

## CONVERSATIONS WITH MIKE MILKEN



### Melody Hobson

Co-CEO and President, Ariel Investments

June 12, 2020

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**Mike Milken:** Melody. Thank you for joining us today.

Melody Hobson: Thank you for having me.

You have led Ariel Investment with John Rogers for two decades. We have been together in up markets. We've been together in down markets. I thought, I might just read here what you wrote to people that you manage money for in March 31st letter when your funds were down more than 30%. You wrote, "The crisis will end. The question is not if, but when. With low expectations for the rest of this year, we believe later in 2020 and 2021 will look more like the fundamentals we saw in 2019. If our own view proves correct today, what we own today will lay the groundwork for a great opportunity for investors in the future."

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*"I love America, with all of our warts and all of our problems. I want to be very clear: I am a patriot and I'm so grateful. Warren Buffet says, if you're born in America, you won the birth lottery. I feel like I won the birth lottery over and over again."*

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**Well, the world has changed in the two and a half months since you wrote that. NASDAQ is at an all-time high. Small- and medium-sized companies that are public have come back dramatically. When people in March were begging others to shut down the stock market for a week while we could get our footing, how did you operate? How did the employees of your firm operate?**

We went to our crisis playbook. We've been to this movie before, unfortunately, and that letter you read, I called Unprecedented 4.0, suggesting there've been three other times in the near 40-year career that the firm has been in existence that we've encountered these unforeseeable, unimaginable events. We started with the crash of 87 where the market went down more than 20% in a day; 9/11 where the stock market was closed for a total, including the weekend, of six days. Everyone expected an extraordinarily bad open because of what it just occurred with this act of terrorism. We

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talked about how we leaned into that opportunity and the kinds of companies we bought. And then of course, the real moment of truth for us was the financial crisis in 2008/2009. It was the worst year in the history of our firm. We actually did not outperform during that period as we normally did during down markets. We saw clients leave and it was a real harrowing moment. The good news is we got smarter and better. We improved our balance sheet work, we

established proprietary Moat Ratings, proprietary debt ratings on our stocks in our portfolio. We actually came out of that crisis No. 1 in our category in both Morningstar and Lipper for our flagship fund to this day.

When the pandemic came, we said all of those prior crises were giving us muscle memory, were training us for this moment, this moment that no one has seen, this moment that we have no idea where it will go. We just have to stay calm and unemotional and look at the situation, stock by stock, company by company. The big question we asked ourselves, the most important question, is can these companies make it to the other side?

We believed Ben Bernanke when he wrote about this crisis being more like a natural disaster. He said it was nothing like the financial crisis of 2008. Think of this as like a worldwide snowstorm or blizzard where everything is stopped and eventually it'll be over. The question is, can you bridge to the other side? We said, this is a great buying opportunity. Of course it was painful. It hurt, fastest bear market and stock market

history. It only took 20 days for this stock market to go down over 30%. But then we've had this 50-day recovery that no one has seen anything like this before either. I'm not sure we expected it to be so fast, but I do think at that moment, we were just very locked on getting our job done and taking advantage of what we thought was indiscriminate selling.

As you and I have discussed over the years, my 1.0 is the Watts riots, 1965. I met a young African-American man who told me he would never have access to capital because of his skin color; his father didn't and he didn't. I am a strong believer in the American Dream. I went back, changed my major to business and developed my own view of what was the democratization of capital. No. 2.0 was Eula Love. January, 1979, a young African-American woman who was killed on her front lawn, over a gas bill she hadn't paid. 3.0 was the response to Rodney King and the efforts we had in rebuilding LA, and 4.0 is today. Each of these events has dominated my life in many ways, because I viewed access to capital opportunity and a chance at the American Dream as colorblind. My own efforts over what is 55 years have been to do that. We have spent decades talking about this. Talk to me, not as a person running a financial firm today, but as a mother, as an African-American woman, how has this affected you?

There's a lot in that question, so I want to unpack it as best I can. Watts, Eula Love, then [Rodney] King, etc. and now George Floyd are all memorable and really, really important moments. The sad thing, there are so many more. Emmett Till and Trayvon Martin. Breonna Taylor, Laquan McDonald in Chicago. I mean, we could just go on and on with these names and

this injustice that exists in our society. I was reading something over the weekend from a congressman who passed away from Cleveland, Congressman [Louis] Stokes. He wrote a book and he said, racism is in the atmosphere. I thought that was such an interesting quote. It's in the atmosphere. I thought a lot about it from the perspective of being a person who walks around with brown skin, a woman, a mother, but also someone who runs a company. I can't divorce myself of any of those things. What I see as a situation where what just happened is devastating, horrifying. It's unimaginable. But it's not surprising because it has happened so many times and it continues to happen every day in America with no cameras. That's the part that's just really sad, but something we, as people of color, we know.

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So when people ask me, how am I doing? How do I think about this? Just like the first one: devastating, but happens every day. My answer is I'm fine. And I'm also feeling this palpable pain. Then I realized, especially recently, that's how I always feel. I'm always fine. And I always feel this palpable pain. But I've conditioned to it. I've learned to deal with it. I think I'm not unique in my community. In fact, I think I'm like most of my community. So many of the conversations you and I have had have been debates and arguments about the fact that I don't agree that capitalism is blind to race. I actually don't believe in the idea of being colorblind. I did a whole Ted Talk on that, that over 4 million people have watched, that speaks to this issue of why I think we should see race instead of not see it. Because not seeing it, hasn't worked. This idea of being colorblind has not worked. What's the definition of insanity? Doing the same thing over and over again and expecting different results. We've done some things over and over again in our society, but we have not gotten any different results. Perhaps this is a moment of truth. And this moment of truth gets us to change the paradigm because what we have doesn't work.

**Someday the majority of people in America will be of Latin American and Asian ancestry. There are states in the United States where less than a fifth of the children are of European ancestry. And in many parts of the world, the majority will be black. This change of face is something that I have been focused on. It's not being colorblind. It's realizing as my father told me when I was eight years old, if every child and every person doesn't feel the American Dream is at least possible for them, it will not be a good world for my children, his children, his grandchildren, to grow up in.**

**That is why six years ago, we started building this Center for Advancing the American Dream across from the White House and the Treasury, so that we would have a symbol and stories of success and upward mobility like yourself. You have lived with this. What you just described to me, Mellody, is kind of like a cancer patient. I was told I had 12 to 18 months to live 27 years ago. You're living, but you're a patient living with a cancer, waking up every morning and thinking, well, I could die from cancer. What will it take for you and millions of others to wake up in the morning and not feel you're carrying this burden?**

The "browning of America," that has been going on for a long time. We've had those statistics, we know what's happening. It has not dramatically affected a lot of behavior around the things that I've talked about. If anything, if you're worried about that kind of change, you might get more dug in, that you must hold onto your power if you think somehow your power might go away because of the changing face of our country. That creates a dichotomy there that can be problematic, even in the face of irreversible change. It is absolutely happening and it's already happening in so many cities. I live in Chicago: 70% of Chicago is minority, black or Hispanic – 7-0. It's a majority minority city,

and it is the third- or fourth-largest city in the United States. So it just gives you a sense of we've already been there for a long time in a lot of places in this country.

The idea that your father talked about, what kind of world America needed to be for it to be successful for his children and grandchildren. I share that point of view. I always tell

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the story that when I was a child, my mother used to tell me, ‘Mellody, you could be or do anything.’ She believed that. She knew that I'd be up against a lot, but she said no excuses. There's going to be a struggle. It's going to be super hard. People aren't going to treat you fairly, but you can still be or do anything. I actually believed her.

There are plenty of examples out there of people have accomplished enormous things that made that seem possible and true to me. I amend that statement now for my own six-year-old child, because I tell her,

Everest, you can be or do anything, but I've added a new piece to that argument. I say, I want you to believe that's true of anyone and everyone. That it's not just true of you; it's any person you see anywhere, from a doorman to a doctor, to a cab driver, to whomever you see out there. No matter what race, no matter what sexual orientation, that you actually think it's true that they have the same possibilities that you have. If we open up our mind to that, I think that changes the narrative about what's possible in this country.

When you set this idea that my story of living with this palpable sense of pain is like a cancer patient, that's a great analogy. Because you can live with cancer, as you know all too well. And you can die from cancer. The thing is that right now, what we've seen with George Floyd, is you can die from racism. That's the thing: that anyone with brown skin can. That's the thing that is different from living with something and feeling pain from it. It's just knowing that just by virtue of fate, something very, very, very terrible could happen. You can be just a teenager going to the store to get Skittles like Trayvon Martin and die in your own neighborhood, or running like Aubrey and die just jogging. Those sorts of things make the living with it a little bit different because it's very indiscriminate. The outcomes are very indiscriminate. That's very, very, very problematic.

As a country, and as a person, I think first of all my role is to make sure that I speak my truth, that I don't live in the comforts that I could live in and not venture out into this

conversation and into this world. I have to make sure that like many of my peers and many of my colleagues, we are standing up for those who have no voice. We're making sure that we explain to people truth as we see it, because even from my own vantage point, I see moments of just great injustice and discrimination, gender, race. I sit with people who don't make eye contact with me and only make eye contact with my co-CEO John Rogers. There are stories I could tell. I could give you chapter and verse on how this exists every day. But the thing is to not be defeated about it, to keep fighting for change, to keep fighting for concrete solutions. No pie in the sky ideas, no feel good moments. I keep telling people, we can be concrete about succeeding at this and holding ourselves accountable, especially in corporate America, the way we hold ourselves accountable on everything else.

When I think about these issues, for me my career was book-ended: 1965, the Watts Riots, which caused me to go into finance when I knew everything, but didn't know that people actually felt they wouldn't have access to capital based on their skin, and the financing of Reg Lewis in the 1980s. The fact that an African-American man, that someone would give him a billion dollars. I viewed him as the Jackie Robinson of business for African-Americans. There is a change coming. If the 70% of the minorities

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that voted in Chicago voted, they would control the process. In 1988 and 1989, I spoke to the African-American Mayors Association. At one point in time in America, Los Angeles, Chicago, New York, Washington, D.C. Atlanta, Detroit all had African-American mayors.

Now, this election, for the first time in our history, people of Latin American ancestry, more of them will vote than African-American ancestry. They make up a larger percentage of our population today. There's more than 30 million people in the United States of just Mexican heritage today. So it's going to be interesting to see how they vote. But at some point it's inevitable, Mellody, that the majority will control the political process, and in a democracy what the majority believe will become the rules of our country.

I would like to think that were true. I'm not sure that I see that at this moment. We certainly aren't seeing that play out in our current politics. I don't think what the majority believe are being carried out, or we wouldn't have the army in the streets in Washington D.C. But that aside, this is not about it only being about having black or Latinx mayors in our cities. We have some unbelievably great mayors. We have a wonderful, amazing

black mayor in Chicago, Lori Lightfoot, who was elected. She won every single ward in the city of Chicago when she ran. So there was a mandate for change in my city. We've seen this mayor in Atlanta who's just unbelievable. Keisha Lance Bottoms. We've seen unbelievable strength and governors in this country right now. Unfortunately we don't have governors of color and that needs to change. But I do think that it's not about just this representation having to be directly correlated to the minority community.

It has to be that the laws of our country are upheld in the way they're supposed to be, and there's true equality in how laws are applied and the way the country works. That can come from anywhere, any part of society. That could come in a business: a Fortune 500 company led by a majority leader can have a very clear agenda about diversity and inclusion and move the needle and a company that affects hundreds of thousands of people. It can also happen in a small company like Ariel with a hundred people that has big effects on the companies we own and the proxies we vote. It's not up to just one way. It's not just about governance of our democracy. That is one piece, but corporate has a role, and then the citizenry has a role as well.

I would say during the pandemic and during these demonstrations and issues that have been raised in the last two weeks, leaders in corporate America, and I've done a number of podcasts with them, have been quite vocal, have been quite outspoken. One of the things we have in America, in the House of Representatives, there's pluses and minuses, but every two years you're going to vote. You have to remember, I'm a product of the University of California at Berkeley; the first Free Speech Movement was 1964 shortly after I arrived on campus. I think I would expect a substantially higher percentage of people in their twenties to vote this year, and a higher percentage of people in their thirties to vote this year. As I mentioned, it looks like we're going to have the highest percentage of people of Latin American ancestry vote in this election.

In America, we at least have a chance to vote. When George Bush was reelected in 2004, 26% of the people in Ohio said they came out to vote because they were born-again Christians and wanted to vote against same-sex marriage. In 2016, when they took a poll of this group, was this an issue to them? No: 5% said it was an issue. America does change. Sometimes it takes a lot to change it, but unlike other countries in the world, America has changed.

I think as we look to the future, you're going to see this change in our representation of people that represent us. You're going to see a much more active, similar to myself and the baby boomers, a more active group. The children, my grandchildren, who are going to school online, want to know what's going on, what has happened. I see a much different environment going forward. As you know, on our national elections, we have in



**the country one of the lowest turnouts of people that vote in a national election. We'll see what happens this time.**

First of all, I can't agree with you more that voting is extraordinarily important and it's certainly something that I think everyone should do. If we all voted, I think you'd see different mandates and big change in our society. I'm hopeful that these moments and this unrest that we have in the country, the economic inequality that we have in a country, leads people right where they should be, which is to the voting booth. I think that that's super, super important that we all aggressively vote. As it relates to corporate America, I think corporate America is speaking out. But words don't count. You actually have to act and do something.

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I can tell you, we read annual reports for a living at Ariel. I can't tell you how many annual reports we've read that devote pages to the concepts of diversity and inclusion. Then you go to the back of the annual report and you look at the senior leadership team of the company or the board, and you don't see any diversity. That doesn't work. I think Apple is a phenomenal company. They have James Bell on their board, who is one of my most respected pals. We were on the board of JP Morgan together. He is phenomenal: Former CFO of Boeing, former interim

president of Boeing. He happens to be black, but he is outstanding. And he carries the flag in a very, very direct, authentic and unapologetic way when he asks questions of companies and of leadership. I'm glad he's at Apple, but I can't name a senior black professional at Apple. I can't. Or a Lat Mex.

So I want to make sure that we line up. That's not in any way fighting words. It's just, I don't know anyone, and I traffic out there with a lot of people, I just want to make sure that we line up all of these words with some concrete targets. The targets can't just be interns. Interns are great. You can't be what you can't see. You need to see people at the top of those organizations. James Bell is an excellent example at the top in terms of the board, but we need more James Bells. This is a great opportunity for corporate America to live the values that they say they believe in. And I know these companies are better when they are more diverse. The data shows it. I love that line, 'math has no opinion.' The returns of companies with more diverse boards warrant more diverse leadership, they have done better. Hopefully, that in and of itself would be enough. But beyond



that, the statements that our companies are putting out this moment that we're living in right now, this moment of civil unrest, this moment where racism again has crested right before our very eyes, where we've seen things that we can't unsee, I hope that does lead to meaningful lasting forever change that creates hundreds of James Bells and Mellody Hobsons and so many other leaders that are out there, because then we can be symbols. We can also reach back into our communities and it creates a virtual circle.

**The minute people don't feel there's hope, then everything breaks down.**

I totally agree with you. My point about telling people you can be or do anything: I understand all the obstacles that will be in your way. The hope is America. It's quintessentially who we are. We think tomorrow will be better than today. I know I wake up that way every single day. Even as value investors, we think tomorrow will be better because we buy these companies that're out of favor; there's something wrong. Value investors are by their nature are optimists. And I think America is optimistic. Even in our darkest hour, we always believe that

things will improve. Our African-American, Latinx, all of our compatriots who feel put down, we can all keep going because we keep going for others. We keep going for our kids, our grandkids. I want Everest to see a better world. She will have different resources than I ever had, but I still want her to walk into a room and not be evaluated because of what she looks like, because I've had that happen to me way too many times, having to convince someone that I'm smart, convince someone that I've done the work, convince someone that I'll be easy to work with, before I even opened my mouth.

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**I'm like 700 years old. I've seen the best of our country and I've seen the worst of our country. I would say to you, if you look at the history, there was a time when the Italians we're heavily discriminated.**

Yes, of course. Irish. Jewish.

I joined a firm in the sixties where many of their directors resigned because they had acquired or merged with JP Morgan, and they didn't want to be associated with a person from Ireland. These are issues. But the other thing I would say relative to other countries in the world, [the United States] has many qualities here.

I would not want to live anywhere else. I love America, with all of our warts and all of our problems. I want to be very clear: I am a patriot and I'm so grateful. Warren Buffet says, if you're born in America, you won the birth lottery. I feel like I won the birth lottery over and over again.

As I traveled the world every year, I would say seven or 800 million people, if they could, would come here. You have to really travel the world to fully understand your freedom. As you said, it's not perfect, but we're changing. I've always lived my life with, okay, it's our job not to make sure this happens, but to change the future. So when you talk about, are your companies going to survive, the sixth area that the [Milken] Institute has been involved with was economic and financial safety nets. What can we do to make sure these companies don't fail? What can we do to make sure the economy comes back? I've spent a considerable amount of my time, not just working on vaccines and antivirals and immunology agents, but I have spent a considerable time on making sure companies have used the financial markets to extend their maturities, increased liquidity, sell equity if they need to.

So let's change the course of history. Melanie. I want to thank you for joining us today. I learned so much when I talk to you and I tried to see the world through other people's eyes.

Thank you for having me. Thank you for all that you do to try to make the world a better place. I really do appreciate you.

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