QUARTERLY COMMENTARY

Oakmark Bond Fund

March 31, 2025

FIRST QUARTER, 2025

- **The Fund performed in-line with its benchmark in the first quarter of 2025 as both posted strong absolute returns. The Fund's Institutional Share Class returned 2.66% versus 2.78% for its benchmark, the Bloomberg U.S. Aggregate Bond Index for the quarter, and 1.42% since inception, versus -0.92% for the benchmark over the same period.**
- **Performance did not stray far from the benchmark during the quarter as the Fund gained approximately 7 basis points of relative performance from its duration and yield curve positioning, while security selection was a slight drag on performance.**

PORTFOLIO ACTIVITY

The Fund entered the new year maintaining a modest overweight position to corporate credit and securitized debt and was underweight U.S. Treasurys versus its benchmark. That said, the majority of the Fund's securitized position is in highly-rated agency mortgage-backed securities (MBS), and the corporate holdings are high credit quality with less than 20% in below investment grade. The Fund's duration is approximately in-line with the benchmark at around six years and its yield-to-worst ended the first quarter at 5.4% with a current yield of 5.38%.

Excess returns for corporate credit in the first quarter were negative as investment grade corporate index spreads widened by 14 basis points. This weighed on performance as the Fund was moderately overweight in corporate credit versus its benchmark, while the Fund's overweight to securitized debt added to performance given solid returns for that sector.

The Fund's average weight to corporate credit was approximately 34.5% during the quarter versus about 24.2% for the benchmark. The Fund maintained an average overweight to securitized credit of roughly 11.7% versus about 1.2% for the benchmark. Security selection within corporate credit was slightly negative during the quarter and was partially offset by positive security selection in securitized debt.

POSITIONING AND OUTLOOK

As mentioned in our first-quarter 2025 fixed income commentary, *Today's uncertainty gets priced into the market*, the uncertainty driven by the recently announced tariffs and related news headlines has started to affect the fixed income market. For value investors like us, lowering prices signal emerging opportunity.

The repricing hasn't been dramatic, but it matters. It's how value in credit starts to rebuild. High yield (Bloomberg U.S. Corporate High Yield Index) has widened to +375 as of this writing—almost 100 basis points off the tights (+281 on February 18, 2025) or a move of roughly 33%. Investment-grade BBB credit (Bloomberg U.S. BBB Corporate Index)—where most investment grade issuance sits—has widened to around +120, 25 basis points wider and 27% off the lows. Since the global financial crisis, spreads for high yields have ranged between 300–650 basis points, and spreads for investment grade have ranged between 100–200 for investment grade 84% of the time since March 2010[1]. So, the recent shifts represent meaningful resets. They have the potential to generate not just total return, but also excess return, for long-term, patient capital.

In parts of high yield and BBB investment grade, spreads are finally starting to reflect real risks:

business model fragility, capital structure leverage, and refinancing gaps. Securitized credit is repricing, too, especially in deals tied to consumer credit and commercial real estate where stress is more visible. These aren't broad calls. We believe this market still rewards real credit work, not index exposure. But for the first time in a while, dislocations are surfacing that meet Oakmark's bar for both return potential and margin of safety.

Finding opportunity in dislocations

One such dislocation emerged in auto asset-backed securities (auto ABS). We bought a newly issued BBB-rated tranche at a credit spread of 190 basis points, almost double what the market would have priced that level of risk even three weeks earlier. Such a large move was purely technical and disconnected from our view of the investment's fundamental risk. In fact, the underlying auto loans would have to experience cumulative losses above 40% for our investment to see any write-down, while that type of loan pool typically exhibits losses below 20%. In our opinion, that healthy margin of safety against losses, combined with a rapid cheapening of credit spreads, created the kind of opportunity that fits our value investment thesis.

We also added exposure in Insulet Corp. (PODD) by participating in its inaugural senior unsecured bond deal used to refinance part of its 2026 convertible notes. This marked a meaningful evolution in PODD's capital structure—from a growth-phase mix of converts and loans to something more befitting its scale and cash flow profile. We see it as a high-BB credit, anchored by a market leadership position in insulin delivery, strong free cash flow, and modest, declining leverage near 2.5x. Price talk came in at 7%, roughly 50 basis points wide of comparable high-quality healthcare credits–and 50 basis points wider than it would have been priced earlier in March before valuations in credit began to reset. That kind of mispricing doesn't just offer near-term yield. It sets up longer term potential upside as our upgrade thesis plays out. These are still selective opportunities, not a broad-based buying spree. But the key difference is that we're finally being paid to take risk. After a long period of restraint, we believe it's time to start leaning in—carefully, selectively, and always with our bottom-up framework in mind.

Still early days

My goal isn't to signal the "all-in" on buying fixed income risk today. If tariffs of the magnitude that have been recently discussed are fully enacted and sustained, we believe there will be plenty of opportunities to buy at even lower prices than today, especially in more cyclical corners of the market. Credit markets today aren't broadly cheap, but they're far more interesting than they were just a quarter ago. Spread widening has opened isolated entry points that finally offer fair compensation for real risk—especially in companies with reliable management teams and revenue streams. The reset likely isn't complete and may even be in the early stages, but it's in motion.

Our positioning today

With that in mind, our portfolio positioning reflects a cautious optimism. We've begun selectively increasing exposure to credit risk in areas where spreads offer meaningful compensation. That includes certain segments of high yield, BBB-rated corporates, and asset-backed securities with conservative structures and favorable technicals. At the same time, we've maintained strong liquidity and continue to hold a healthy allocation of U.S. Treasurys and short-duration instruments—both for defense and optionality. The opportunity set is growing, but patience remains a core part of our process as we assess further possible disruptions in our companies' earnings streams.

How much disruption—and ultimately what gets priced into the market—will depend in large part on macro policy. At Oakmark, we don't try to predict how these events will play out. We leave that to the few PhDs who claim they can. But we don't ignore it either. Tariffs are real. They have the potential to shift earnings and raise default risk.

We do spend time focusing on how the companies in our portfolio can absorb that reset—through cash flow, balance sheet strength, and liquidity. That's the key distinction. As debt investors, we don't need to predict the exact outcome. But we do need a strong sense of the range—especially the downside—and the catalysts that could take us there.

Rather than betting on discrete macro outcomes, we focus on building portfolios of companies led by management teams equipped to navigate a wide range of scenarios. While others try to forecast the next macro squall, hoping to steer around it, we're doing something different: picking what we believe are the right captain and the right boat. We want leadership that has proven it can navigate calm seas and rough waters alike and businesses that are built to absorb volatility, not avoid it. If we trust the captain and know the vessel is sound, we don't need to predict every storm. We just need to stay on course.

That means we position our portfolio to hold up in tightening or easing cycles, recession or recovery, inflation or deflation. And we focus on securities where we think the embedded risk premium compensates us for real uncertainty—not headlines. When dislocations emerge, we lean in where the downside is well understood, and the upside still reflects investor fear. That mindset kept us disciplined during years of aggressive pricing, and we believe it will now help us step back into a market that looks more compelling.

In short, the market feels different—not because uncertainty is new, but because it's finally being acknowledged and priced. Tariffs may be the catalyst, and we are monitoring their effects on the market. But what is notable is the shift in sentiment from complacency to caution, from greed to fear. And that shift creates opportunity for disciplined value buyers.

Through it all, our process doesn't change. We stay grounded in fundamentals. We don't react to noise. We invest in management teams and capital structures built to handle a range of outcomes. And when we find mispriced risk with a wide margin of safety, we act.

PORTFOLIO MANAGERS

(Year joined Harris | Oakmark)

Adam D. Abbas (2018)
M. Colin Hudson, CFA (2005)

March 31, 2025

AVERAGE ANNUALIZED TOTAL RETURNS (%)

	Inception date	QTD	1 yr	3 yrs	Since inception	Expense ratio gross	Expense ratio net
Institutional Class | OANCX	06/10/2020	2.66	5.89	2.13	1.42	0.77	0.52
Bloomberg U.S. Aggregate Bond Index		2.78	4.88	0.52	-0.92		

Expense ratios are as of the Fund's most recent prospectus dated 1/28/2025, as amended and restated 1/31/2025 and 3/14/2025; actual expenses may vary. The Fund's Adviser has contractually undertaken to waive and/or reimburse certain fees and expenses so that the total annual operating expenses of each class are limited to 0.74%, 0.54%, 0.52% and 0.44% of average net assets, respectively. Each of these undertakings lasts until 01/27/2025 and may only be modified by mutual agreement of the parties. Returns for periods less than one year are not annualized. Since inception returns for the indexes are calculated based on the Institutional Class inception date.

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.

[1] Source: Bloomberg

The securities mentioned above comprise the following preliminary percentages of the Oakmark Bond Fund's total net assets as of 03/31/2025: Insulet CB 04/28 144A 6.500% Due 04-01-33 1.0%. **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 or call 1-800-OAKMARK (625-6275).

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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Yield is the annual rate of return of an investment paid in dividends or interest, expressed as a percentage. A snapshot of a fund's interest and dividend income, yield is expressed as a percentage of a fund's net asset value, is based on income earned over a certain time period and is annualized, or projected, for the coming year.
Duration is a measure of the sensitivity of the price of a bond or other debt instrument to a change in interest rates.

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasurys, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid ARM pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). This index is unmanaged and investors cannot invest directly in this index.

The Oakmark Bond Fund invests primarily in a diversified portfolio of bonds and other fixed-income securities. These include, but are not limited to, investment grade corporate bonds; U.S. or non-U.S.-government and government-related obligations (such as, U.S. Treasury securities); below investment-grade corporate bonds; agency mortgage backed-securities; commercial mortgage- and asset-backed securities; senior loans (such as, leveraged loans, bank loans, covenant lite loans, and/or floating rate loans); assignments; restricted securities (e.g., Rule 144A securities); and other fixed and floating rate instruments. The Fund may invest up to 20% of its assets in equity securities, such as common stocks and preferred stocks. The Fund may also hold cash or short-term debt securities from time to time and for temporary defensive purposes.
Under normal market conditions, the Fund invests at least 25% of its assets in investment-grade fixed-income securities and may invest up to 35% of its assets in below investment-grade fixed-income securities (commonly known as "high-yield" or "junk bonds").

Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments.

Bond values fluctuate in price so the value of your investment can go down depending on market conditions.

All information provided is as of 03/31/2025 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 or call 1-800-OAKMARK (1-800-625-6275).

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