

## A frank conversation about recent performance – and why we focus on the long term | International equity market commentary 3Q 2024

September 30, 2024

Fellow shareholders,

Both the Oakmark International and International Small Cap Funds delivered strong returns in the quarter ending September 30, 2024, with the International Fund climbing 8.8% and the International Small Cap Fund increasing by 11.9% from the previous quarter end. Along with positive absolute returns, both Funds beat their respective benchmarks. Please see individual Fund commentaries for more details.

### A challenging short-term fund performance

Despite the positive third-quarter performance, Oakmark International still lags its peers this calendar year to date, returning just 4.25% versus roughly 13% for the various bogeys in our space (MSCI World Index and MSCI EAFE Index). Though very disappointing, we remain confident that we have a philosophy and process that have delivered in the past and will also continue to deliver in the future. (Please see chart showing the growth of a \$10,000 investment versus the Index below.) Our process focuses on using fundamental analysis to price businesses. At Oakmark, the key determinant of business value is the free cash that a business generates from its asset base. Hence, we use a two-step process that involves determining what we believe a business is worth based on fundamentals and then positioning the investment within the portfolio based on the spread between what we think the business is worth versus where it sells in the stock market. So, what could go wrong within our process that may cause returns to lag over certain periods of time? First, we could have mispriced a business we own, therefore having it either included in the portfolio when it should not have been or having it weighted incorrectly. Second, our returns may have been negatively impacted by stocks we should have owned but did not because we priced them too conservatively. Third, we may have priced the business correctly, but were off on the time it takes for “Mr. Market” to appreciate what we saw in a business. Keep in mind this especially crucial point regarding the

### Oakmark International Fund – Investor Class

[Average Annual Total Returns](#) (09/30/2024)

Since Inception (9/30/1992) 8.55%

10–year 4.30%

5–year 5.83%

1–year 13.32%

3–month 8.79%

Expense Ratio: 1.05%

### Oakmark International Small Cap Fund – Investor Class

[Average Annual Total Returns](#) (09/30/2024)

Since Inception (11/1/1995) 8.77%

10–year 6.30%

5–year 9.41%

1–year 21.48%

3–month 11.90%

Expense Ratio: 1.34%

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

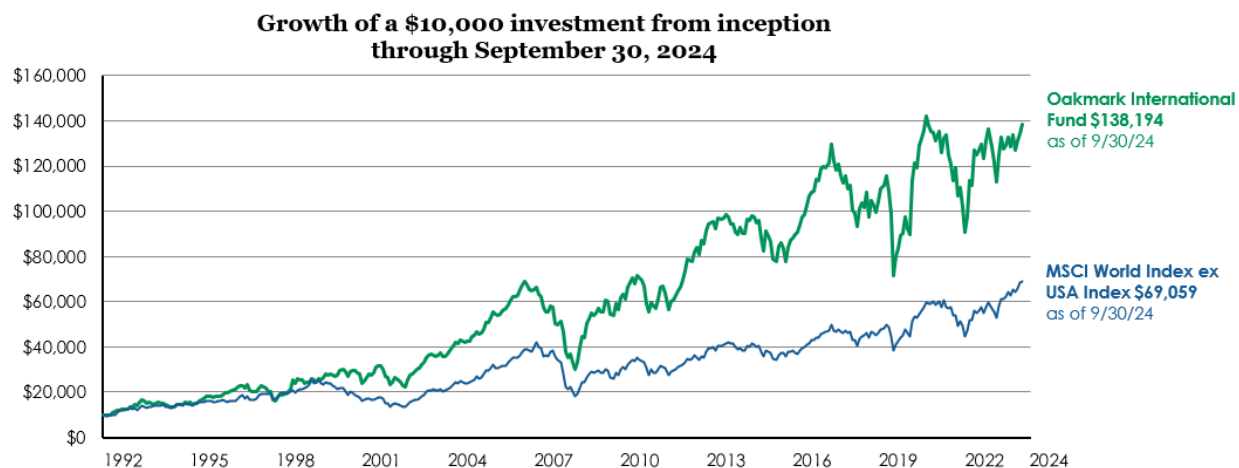
### **Past performance is no guarantee of future results.**

*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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subject of timing. In the short term, “Mr. Market” prices businesses based on narrow, short-term influences—politics, industry trends, themes, etc.—but fundamental business value is determined by long-term factors, notably the strength and durability of cash flow streams.



Investor Class Inception: 09/30/1992

The graph does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

**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.**

When looking at our weak short-term performance, clearly we have made mistakes in valuing businesses. Though we will never be perfect, our aim is to minimize valuation errors and learn from mistakes we do make to minimize future missteps. Though our value philosophy is our North Star, we are always looking for ways to improve our process and will continue to do so. Whether it be increasing investment reviews or being proactive in making sure we optimize human resources within our investment teams, we will never stop striving to improve what we do. Additionally, when we are wrong in our assessment of business value and management quality by a wide mark, we must exit the position as we have done in the past with the sales of AMP, Grupo Televisa and, more recently, Valeo. Also, at times, using Credit Suisse as an example, we have been too patient with an investment in waiting for a turnaround or a thesis to catalyze. We will take this Credit Suisse scenario into account for future decision making.

Regarding error number two, we must differentiate between stocks that we missed only because they were the subject of a positive short-term momentum trend and ones we missed because they were true value situations that we never considered or engaged. Generally, we are pleased to miss the former as eventually fundamentals do assert themselves and pricing is corrected. I do believe that part of our relative weakness is because we have not participated in these situations, which hurts our short-term performance but is the right thing to do over the long term.

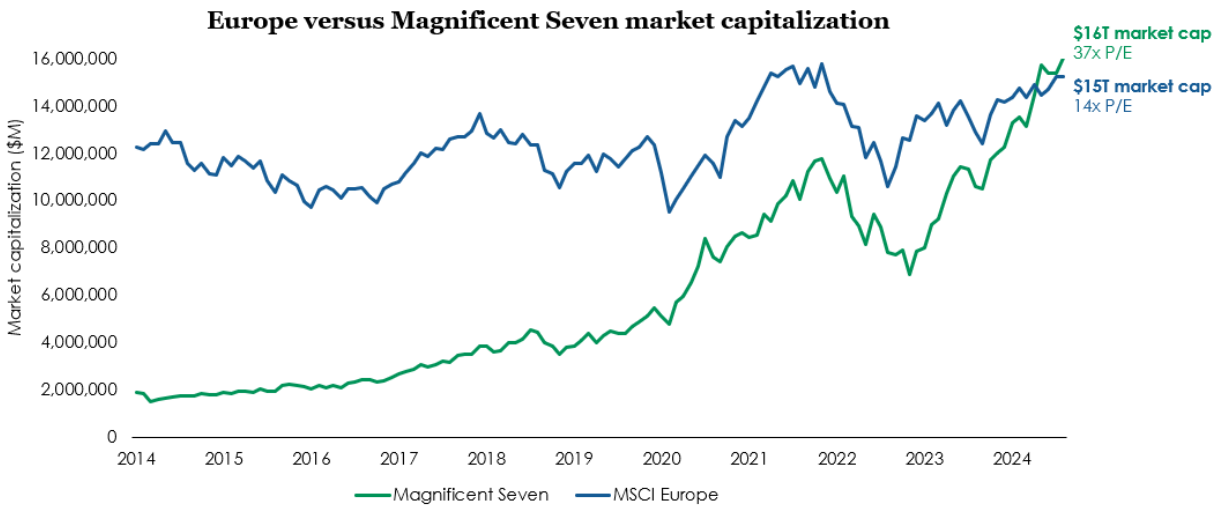
And finally for reason three, sometimes it takes longer than expected for our investment thesis to play out and for price and our estimate of value to converge; this outcome is less bothersome to us when we are paid to wait. As an example, we have long been overweight European

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financials and over the last few years, they have become meaningful contributors to portfolio returns. In fact, four of the top eight Fund contributors year to date are European financials. And while we waited for price to come closer to our measurement of value, most of these businesses delivered double-digit shareholder returns in terms of high dividends and share repurchases.

In closing, we are aware that short-term performance has been challenging. However, we are confident that the process that has delivered strong returns over the last three-plus decades will continue to do so in the future. The extremes in the market structure today with too much money in too few places (see below chart of Europe versus the Magnificent Seven and chart of the European discount to the U.S. ) will abate and, at the same time, we will work to both continually improve our valuation process while remaining disciplined in our portfolio management. Thanks again for your continued confidence and patience.



Source: FactSet. Market cap sum of groups in USD depicted between February 28, 2014 to September 30, 2024. Magnificent 7 represented by Bloomberg Magnificent 7 Index which is composed of Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.

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Source: Factset. P/E ratios are price of the respective index to the next 12-month earnings (NTM) depicted between October 31, 2007 – September 30, 2024.

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As of 09/30/2024, none of the securities mentioned above are held in either the Oakmark International Fund nor the Oakmark International Small Cap Fund. **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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Certain comments herein are based on current expectations and are considered "forward-looking statements." These forward looking statements reflect assumptions and analyses made by the portfolio managers and Harris Associates L.P. based on their experience and perception of historical trends, current conditions, expected future developments, and other factors they believe are relevant. Actual future results are subject to a number of investment and other risks and may prove to be different from expectations. Readers are cautioned not to place undue reliance on the forward-looking statements.

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.

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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 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.

**Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during given periods.**

All information provided is as of 09/30/2024 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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