Harris | Oakmark

QUARTERLY COMMENTARY

Oakmark Bond Fund

June 30, 2024

SECOND QUARTER, 2024

- **The Fund returned 0.74%* versus 0.07% for the benchmark, the Bloomberg U.S. Aggregate Bond Index for the quarter, and 0.44%* since inception, versus -2.22% for the benchmark over the same period (*Institutional share class).**
- **Approximately 60 basis points of the Fund's outperformance this quarter resulted from security selection.**
- **Allocation decisions contributed approximately eight basis points to the Fund's performance, driven by non-agency securitized credit and corporate credit (specifically, leveraged loans).**

PORTFOLIO ACTIVITY

The Oakmark Bond Fund returned +0.74% in the second quarter, generating +0.67% of excess returns versus its benchmark, the Bloomberg U.S. Aggregate Bond Index.

Approximately 60 basis points of the Fund's outperformance this quarter were the result of security selection.

Allocation decisions contributed approximately eight basis points to the Fund's performance during the quarter, driven by non-agency securitized credit and corporate credit (specifically, leveraged loans). Compared to its benchmark, the Fund holds more corporate debt (47% in the Fund compared to 26% in the benchmark) and securitized debt (34% in the Fund versus 28% in the benchmark). Corporate spreads were generally a few basis points wider from the end of the first quarter in 2024 to the end of the second quarter. However, BB-rated bond spreads bucked this trend and finished approximately seven basis points tighter over the period. Despite a small amount of spread widening and slightly increased yields, corporates still delivered positive total return during the quarter thanks to higher coupon payments. Loans were the leading asset class within credit, benefiting from their floating rate nature, high current carry and strong demand despite elevated repricing activity.

High quality asset-backed securities (ABS) and agency mortgage-backed securities (MBS) spreads were generally flat over the period as strong excess returns in both corporate credit and structured securities were captured by the Oakmark Bond Fund's overweight in both asset classes. These allocation decisions were the byproduct of strong individual security level, risk-adjusted expected returns across spread product. Although the Fund remains overweight credit (or spread products) compared to the benchmark, the quality of The Fund's holdings within both credit and structured product is arguably the highest it has been since inception.

The Fund's modestly shorter average duration relative to the benchmark was neither a headwind nor tailwind to returns. U.S. Treasury yields ended the quarter higher as the 2s10s (the difference between the 10-year yield and the 2-year yield) curve steepened late in the quarter. The 2-year Treasury yield increased by approximately five basis points to 4.75%, while the 10-year Treasury yield increased approximately nine basis points to end the quarter at 4.40%. The Fund's curve positioning, which overweights the belly of the curve versus the long end, was a slight tailwind. The Fund maintained its duration position in the range of 90-95% of the benchmark duration, averaging 6.0 throughout the quarter. We plan to maintain a fairly neutral duration stance given today's nominal rates.

POSITIONING AND OUTLOOK

This past quarter was a great example of how fixed income assets can perform well even with historically tight spread (compensation for future default risk and other embedded risk premium) valuations simply by collecting a coupon. The fairly strong credit backdrop continues to be sustained by relatively healthy fundamentals and increasing evidence that this unprecedented hike cycle won't end in a significant economic contraction. However, most economic growth data points are slowing and we are closely monitoring both labor market and economic growth data, especially now that the effects of the 2020-era fiscal boosts and stimuli are dissipating for corporations and consumers.

Our strategic thoughts on positioning remain mostly unchanged from last quarter, although we may be slightly more conservative as economic data slows. We maintain a preference for agency-backed securitized assets over U.S. Treasuries. Yet if nominal and real rates decrease further, we could initiate a further shift as long as spread valuations continue to provide a non-zero excess return opportunity. We favor the belly of the yield curve where we find enduring value in the five-, seven-, and 10-year maturities. During the quarter, the yield curve normalized further, and we expect to shift out of our overweight in seven- and10-years to 20- and 30-year maturities if nominals take another leg lower as part of a bullish steepening. This will free up capital to pursue individual credit ideas, which have been the primary driver of Fund returns for four consecutive quarters.

Within our credit portfolio, we again upgraded our quality while maintaining corporate credit and securitized exposures at a similar level to the prior quarter. Corporate credit spreads moved a little wider in the quarter, but not enough to open up a significant opportunity set in the asset class. Most of the value we find still comes from identifying individual names that have underperformed their quality rating and sector for reasons we judge to be non-fundamental and thus temporary.

We continue to believe that the core value proposition of the Oakmark Bond Fund comes from our concentrated fixed income portfolio that drives returns through asset class allocation and security selection. We place less emphasis on duration or curve decisions unless we are in an exceptionally abnormal rate environment. The term "concentrated" should not cause concern; our investment approach ensures that the Fund remains on the efficient frontier of diversification. This is defined by the point where adding more positions does not reduce volatility or drawdown outcomes but would instead dilute our ability to generate idiosyncratic returns, or alpha, from credit selection. We believe the optimal number of positions is between 75 and 125. As we enter a new era of fixed income, characterized by higher yields and diminished Fed influence, we anticipate the market's focus will gradually return to individual security and asset class fundamentals. We are excited to offer a vehicle designed to capture value through understanding these fundamentals.

PORTFOLIO MANAGERS

(Year joined Harris | Oakmark)

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

June 30, 2024

PERFORMANCE (%)

	QTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Institutional Class | OAKCX	0.74%	5.95%	-1.22%	n/a	n/a	0.44%
Bloomberg U.S. Aggregate Bond Index	0.07%	2.63%	-3.02%	n/a	n/a	-2.22%

Gross expense ratios: Institutional Class 1.08%
Net expense ratios: Institutional Class 0.52%
*Not annualized
Inception Institutional Class: 06/10/2020
Expense ratios are from the Fund's most recent prospectus dated January 28, 2024, as amended and restated July 1, 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. 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.

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.

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.
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 06/30/2024 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 or call 1-800-OAKMARK (1-800-625-6275).

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