportant quarter relative to Wall Street expectations as strong purchase and commercial revenues were not enough to neutralize the headwind from the decline in re-finances. Nonetheless, management remained optimistic about the outlook for the spring selling season and full year 2018. FAF expects the ongoing economic expansion and current trends in the housing market to yield further growth in new home sales and noted that the commercial business has a healthy pipeline of activity and should continue to benefit from rising investment income. Looking forward, we believe the market continues to underappreciate FAF's scale and operating leverage and think there continues to be a long runway for earnings and intrinsic value growth.

From [John Rogers \(Trades, Portfolio\)](#)' Ariel Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on Royal Caribbean Cruises Ltd.

Global cruise vacation company, Royal Caribbean Cruises Ltd. ([NYSE:RCL](#)) also underperformed, trading -11.51% lower in the period, despite continued strength in the company's earnings growth. Concerns around the industry's supply and demand dynamics, primarily in the Caribbean, have resulted in heightened sensitivity around pricing. The increase in fuel prices has also been an area of focus since it is a major component in the company's cost structure. Meanwhile, RCL continues to reiterate that it is not experiencing any issues between the supply and demand relationship and that it has an expertise in managing volatile oil prices. The company also continues to generate significant free cash flow, with expectations of over \$ 1.0 billion per year from 2019 forward. At current levels, RCL trades at a 27% discount to our estimate of private market value.

From [John Rogers](#) ([Trades, Portfolio](#))' Ariel Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on J.M. Smucker Company

Alternatively, there were a few notable performance detractors in the period. Branded food and beverage product company, J.M. Smucker Company ([NYSE:SJM](#)) finished the quarter down -12.74%, after falling short of consensus expectations. Investors were also disappointed with the company's full year 2019 guidance, which was mostly driven by higher than anticipated expenses. While we acknowledge increased marketing spend is necessary to support branded growth and Fiscal 2019 will be an investment year with lower than expected margins, we believe SJM has a portfolio of iconic, market leading brands that produce consistent returns. Additionally, SJM's strong cash generation capabilities should continue to allow the company to deploy capital towards brand investment and business expansion initiatives, as well as return cash to shareholders.

From [John Rogers](#) ([Trades, Portfolio](#))' Ariel Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on Mattel Inc.

Toy manufacturer, Mattel Inc. ([NASDAQ:MAT](#)) was another top contributor, jumping +24.87% in the period. MAT continues to make progress executing on the turnaround strategy to stabilize revenues, reduce costs and ultimately improve profitability. Excluding the impact of the Toys 'R Us liquidation, the company posted positive worldwide gross sales growth driven by strong momentum in its key power brands, with Barbie® and Hot Wheels® each up double-digits in the quarter. Inventory was well managed and MAT eliminated the liquidity overhang on shares by amending and extending a long term debt maturity and using the proceeds to prepay a note that was due near term. Additionally, MAT appointed a new CEO, Ynon Kreiz, who has over 20 years of experience in the media and entertainment industries. In our view, MAT has the right people in place to deliver on its strategic imperatives. That said, we realize change does not happen overnight and we are keeping a close eye on indicators that highlight continued execution. In the meantime, shares are trading at a substantial discount to our estimate of private market value, and although we project modest growth across the toy industry, we expect MAT to offer stable and consistent earnings and cash flow over the long term.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on KKR & Co. L.P.

Alternative asset manager, KKR & Co. L.P. ([NYSE:KKR](#)) also increased considerably in the quarter, posting a +23.36% gain. KKR delivered an earnings beat and to attract new investors, the company announced that it would be converting to a corporation from a partnership, effective July 1, 2018. In our view, this change simplifies the structure, broadens investor appeal, and translates to possible inclusion in the major indexes.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund second quarter 2018 [shareholder letter](#).

John Rogers Comments on The Madison Square Garden Company

Several stocks in the portfolio had strong returns in the quarter. Leading live sports and entertainment company, The Madison Square Garden Company ([NYSE:MSG](#)) advanced +26.20%, driven by both strong earnings and an announcement that the company is exploring a possible spin-off to separate the sports team assets from its live entertainment focused businesses. If MSG proceeds with this transaction, James L. Dolan is expected to remain Executive Chairman and CEO of both resulting entities. We believe the proposed plan would further create value for shareholders, by enhancing the strategic flexibility and capital allocation options for each company.

From [John Rogers](#) ([Trades](#), [Portfolio](#))' Ariel Fund second quarter 2018 [shareholder letter](#).

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