

## A catalyst for change – closing the valuation gap in international value stocks | International equity market commentary 4Q 2024

December 31, 2024

Fellow shareholders, Unfortunately, the performance of our two International Strategies turned negative for the fourth quarter of 2024 as well as for the year. The quarter was marked by a sharp downturn in U.S. dollar returns of foreign equity markets as not only were most markets down in local currency returns, especially in Europe, but the dollar and the S&P 500 surged because of euphoria surrounding the U.S. election results. In fact, the U.S. Dollar Index increased by almost 8% this quarter. The Euro Stoxx 50 Index, however, declined around 2% in local terms given concern about European politics that plagued stocks once again, particularly in France, just as they did in June. Please see specific Fund commentaries for more performance discussion and specific stock impacts on the various Oakmark International and Global Funds.

### The foreign discount

As foreign markets continue to lag the performance of the S&P 500, we continue to see the value spread and the valuation between U.S. and non-U.S. equities expand (see Graph 1). Generally, stocks that earn greater returns and have better growing cash flow streams should trade at a premium above those that don't. However, I believe the current discount isn't justified by economic fundamentals but is better explained by momentum-driven moves into a portion of the S&P 500 stocks as well as other areas, such as bitcoin and the U.S. dollar. Many investors, traders and speculators have moved into these narrow places, thus driving prices sharply higher than fundamentals can justify. Meanwhile, the fuel for these aggressive price moves has come from places like U.S. value stocks and foreign markets. Flight from foreign markets is due to market participants being turned off by political volatility and poor economic policy in places ranging from China, the EU and, more recently, the U.K. Our belief is that though many of these places have poor economic and regulatory policies, what really matters for investment opportunity over the long haul are largely intact

### Oakmark International Fund – Investor Class

[Average Annual Total Returns](#) (12/31/2024)

Since Inception (9/30/1992) 8.19%

10-year 3.43%

5-year 1.81%

1-year -4.60%

3-month -8.48%

Expense Ratio: 1.05%

### Oakmark International Small Cap Fund – Investor Class

[Average Annual Total Returns](#) (12/31/2024)

Since Inception (11/1/1995) 8.26%

10-year 5.36%

5-year 4.42%

1-year -2.93%

3-month -10.92%

Expense Ratio: 1.34%

*Expense ratios are from the Fund's most recent prospectus dated January 28, 2024; actual expenses may vary.*

### **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.** 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. To obtain the most recent month-end performance data, visit [Oakmark.com](#).*

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business fundamentals and valuation. We see this in our portfolios, which overall have projected near double-digit growth, but trade at just over 10 times their earnings (see Table 1).

**Graph 1: International versus U.S. relative valuations**



Source: FactSet. P/E ratios are price of the respective index to the next 12-month earnings (NTM) depicted between October 31, 2007 – December 31, 2024.

**Table 1: Portfolio statistics**

	Oakmark International Fund	MSCI World ex USA Index	Oakmark International Small Cap Fund	MSCI World ex U.S. Small Cap Index
Price/earnings	10.1x	13.9x	10.5x	12.5x
ROE	11.9%	13.0%	11.4%	8.2%
EPS growth	11.1%	4.4%	14.9%	17.5%

Based on one-year projected estimates as of December 31, 2024.

### Closing the discount

Many of our clients and shareholders acknowledge the fact that value stocks, especially international ones, have too large of a value gap but cannot see any catalyst for it to close. When mean reversion does occur, it is often difficult to time the event or predict the causes of fundamental rebalancing. And, when the gap is as large as it is today, it can close aggressively. I can list all kinds of catalysts, such as a new German government that would address the growth concerns of Europe's largest economies or China instituting stronger policy prescriptions for its relatively low growth economy, but these are just possibilities. In the meantime, and more importantly, the managements of our invested companies are not sitting still. Rather, they are looking for ways to proactively revalue their companies. In International Small Cap, we have seen a big pick-up in M&A activity (see Table 2) while companies try to take advantage of low share prices. And in our core International Strategy, we have seen numerous steps to increase value, ranging from increased dividends to share buybacks and spinoffs (see Tables 3 and 4). This is exactly what we expect of our management teams as it shows they take their responsibility seriously to build shareholder value over time. We applaud their actions. Of course, there is selection bias here as our research process seeks businesses and managements that are

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committed and capable of building shareholder value. We are heartened that so many are responding in a positive fashion while we wait for the more macro catalysts to trigger more aggressive mean reversion in the global markets.

**Table 2: M&A and spin-off activity in Oakmark International Small Cap Fund**

Company	Acquirer
Vitesco	Schaeffler AG
Software AG	Silver Lake
Applus	Amber EquityCo
DS Smith*	International Paper*
Schibsted Adevinta	Permira Advisers and Blackstone Europe

\*Acquisition in progress.

**Table 3: Oakmark International Fund top 10 holdings that are offering buyback programs**

Security	Total shareholder return (%)	YTD buyback return (%)	Current dividend yield (%)
Mercedes-Benz Group	13.37	5.22	9.85
BNP Paribas	9.73	1.64	7.77
CNH Industrial	9.00	5.22	4.15
BMW	7.77	1.90	7.60
Edenred	6.07	2.24	3.46
Airbus	1.52	0.11	1.16

**Table 4: Oakmark International Fund holdings with potential spin-off opportunities in 2025**

Security	Potential spin-off	Total shareholder return (%)	YTD buyback return (%)	Current dividend yield (%)
Continental	Automotive group	3.26	0.00	3.39
Holcim	North America business	5.44	2.04	3.21
Thyssenkrupp	Marine division	3.84	0.00	3.83

Source: FactSet. Total shareholder return represents returns earned from the buyback of shares plus dividends.

On behalf of my team, I would like to thank you all for your continued confidence and support as we go through this challenging period. I believe, given the quality of the invested businesses and their bargain-basement valuations, that your patience will be rewarded.

David G. Herro, CFA  
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The securities mentioned above comprise the following preliminary percentages of the Oakmark International Fund's total net assets as of 12/31/2024: Airbus 2.3%, Amber EquityCo 0%, Applus 0%, BMW 2.8%, BNP Paribas 3.8%, CNH Industrial 3.3%, Continental 3.2%, DS Smith 0%, Edenred 2.8%, Holcim 0.4%, International Paper 0%, Mercedes Benz Group 2.3%, Permira Advisers and Blackstone Europe 0%, Schaeffler AG 0%, Schibsted 0%, Silver Lake 0%, Software AG 0%, Thyssenkrupp 0.5% and Vitesco 0%.

The securities mentioned above comprise the following percentages of the Oakmark International Small Cap Fund's total net assets as of 12/31/2024: Airbus 0%, Amber EquityCo 0%, Applus 0%, BMW 0%, BNP Paribas 0%, CNH Industrial 0%, Continental 0%, DS Smith 1.2%, Edenred 0%, Holcim 0%, International Paper

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0%, Mercedes Benz Group 0%, Permira Advisers and Blackstone Europe 0%, Schaeffler AG 0%, Schibsted 0%, Silver Lake 0%, Software AG 0%, Thyssenkrupp 0% and Vitesco 0%.

**Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

To obtain a full list of the most recent quarter-end holdings, please visit our website at [www.oakmark.com](http://www.oakmark.com) or call 1-800-OAKMARK (625-6275).

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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.

ROE refers to return on equity and measures profitability as a percentage of the money shareholders have invested.

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

Dividend Yield is a stock's expected annual dividend divided by the stock's price at the indicated date, expressed as a percentage.

The EURO STOXX 50 Index, Europe's leading blue-chip index for the Eurozone, provides a blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 11 Eurozone countries. This index is unmanaged and investors cannot invest directly in this index.

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 MSCI World ex USA Small Cap Index (Net) is designed to measure performance of small-cap stocks across 22 of 23 Developed Markets (excluding the United States). The index covers approximately 14% 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.

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The S&P 500 Index is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad, U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index.

The Oakmark International 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.

The Oakmark International Small Cap 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.

The stocks of smaller companies often involve more risk than the stocks of larger companies. Stocks of small companies tend to be more volatile and have a smaller public market than stocks of larger companies. Small companies may have a shorter history of operations than larger companies, may not have as great an ability to raise additional capital and may have a less diversified product line, making them more susceptible to market pressure.

Investing in foreign securities presents risks that in some ways may be greater than U.S. investments. Those risks include: currency fluctuation; different regulation, accounting standards, trading practices and levels of available information; generally higher transaction costs; and political risks.

All information provided is as of 12/31/2024 unless otherwise specified.

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](http://Oakmark.com) or call 1-800-OAKMARK (1-800-625-6275).

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