

# Patient Investing

An Interview with Melody Hobson, President, Ariel Investments

**EDITORS' NOTE** Melody Hobson also serves as Chairman of the Board of Trustees for Ariel Investment Trust. She is a nationally recognized voice on financial literacy and investor education, and is a regular contributor and analyst on finance, the markets and economic trends for CBS News. Hobson is a spokesperson for the Ariel/Hewitt Study: 401(k) Plans in Living Color and the Ariel Black Investor Survey. She is Chairman of the Board for DreamWorks Animation SKG, Inc., as well as a director of The Estée Lauder



Melody Hobson

Companies Inc., Groupon, Inc., and Starbucks Corporation. She serves as Chairman of After School Matters and is a board member of the Lucas Cultural Arts Museum; The Chicago Public Education Fund, Sundance Institute; and is on the executive committee of the Investment Company Institute's board of governors. Hobson earned her A.B. degree from Princeton's Woodrow Wilson School of International Relations and Public Policy. She also received honorary doctorate degrees in humanities from both Howard University and St. Mary's College.

**COMPANY BRIEF** Founded in 1983 by John W. Rogers, Jr., Ariel Investments ([www.arielinvestments.com](http://www.arielinvestments.com)) is a Chicago-based money management firm with a historic specialty in small and mid-capitalization U.S. equities. In addition to managing separate accounts for corporate, public, union, and nonprofit organizations, Ariel Investments also serves as the investment adviser for Ariel Investment Trust, which has six no-load, publicly traded mutual funds: Ariel Fund represents the firm's small/mid cap value strategy; Ariel Appreciation Fund is managed in a pure mid-cap value strategy; Ariel Focus Fund, Ariel International Fund, and Ariel Global Fund are all cap value strategies; and Ariel Discovery Fund represents the small-cap, deep value portfolio strategy.

## What makes Ariel so special?

We have been focused as a firm, and we have worked within our circle of competence. This has allowed us to get better over time, which we have had the patience to do. Our logo is a turtle, and for 30 years, we have been underscoring this idea of patient investing. However, patience is not just our investment strategy but also how we build our business. Ariel is the only job I have ever had, and I have worked here more than 22 years. We live these values.

## When hiring new employees, is it more about education or cultural fit?

You can teach someone with basic smarts to be smarter; you can't teach cultural fit or personality. But you also want someone who has a passion to win; someone that is all in.

## You're very focused on financial literacy. Are you seeing the necessary discussion to make impact in this area?

Not as much as we need. We're doing our best to make it a part of the conversation in our industry and beyond. I still believe the financial crisis would have been less dramatic if America was financially literate and if our Congress had more of an understanding of these key issues. These things have not been taught in school.

## Does it need to start early in school?

Early and often. Financial literacy is as important as anything else. We have all been handed the keys to our financial futures with 401(k) plans and the like, but no one gave us driver's ed. We have not thought through the ramifications of not knowing what our financial futures look like, which directly relates to our social programs in this country. Social Security is not enough; a check in this country right now is just over \$1,100 a month. A year's worth of Social Security for an individual is not considered to be below the poverty level, and yet we know that would be extraordinarily tough to live on. These safety nets have gaping holes, and they will only become more problematic to the extent that we have not saved or invested appropriately as a society.

## Do you feel that true economic recovery is taking place and how sustainable is it?

It is taking place and it is sustainable. The housing market has a magnifying effect. This is so important because it affects consumer confidence. When you feel house poor, you don't buy anything. Housing immediately impacts the job numbers because there are so many housing-related jobs within the industry, and in adjacent industries. There is a ripple effect when home sales increase. Car sales go up, which results in higher employment numbers. We are already seeing this play out. But I do think, largely, we are moving forward. Even though corporate America has not been willing to spend in a major way, it is in great shape, due

to the amount of cash sitting on corporate balance sheets from the deleveraging that occurred, as well as high productivity levels. Corporate America is in a position to withstand some financial downturn, should that occur. Recessions come and go, but look at where America is in terms of how we have cleaned up. Our personal balance sheets show that individual investors have less debt than they had before the crisis; there are fewer credit cards; and the savings rate is going up. So you look at the state of corporate America and say, whatever may come, we are in a better position to weather it.

## Have the reforms been put in place to safeguard against economic downturns and future financial crises?

There has been a lot of reform; some argue there was too much. Some argue every regulator approached different issues without a lot of coordination, and some have argued that Dodd-Frank was hasty. But there were some structural changes to the system that are inarguable. So the question is, will this prevent something like the Great Recession from happening in the future? Whatever it is, you hope there are guardrails in place to protect us from something we have not thought of. It was not all perfect, but the system did survive a traumatic moment. This is all that matters.

## What makes for an effective board of directors, and what role should a board play?

Post-financial crisis, boards became very risk-averse, so they spent their time being a risk management committee, which is not appropriate. Some of that also came out of regulatory discussions and new things audit committees had to formally consider. I know how we got there, but it is not what I think is the responsibility of a board. The role of a board of directors is to be a sounding board for the vision of the company – to hold executives accountable in executing that vision and to ensure a management succession plan is in place. This all maximizes shareholder value, which is the ultimate goal.

## Are there increasing opportunities for women at senior levels of business?

No. I am so profoundly saddened by some of the things I have seen, and feel a real responsibility to affect change. For example, I do not understand how in 2013, a company like Twitter can go public without one woman on its board. I do not understand how it is acceptable or smart or even possible in a progressive community like Silicon Valley.

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**What can be done to affect that?**

There needs to be a conversation about meritocracy. It boggles the mind. I don't have a great idea except for me putting a stake in the ground and saying I won't shy away from this topic. I feel the same way about minorities; there are no minorities on any of those boards. I do not understand how this is possible – how people think they can have a 21st century company in the world today without the presence of women. Given the number of women graduating from colleges and business schools, the browning of America, the globalization of business everywhere – how can this be in Silicon Valley?

**The diversity of thought seems to be a major focus in terms of how it impacts your business.**

Yes. I think of it in terms of how it impacts Ariel and the small and medium-size companies in which we have historically invested. There is a disconnect in how it is possible to be successful over the long-term without everyone in the room. You have to value every opinion and understand that a diverse group of opinions make us better.

**Even the boards are still heavily male-dominated.**

This is not just about gender; for me, it is about race too. It is about opportunity for all people. I am in some great boardrooms, and I have been fortunate to see gender well-represented; I just became the Chair of Dreamworks Animation this year. But I have been in progressive rooms, and that has been a gift. In some ways this is why I find it bewildering to come up against these things.

**You have also put a focus on public education. While there is much support**

**behind improving education in the U.S., K-12 remains broken. Does this frustrate you?**

A lot of people, like we say at Ariel, are not just recognizing the problem – they are doing something about it. We have created our own school, Ariel Community Academy. We are trying to affect a system that has a lot of challenges. I'm not one of those people who believes the teachers and the unions are bad. Our school is a public school with union teachers, which works very well. We supplement the savings and investing curriculum, as well as after-school jobs so we can have an extended learning day. This makes the school more effective. I have been working within public education for many years, and I know how many well-intentioned

people are out there doing everything they can to move the needle, and there are unique reasons why it is challenging.

**Did you ever anticipate that you would be at Ariel for your entire career?**

I knew from day one, when I started here at age 22, that I would work here forever. I knew I had found a place that was special and would allow me to be authentic and unapologetic, and to fulfill my dreams. It has exceeded my expectations, even when it has been really tough, like in 2008.

**Do you take the time personally to reflect on your successes or are you always looking at the next challenge?**

I am always looking at the next challenge but I am trying to live in the moment. I have wonderful mentors who push me hard on these issues. I'm not celebratory – I could be better at that. I am better than I was, but I am a work in progress.

**How do you balance it all?**

We do what is important to us. The important things find their way to the right place in your life. Living is a dynamic process. Having a baby has shifted my priorities, but not in a way that makes me less committed, ambitious, and driven.

Now, I want my child to be proud of me. I want her to see me as a mother that did the best she could.

**What advice do you give those who are looking to get into the business?**

The people I admire are doing what they truly love, living in their genius. Most people do things that are expected of them. Do not live someone else's life. Also, understand there are trade-offs, and if you want something, you have to work really hard for it. ●

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