

Quality on Sale

Oakmark Funds' David Herro and Tony Coniaris describe how they marry quality and price in searching for ideas, the process changes they've made over the past year, how they try to navigate markets characterized by "amplified price volatility," and why they're seeing mispriced upside in Bayer, Siemens Healthineers, IMCD and LVMH Moët Hennessy.

INVESTOR INSIGHT



Oakmark Funds

David Herro (l), Tony Coniaris (r)

Investment Focus: Target companies that grow long-term value, are run by owner-oriented managers, and whose stocks trade at well below estimated intrinsic value.

Last year a welcome category of stocks made its way up the watchlist of the Oakmark Funds' international business run by David Herro and Tony Coniaris: those of quality companies with stable earnings, higher returns on capital and lower leverage. Says Herro: "When so much money flows into very narrow areas – in recent times big U.S. tech – we can find more companies that meet our criteria for quality and price."

This focus on quality and price has paid off for investors in the \$14.5 billion (assets) Oakmark International Fund, which since its 1992 inception has earned a net annualized 8.9%, vs. 6.7% for the MSCI World ex USA Index. Today Herro and Coniaris are finding quality bargains in diverse areas, including medical equipment, agribusiness, luxury goods and specialty chemicals.

Some of your investors have remarked on a perceived shift toward "quality" in your portfolio. Has that been the case?

Tony Coniaris: Our basic response has been simple: yes, the portfolio has more quality characteristics and no, we have not changed who we are as value investors. In many ways 2025 was a banner year for equities around the world. But one group of stocks we believe was left behind: quality companies with more stable earnings, higher returns and stronger balance sheets. We go to where the value is and as a result the portfolio shifted more toward quality and became more defensive than it has been for at least a decade.

Given the consensus these days that high-quality businesses are better investments, describe how you think about business quality and marry that with being value investors who care a lot about price.

TC: Quality technically tends to mean high conversion of earnings to cash flow, low earnings volatility, low debt leverage, high margins, high returns on capital, and ample high-return investment opportunities. But by the time these metrics are reported they are history. So investors need to determine if the past is prologue, and differences in judgment on that question are what can create opportunity.

If temporary cyclical headwinds are weighing down profits, perhaps there is an opportunity for an investor like us with a longer time horizon. If there is good reason to believe there is a quality business hidden by years of mismanagement and we see that there is change afoot, the busi-

ness may be poised to improve. Or maybe a company is making a large investment that we believe will pay off, but it is hurting the balance sheet, margins and returns today. Facts and circumstances can cause investors to assess quality differently depending on the time frame.

In this search for quality, investors can also differ widely in how they apply price discipline. We have a high bar with respect to price, targeting a discount of 30% or more to our estimate of intrinsic value, which we define as the present value of future cash flows. So while we'd love to own nothing but the best in quality, each idea has to meet our hurdle on price. Last year was fairly anomalous – what we consider higher quality firms were trading at attractive prices. That's why we owned more of them.

While that was going on externally, internally you were working on "de-bottlenecking" your idea-generation process. What was behind that initiative?

TC: Our analysts are sector generalists tasked with covering individual countries. Their marching orders are to find good businesses that grow per-share value, are run by owner-oriented management teams, and with stocks that trade at a significant discount to value. They get into the business because they're curious and love the thrill of the hunt, but they were telling us and we could see in the number of new ideas presented that they were getting bogged down and weren't able to spend as much time generating new ideas as they needed to or wanted. In short, they weren't as productive as they should be.

What we changed wasn't earth-shattering, but involved having them make better use of their time. When traveling to a country, focus only on the highest-impact meetings. Meet only with companies at the top of your interest list. When you return, don't spend days writing up reports that just catalog what you did, focus on brief, to-the-point descriptions of meetings that appear the most actionable. We're trying to build muscle around brevity, following Churchill's admonition that it is "slothful not to compress your thoughts."

An investment firm needs a steady flow of ideas because it helps us to know what "good" looks like and to optimize our portfolios accordingly. More choices are always good. Since we rolled this effort out in the spring of last year the number of new ideas per analyst presented in front of the investment team is up over 100%. The analysts are happier because they have more time to do what they love to do, and the ideas they're generating are more interesting and of better quality.

As an example of what attracts your attention, what's going on in the flavors and fragrances business of recent portfolio addition Symrise [Frankfurt: SY1]?

TC: This is a common type of situation for us where the company has grown organically at more than 7% per year for a long time but in the past year that fell to the low single digits. The controversy is around what happened and whether that's a more temporary or a more permanent problem.

In looking at the business, we like the consolidated global industry structure and Symrise has leading positions in pet food palatability, beverage flavors and personal-care ingredients. The ingredients it sells represent a small portion of the total cost of goods sold but are critical to the performance of the end product, which creates sticky customer relationships. We believe the growth slowdown has resulted from a hangover effect from Covid as the pet business in particular boomed and then normalized, and from greater price elastic-

ity as inflation pushed consumer-product prices up. Our basic view is that long-term demand dynamics and Symrise's market positions haven't fundamentally changed. When the shares are priced as if those things have fundamentally changed, that can create opportunity. [Note: Symrise shares at a recent €75.60 currently trade at 20.5x consensus forward earnings, vs. a five-year average of just over 32x.]

ON LUXURY GOODS:

The main story here has been demand in China. We believe what's happening is more cyclical than structural.

You added to your position in luxury-products company Richemont [Zurich: CFR] in the past six months. Why?

David Herro: You can categorize luxury goods into hard luxury like jewelry – which is primarily what Richemont sells – soft luxury like fashion, and in-between like leather goods. Successful businesses across the categories have moats around strong brands, produce large returns on capital, and are very cash generative. The demand drivers are similar as well, but we've found that jewelry, which tends to be less faddish, outperforms fashion and leather goods through the cycle.

The main story here in recent times has been the slowdown in luxury demand in China and, to a lesser extent, in other Asian markets. China's property bubble is deflating and consumer spending on the most discretionary items has been impacted. But we believe what's happening in luxury is more cyclical than structural. The number of millionaires is growing much faster than the population as a whole and we don't think the aspirational and signaling benefits of luxury goods are going to change. People like to display their success. When we didn't think the quality of the business was accurately reflected in

the share price, we added to our position. [Note: At a recent 157.25 Swiss francs, Richemont's shares are up 30% from their 2025 lows and now trade at just over 25x consensus forward earnings.]

Your portfolio has traditionally been weighted heavily toward Europe. How are you assessing the opportunity in what seem to be revived Asian markets like Japan and South Korea?

TC: Starting with Japan, there is now more capital bringing an outside perspective to what has been an insular country economically. This encourages more discipline on capital allocation and the use of benchmarking when evaluating operational performance. That said, while we believe we're investing with management teams that truly care about shareholders in holdings such as SMC Corp. [Tokyo: 6273] and Asahi Group [Tokyo: 2502], there's a long way to go until management teams broadly are as focused on value creation as they are in the west. If you look at where the market trades on a P/E basis relative to returns on capital, Japan is at the high end globally on price and at the low end on returns. A lot of good things are happening, but we're finding that more than baked into share prices.

The starting point is more attractive in South Korea, where projected one-year returns on equity are in the mid-teens and the market P/E is closer to 11x forward earnings. The government has been legislating enhancements to shareholder rights, and most companies now have a "value-up" plan where they commit to certain capital-return and operating goals. We're finding opportunity in companies that have embraced the value-up concept. Our largest position is in the diversified bank KB Financial [Seoul: 105560]. Management and the regulators now seem on the side of shareholders and despite the stock [recently at ₩159,000] doing well over the past two years, it still trades at tangible book value. In other markets a bank earning a double-digit return on equity would sell at a material premium to book.

A weaker U.S. dollar has benefited U.S. investors owning non-U.S. stocks over the past year. Do you have an opinion on whether that continues or not?

DH: It hasn't been the primary factor – earnings growth has – but one key reason U.S. stocks have done relatively well over the past 10 years or so has been the strength of the U.S. dollar. The DXY index measuring the dollar's value relative to a basket of six major foreign currencies bottomed in 2011 at around 75. It peaked at the end of 2022 at over 110, which created a real headwind for non-U.S. stocks. People say the dollar has been so weak, but the DXY today is just under 98. So it's off its peak, but based on history and any measure of purchasing-power parity or interest-rate differentials, the dollar is still quite strong vs. foreign currencies. We think it is fundamentally overvalued and see currency as more likely a tailwind over the medium term.

Describe your investment case today for a somewhat controversial name, Germany's Bayer AG [Frankfurt: BAYN].

DH: We invested in Bayer in 2018 soon after it acquired Monsanto, which greatly enhanced its agriculture business to go along with large pharmaceutical and consumer-health franchises. We didn't love the price they paid, but we thought the deal made strategic sense, combining in an attractive global industry Bayer's expertise in crop protection with Monsanto's strengths in seeds and traits. Today the business breaks down by revenue with 47% in agriculture, 40% in pharma, and 13% in OTC consumer health, where it sells brands like Claritin and Alka-Seltzer.

The controversy in the name is the inherited-from-Monsanto litigation exposure around the Roundup herbicide and its active ingredient, glyphosate. In retrospect, we clearly underestimated the magnitude and duration of the litigation risk. The company has paid out more than \$10 billion in settlements, is asking the U.S. Supreme Court to rule that the product's Environmental Protection Agency approv-

INVESTMENT SNAPSHOT

Bayer
(Frankfurt: BAYN)

Business: Germany-based diversified conglomerate with global franchises in three primary operating segments: Crop Science, Pharmaceuticals and Consumer Health.

Share Information
(@2/27/26, Exchange Rate: \$1 = €0.85):

Price	€42.01
52-Week Range	€18.38 – €49.78
Dividend Yield	0.3%
Market Cap	€41.27 billion

Financials (TTM):

Revenue	€45.87 billion
Operating Profit Margin	11.3%
Net Profit Margin	(-0.4%)

Valuation Metrics
(@2/27/26):

	BAYN	S&P 500
P/E (TTM)	n/a	24.7
Forward P/E (Est.)	9.1	21.9

Largest Institutional Owners
(@12/31/25 or latest filing):

Company	% Owned
BlackRock	7.8%
Vanguard Group	4.4%
Amundi Asset Mgmt	3.2%
Dodge & Cox	2.9%
Norges Bank Inv Mgmt	1.7%

Short Interest (as of 2/15/26):

Shares Short/Float	n/a
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BAYN PRICE HISTORY

THE BOTTOM LINE

The company is seeing positive results from organizational and operational changes instituted by CEO Bill Anderson and is making tangible progress in putting costly litigation tied to its Roundup herbicide behind it, says David Herro. He doesn't believe the shares reflect that, currently trading at a more than 30% discount to his estimate of intrinsic value.

Sources: S&P Capital IQ, company reports, other publicly available information

al preempts state-based “failure-to-warn” claims, and just earlier this month proposed to pay up to \$7.25 billion to settle a nationwide class-action suit.

From a business perspective, we think the company under CEO Bill Anderson since mid-2023 is doing the right things. Bayer had become bureaucratic and slow-moving and Anderson is addressing that through what he calls “Dynamic Shared Ownership,” which is an organizational overhaul meant to take out €2 billion in costs, dramatically reduce management layers, and push decision making to semi-autonomous teams closer to the customer.

It's still early in the process, but two years in we're seeing positive results. The cost savings goals are being met. There's been a rejuvenation of innovation in the pharmaceutical business, translating into new compound discovery and increasing clinical-trial success. The agriculture business has been impacted by a weak global industry cycle – exacerbated by the Chinese dumping product at the low end of the market – but as the market leader we think Bayer is well positioned when the cycle improves and it also has considerable potential to increase ag operating profitability.

What's your take on recent litigation news?

DH: The settlement announcement is a positive in our view. First, it was consistent with our estimates, but more importantly as it's currently crafted it would end a lot of the future uncertainty around litigation. It still needs to be approved, but progress towards that and the potential of a positive Supreme Court ruling would fundamentally change the risk profile and allow Mr. Market to focus on the improving business fundamentals.

Do these three businesses belong together?

DH: There has been pressure to break up the company – the three businesses really don't make sense under one roof – and investors were disappointed when the CEO said he didn't plan to do that. But the rationale was right. There's too much easy cleanup to do, why let other shareholders benefit? Do that first and you can think about "strategic alternatives" later.

Is the balance sheet an issue?

DH: The net debt on the balance sheet is currently about 3x the annual EBITDA of around \$10 billion. Absent the litigation risk that wouldn't be a big concern to us, but we would still like to see that leverage come down. Cash-flow generation is improving and we expect them to continue to pay down debt.

How are you looking at valuation from today's share price of €42?

DH: The valuation is complicated by the three separate businesses and the legal exposure. Our key assumptions include the pharma business troughs in 2026 and inflects up as new products on the market outrun products winding down, increasing revenues and driving operating margins from the mid-20s to the high-20s by 2029. We expect the ag business to improve both from the cycle and a rejuvenation of new-product innovation, helping drive margins higher over time. Making what we believe are conservative assumptions on the liti-

gation exposure based on the latest news, the shares meet our hurdle of a 30% discount to intrinsic value or better.

Why are you high on the prospects of German medical-equipment company Siemens Healthineers [Frankfurt: SHL]?

TC: The company is a global leader in imaging, radiation therapy and clinical diagnostics. We consider all of these to be structurally attractive markets characterized by consistent long-term growth, rational competition, low cyclicality and a strong focus on innovation.

The biggest and best business is imaging, which accounts for around two-thirds of operating earnings. Siemens is the class act in this business operating at the higher end of the market, selling primarily MRI [Magnetic Resonance Imaging], CT [Computed Tomography] and PET [Positron Emission Tomography] equipment. Imaging plays an increasingly important role in healthcare as a non-invasive, cost-effective way to get a baseline for treatment. As the technology improves it's used more often, as you see imaging now increasingly being paired in treatments with drugs and working in concert with robotic equipment.

INVESTMENT SNAPSHOT

Siemens Healthineers

(Frankfurt: SHL)

Business: Develops, manufactures and markets medical equipment primarily in the areas of imaging, radiology and diagnostics; Siemens AG owns two-thirds of the company.

Share Information

(@2/27/26, Exchange Rate: \$1 = €0.85):

Price	€42.14
52-Week Range	€39.91 – €54.46
Dividend Yield	2.4%
Market Cap	€47.02 billion

Financials (TTM):

Revenue	€23.29 billion
Operating Profit Margin	13.5%
Net Profit Margin	9.1%

Valuation Metrics

(@2/27/26):

	SHL	S&P 500
P/E (TTM)	22.3	24.7
Forward P/E (Est.)	17.6	21.9

Largest Institutional Owners

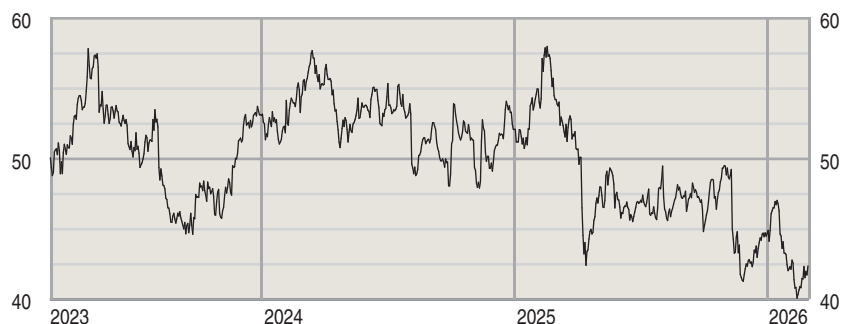
(@12/31/25 or latest filing):

Company	% Owned
Siemens AG	67.8%
Norges Bank Inv Mgmt	2.1%
BlackRock	1.4%
Vanguard Group	1.2%
T. Rowe Price	0.8%

Short Interest (as of 2/15/26):

Shares Short/Float n/a

SHL PRICE HISTORY



THE BOTTOM LINE

As the "class act" of its competitive set, Tony Coniaris believes the company can continue to take share in an attractive global healthcare imaging market. He thinks investors focused on shorter-term concerns are misvaluing the shares of such a high-quality company that he estimates can increase EPS by 10% or more over the next five years.

Sources: S&P Capital IQ, company reports, other publicly available information

Because Siemens generally has the best technology and new-product pipeline, we expect it to continue to take share in an underlying market that should grow faster than healthcare spending overall.

Outside of imaging the most interesting business is Varian, which makes equipment for the radiological treatment of cancer. It's the global market leader with an excellent reputation for product quality, but the division has lagged in developing new products and hasn't been particularly well run from a margin standpoint. This part of the business is rolling out an upgraded product set that we expect to drive improved performance and much better margins, which should get to more than 20%, up from around 17% today and 15% in 2023.

The shares at just over €42 aren't far from their three-year low. What's causing that?

TC: This is another business where weakness in China has been a negative for the stock. Part of that has come from aggressive competition at the lower end of the market by a Chinese competitor called United Imaging [Shanghai: 688271], and some of it has been due to top-down pricing pressure by the Chinese government. We believe both of those issues are manageable and reflected in our estimate of business value. Siemens is still the market leader and ultimately we believe the best technology in these businesses will continue to be worth paying for.

Another overhang on the stock has been that Siemens AG, Healthineers' former parent, has announced that it plans to start materially selling down the 68% stake it still owns in the company. It's not selling for valuation reasons but because it wants to make its own story cleaner. This type of overhang is rarely something that concerns us long-term, and that is the case here as well.

We also see unappreciated upside in the CT business, where the company has a new technology called PCCT, which is a new way of capturing the image that enhances what you get for what you pay. It's a real leapfrog in technology that we think

can drive a very positive product cycle in an important part of the business where they can lead for a long time.

Assuming 6-7% top-line growth and margin expansion from improvement at Varian, China getting better and a changing product mix, we think the company can increase pre-tax earnings at a low double-digit rate over the next five years. We don't believe that opportunity is reflected in the valuation today.

From medical equipment to specialty chemicals, describe your interest in IMCD [Amsterdam: IMCD].

TC: Think of this as not quite a chemical company, but one that is nonetheless caught up in the overall market selloff of chemical stocks. IMCD is not a producer, but a global leader in the marketing, sales and distribution of specialty chemicals and ingredients. It's widely regarded as best-in-class, benefiting from a highly technical salesforce and extensive global scale. These strengths are valuable in the "true specialties" areas of the market in which it plays, where chemicals or ingredients often have a material impact on end-product performance and where there's more pricing power and demand inelastic-

INVESTMENT SNAPSHOT

IMCD N.V.

(Amsterdam: IMCD)

Business: Sale and distribution of specialty chemicals used in a wide variety of end products to enhance the products' performance, processing efficiency and durability.

Share Information

(@2/27/26, Exchange Rate: \$1 = €0.85):

Price	€81.40
52-Week Range	€71.56 – €147.25
Dividend Yield	2.3%
Market Cap	€4.80 billion

Financials (TTM):

Revenue	€4.81 billion
Operating Profit Margin	8.2%
Net Profit Margin	4.5%

Valuation Metrics

(@2/27/26):

	IMCD	S&P 500
P/E (TTM)	22.1	24.7
Forward P/E (Est.)	14.5	21.9

Largest Institutional Owners

(@12/31/25 or latest filing):

Company	% Owned
Invesco	5.5%
UBS Asset Mgmt	4.9%
Vanguard Group	4.3%
Burgundy Asset Mgmt	3.4%
Merrill Lynch & Co.	3.3%

Short Interest (as of 2/15/26):

Shares Short/Float n/a

IMCD PRICE HISTORY



THE BOTTOM LINE

This is "not quite a chemical company [that] is nonetheless caught up in the overall market selloff of chemical stocks," says Tony Coniaris. The unusual slowdown in its business is cyclical rather than signaling fundamental change, he says, and he expects positive results for shareholders as traditional growth resumes and the shares as a result re-rate.

Sources: S&P Capital IQ, company reports, other publicly available information

ity. For chemical producers, it offers entry into a far larger addressable market than the companies could reach on their own. Chemical buyers benefit from IMCD's expertise and relationships to find the optimal mix of performance and price for their end product.

Can you give some examples of how the chemicals it distributes are used?

TC: Just to give a few: They might provide specialized additives for concrete that enhance water resistance and improve workability. They'll distribute advanced polymers that are used in hair-styling products to provide longer-lasting hold and better humidity resistance. They might assemble a set of additives for high-performance hydraulic fluids and gear oils that allow them to withstand extreme temperatures and pressure. In general, these tend to be small niche-y products with high value-add but that constitute a very low percentage of an overall end-product's total cost of goods sold.

What do you think is making the shares attractively priced at a recent €81.40?

TC: There's been deflation in the global chemical market because Chinese producers have been dumping product, and there's also still destocking going on in many relevant end markets after people overordered during Covid. That's been particularly disruptive in chemical markets where shelf lives are long.

From our channel checks we're seeing signs of normalization in the broader chemical market and generally believe the slowdown at the company is a result of cyclical phenomena and doesn't signal any fundamental change in its business or competitive environment. We expect it to return to its traditional growth trajectory, with revenues increasing organically and from M&A by at least 5% a year, which should translate into sustainable bottom-line growth in the high single digits.

We also believe there's real potential for re-rating. The stock had been expensive for a decade – trading at an average

25x P/E over the past seven years – but the shares now trade at less than 15x forward EPS estimates. We think that's a great entry point for a business of this quality and growth potential.

You spoke earlier about finding opportunity in luxury. Why is LVMH [Paris: MC] a prime option to capitalize on that?

DH: This has been sort of the gold standard in the industry, run by Bernard Arnault and with a portfolio of prestigious brands including Louis Vuitton, Christian Dior, Tiffany, Bulgari, and Moët & Chandon.

It's quite diversified in every category of luxury, but roughly 50% of the business is fashion and leather goods, where its high brand desirability and scale drive industry-leading profitability. We believe Mr. Arnault is one of the best CEOs in Europe, and he's fully aligned with shareholders given his family's 49% ownership stake in the company – a stake they have been aggressively increasing.

TC: There aren't many markets like luxury that are this big and profitable and where the addressable market naturally grows at a rate well above both GDP and the over-

INVESTMENT SNAPSHOT

LVMH Moët Hennessy

(Paris: MC)

Business: Manufacture, marketing and sale of a diversified portfolio of luxury goods; key brands include Louis Vuitton, Christian Dior, Tiffany, Bulgari, and Moët & Chandon.

Share Information

(@2/27/26, Exchange Rate: \$1 = €0.85):

Price	€544.10
52-Week Range	€436.55 – €700.90
Dividend Yield	2.4%
Market Cap	€270.09 billion

Financials (TTM):

Revenue	€80.81 billion
Operating Profit Margin	21.9%
Net Profit Margin	13.5%

Valuation Metrics

(@2/27/26):

	MC	S&P 500
P/E (TTM)	24.9	24.7
Forward P/E (Est.)	23.2	21.9

Largest Institutional Owners

(@12/31/25 or latest filing):

Company	% Owned
BlackRock	2.3%
Vanguard Group	2.2%
Capital Research & Mgmt	1.1%
Norges Bank Inv Mgmt	1.0%
Amundi Asset Mgmt	0.8%

Short Interest (as of 2/15/26):

Shares Short/Float	n/a
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MC PRICE HISTORY



THE BOTTOM LINE

"There aren't many markets like luxury goods that are this big and profitable and where the addressable market naturally grows at a rate well above both GDP and the overall increase in population," says Tony Coniaris. He believes the company is uniquely positioned to benefit from that and that its shares currently don't fully reflect that reality.

Sources: S&P Capital IQ, company reports, other publicly available information

all increase in population. As mentioned earlier, the number of millionaires even in emerging markets is growing faster than the population. Their buying power is growing even faster and human nature being what it is, they want people to know that. It's a nifty model and much of the reason why the market has historically put such a high multiple on luxury stocks.

But you're going to have periods like the last year or two when there has effectively been a luxury recession, in this case due to issues in China. There have also been concerns about the impacts of tariffs. If you believe these issues work themselves out over time, as we do, you can have the opportunity to buy into a world-class company at a discounted valuation.

That's basically what we're expecting. LVMH is a very well-run company with powerful long-lived brands and impressive diversification geographically and across luxury end markets. As the customer base grows and there's some pricing on top of that, revenues can grow 5-7% organically. Profitability is good, but operating margins of just under 22% last year were the lowest since Covid and we expect them to move back into the mid-20s.

The shares have picked up somewhat from their lows last year. How inexpensive do you consider them today at a recent price of around €544?

TC: Based on our DCF, the shares still trade at more than a 30% discount to our estimate of intrinsic value. We also look at this on an enterprise value to EBITA [earnings before interest taxes and amortization] basis and on this year's estimates the stock trades at about 15x – and that's on a trough year for the business. For something like this a reasonable multiple would be in the very high teens.

We talked about Bernard Arnault as someone you want to invest with. He put more than \$1.5 billion of his family's wealth into buying the stock at around the same prices we were last year. That says something – \$1.5 billion is real money even for him.

Another internal initiative you've pursued in the past year was to more fully develop your "mistake management" process. Describe what that has entailed.

TC: This is a humbling business where we will make mistakes, so it's critical to have a process to identify those mistakes as early as possible. As we've done across Oakmark's U.S. portfolios, we're now on the international side actively tracking deviations in intrinsic value from our expectations and requiring action when those deviations hit a certain level. For example,

ON "MISTAKE MANAGEMENT":

As fundamentals deviate from our expectations, the risk rises our thesis is wrong. We want to start early in questioning that.

if our estimate of intrinsic value rises or falls 10% from our original expectation, we will "turn up the volume" internally, speaking anew with management and re-underwriting the idea for the full international team.

Why a 10% change as the first trigger? As fundamentals deviate from what we expected, the risk rises that our thesis is wrong and we want to start early in questioning whether that is the case. If we decide to hold and there's another 10% shortfall in value, we'll require a devil's advocate review to make sure we fully vet the bear case against our thesis. Sometimes if we believe the analyst has lost his or her voice on the idea – meaning they could pound the table to sell or buy and it would be hard to listen – we'll transfer coverage to another analyst for a fresh perspective.

The goal of all this is to have fewer names that we own for years that underperform. The idea is to get ahead of that and get them out of the portfolio on a more timely basis than maybe we have at times in the past.

Do you think this process might have helped in your handling of your Rolls-Royce [London: RR] position, a very long-time-coming turnaround whose stock eventually went through the roof?

DH: One error in investing is selling a stock you should have kept and it runs up. That was clearly the case here. We owned Rolls-Royce for some time when it did absolutely nothing or worse. We struggled through all the bad times and even bought stock on the rights issue in late 2020 when they had to raise cash after the jet-engine business took a hit from Covid. We made money on that, but we were out of the position way before the shares started taking off at the beginning of 2023. I don't want to think about how much the stock is up since we sold it.

What did we do wrong? We should have recognized the extent to which new management "kitchen-sinked" all the bad news at once and had more confidence that they had the right strategy to turn the business around. The relative opaqueness of the accounting made it somewhat difficult to see the positive impacts we wanted to see. I should reiterate that our new process is meant to prompt more formal reassessment when there's both negative and positive variance from our expectations. I don't know if we would have done a better job in seeing the upturn in Rolls or not, but the process is designed to increase the likelihood we will.

Describe a recent sale or two out of the portfolio and the reasons behind.

DH: The Agnelli-family holding company Exor [Amsterdam: EXO] was a long-term holding that we not long ago decided to sell. We have a great deal of respect for CEO John Elkann and the value he's created at the company by slicing and dicing the portfolio and, very importantly, driving change for the better at such controlled portfolio companies as Ferrari and Stellantis. We came to believe, however, that the major restructuring of the portfolio companies was largely complete and

recognized by the market, and that Exor now is more a holding company taking positions in large, listed businesses. Our view is we can do that, so we decided to move on.

Another position we exited was Mercedes-Benz [Frankfurt: MBG]. It and BMW, which we still own, have until recently been quite successful in China. But as we've discussed, there are now distinct challenges in that market, exacerbated by competition in electric vehicles unlike we've seen in any market in the world. We concluded BMW was better positioned to succeed long term in China, so decided we didn't want to hold two similar positions that were so reliant on that market improving for the better.

David, you've been running this portfolio for 33 years. Are you still having fun?

DH: Markets have clearly changed. Forty years ago the big pool of money was in defined-benefit pension plans, with indefinite time horizons. Today the large pools of money are passive, driven by quantitative or factor trading, levered or betting just on the next quarter or two – or even the next day or two! That has resulted in amplified price changes – the option-implied volatility around quarterly earnings is up 50% in just the last few years – and that can make you look silly as a value investor over shorter time horizons.

But all that I believe leads to more inefficient price determination, which over

the medium and long term should be very good for us. When people are getting on a moving train not knowing where it's going, that is something we can exploit. The beauty is that the world is so big and markets are so volatile that we have no problem finding interesting things to do. ■■

Disclosures

Investing involves risk; principal loss is possible. There is no guarantee the Fund's investment objective will be achieved. Value stocks may fall out of favor with investors and underperform growth stocks during given periods. The Fund's portfolio tends to be invested in a relatively small number of stocks. As a result, the appreciation or depreciation of any one security held by the Fund will have a greater impact on the Fund's net asset value than it would if the Fund invested in a larger number of securities.

Although that strategy has the potential to generate attractive returns over time, it also increases the Fund's volatility. These and other risk considerations are described in detail in the Fund's prospectus.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her advisors.

AVERAGE ANNUALIZED TOTAL RETURNS (%) – as of 12/31/2025							Since
	QTD	YTD	1YR	3YR	5YR	10YR	Inception
Investor Class OAKIX	4.83%	32.37%	32.37%	14.48%	6.65%	6.78%	8.84%
MSCI World ex USA Index	5.20%	31.85%	31.85%	17.64%	9.46%	8.55%	6.62%

Expense Ratio: 1.06%
Fund Inception: 09/30/1992

Expense ratios are as of the Fund's most recent statutory prospectus dated January 28, 2026; actual expenses may vary.
Returns for periods of less than one year are not annualized.

AVERAGE ANNUALIZED TOTAL RETURNS (%) – as of 02/28/2026							Since
	QTD	YTD	1YR	3YR	5YR	10YR	Inception
Investor Class OAKIX	5.05%	5.05%	27.57%	12.13%	6.34%	8.54%	8.96%
MSCI World ex USA Index	9.75%	9.75%	35.48%	19.14%	11.20%	10.50%	6.89%

Expense Ratio: 1.06%
Fund Inception: 09/30/1992

Expense ratios are as of the Fund's most recent statutory prospectus dated January 28, 2026; actual expenses may vary.
Returns for periods of less than one year are not annualized.

Past performance is no guarantee of future results. The performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. Total return includes change in share prices and, in each case, includes reinvestment of dividends and capital gain distributions. The investment return and principal value vary so that an investor's shares, when redeemed, may be worth more or less than the original cost.

Access most recent performance for the Oakmark International Fund [here](#).

The securities mentioned above comprise the following percentages of the Oakmark International Fund's total net assets as of 12/31/2025: Asahi Group Holdings 1.6%, Bayer 2.3%, BMW 2.3%, Exor 0%, IMCD NV 1.0%, KB Financial Group 2.0%, LVMH 2.0%, Mercedes-Benz 0%, Richemont 1.6%, Rolls-Royce 0%,

Siemens Healthineers 1.4%, SMC 2.0% and Symrise 1.3%. **Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

Access the full list of holdings for the Oakmark International Fund [here](#).

The Funds disclaim any obligation to advise shareholders of such changes. Information about portfolio holdings does not represent a recommendation or an endorsement to Fund shareholders or other members of the public to buy or sell any security contained in the Funds' portfolios. Portfolio holdings are current to the date listed but are subject to change any time. There are no assurances that the securities will remain in the Funds' portfolios after the date listed or that the securities that were previously sold may not be repurchased.

The information, data, analyses, and opinions presented herein (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) are for informational purposes only and represent the investments and views of the portfolio managers and Harris Associates L.P. as of the date written and are subject to change and may change based on market and other conditions and without notice. This content is not a recommendation of or an offer to buy or sell a security and is not warranted to be correct, complete or accurate.

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Before investing in any Oakmark Fund, you should carefully consider the Fund's investment objectives, risks, management fees and other expenses. This and other important information is contained in a Fund's prospectus and summary prospectus. Please read the prospectus and summary prospectus carefully before investing. For more information, please visit Oakmark.com or call 1-800-OAKMARK (1-800-625-6275).

Glossary:

EBITA refers to Earnings before the deduction of expenses for Interest, Taxes and Amortization which is a measure of operating income.

EBITDA refers to Earnings Before the deduction of payments for Interest, Taxes, Depreciation and Amortization which is a measure of operating income.

EPS refers to Earnings Per Share and is calculated by dividing total earnings by the number of shares outstanding.

The price-to-earnings ratio ("P/E") compares a company's current share price to its per-share earnings. It may also be known as the "price multiple" or "earnings multiple", and gives a general indication of how expensive or cheap a stock is. Investors should not base investment decisions on any single attribute or characteristic data point.

The MSCI World ex USA Index (Net) is a free float-adjusted, market capitalization-weighted index that is designed to measure international developed market equity performance, excluding the U.S. The index covers approximately 85% of the free float-adjusted market capitalization in each country. This benchmark calculates reinvested dividends net of withholding taxes. This index is unmanaged and investors cannot invest directly in this index.

The DXY index (U.S. Dollar Index) is a benchmark measuring the value of the U.S. dollar against a weighted basket of six major foreign currencies: the Euro, Japanese yen, British pound, Canadian dollar, Swedish krona, and Swiss franc. It acts as a primary indicator of the dollar's general strength or weakness, with a rising DXY indicating a stronger dollar. This index is unmanaged and investors cannot invest directly in this index.

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