Harris Associates
Oakmark Funds

Oakmark Bond Fund: Fourth Calendar Quarter 2023

December 31, 2023

MARKET OUTLOOK POSITIONING

Positioning

In 2024, we will focus on three key themes: credit selection, continuing our shift from historically overvalued asset classes to those that underperformed last year and remain undervalued, and monitoring how an economic slowdown might affect default risk. The current "spread," the amount of excess yield offered by corporate bonds, continues to offer limited appeal for those seeking straightforward gains in the traditionally liquid segments of fixed income.

More specifically, our strategy for the coming year sounds a lot like the fourth quarter of 2023. It involves opportunistically transitioning from richer corporate credit to securitized credit, leveraged loans, and individual corporates that did not fully benefit from last year's narrowing spreads. The indexes still exhibit significant variation at both the asset class and subsector security levels. This diversity reinforces our commitment to a selective investment approach, particularly in high-quality leveraged loans, non-agency securitized products, and certain areas within the high-yield and investment-grade sectors. In these areas, there are opportunities for strategic de-leveraging, even against a backdrop of a weakening macroeconomic environment.

Last year, we reduced our exposure to individual corporate credits, favoring securitized assets and high-quality duration instead. This year, we will likely continue this approach if current market valuations hold. We recognize that recent inflation data increases the likelihood that the Fed can lower interest rates without significantly disrupting the labor market, a scenario that could lead to even *tighter* credit spreads. However, we are also aware that the economy is expected to continue slowing in the first half of the year, and we believe that the Fed is unlikely to meet fairly aggressive current market rate forecasts, either in terms of timing or magnitude of cuts. Given the current valuations, we will continue to identify individual value in our selections and make focused bets where we see exceptions to the overall richness at the benchmark level.

Performance

In what could be characterized as an ideal environment for the Oakmark Bond Fund's ("the Fund") bottom-up focused, security-level portfolio construction, the Fund's security selection and asset allocation decisions drove performance and resulted in significant outperformance compared to the Fund's benchmark in both the fourth quarter of 2023 and calendar year 2023.

The Oakmark Bond Fund gained 7.14% in the fourth quarter of 2023, outperforming its benchmark, the Bloomberg U.S. Aggregate Index, by 32 basis points. For the calendar year ended December 31, 2023, the Oakmark Bond Fund returned 6.90%, besting its benchmark by 137 basis points.

Oakmark Bond Fund – Institutional Class

Average Annual Total Returns (12/31/2023)

Since Inception (06/10/20) 0.19%

1-year 6.90%

3–month 7.14%

Gross Expense Ratio: 1.05%

Net Expense Ratio: 0.52%

Expense ratios are from the Fund's most recent prospectus dated January 28, 2023; 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 01/27/2024 and may only be modified by mutual agreement of the parties.

***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.*

Fourth quarter 2023

During the fourth quarter of 2023, yields declined significantly after the 10-year yield peaked around 5.00% in late October, and credit spreads contracted meaningfully as the market recalibrated its odds for a Fed-induced recession. The Fund's fourth-quarter outperformance was driven by security selection and asset allocation decisions, although its slightly shorter duration profile than its benchmark was a slight headwind. Prudent security selection contributed approximately 48 basis points of the Fund's outperformance in this quarter as corporate credit provided significant excess returns and asset-backed security (ABS) spread tightened. The securities that contributed most significantly to this quarter's security selection were Cushman & Wakefield 6.75% Secured Notes due 5/15/2028, Apollo Commercial Real Estate 4.625% Secured Notes due 6/15/2029 and Ally Financial 4.7% Perpetual Preferred Bonds. In contrast, the FHLMC Multifamily Structured Pass Through due 10/25/2036, Anglo American 3.875% Senior Unsecured Notes due 3/16/2029 and the ArcelorMittal 6.55% Senior Unsecured Notes due 11/29/2027 were the largest underperformers on a security selection basis.

Allocation decisions contributed positively to fourth-quarter performance. The strong excess returns in both corporate credit and structured securities were captured by the Oakmark Bond Fund's overweight in both categories. These allocation decisions were the byproduct of our focus on risk-adjusted returns of individual securities across spread products, and the fourth quarter began with a reasonable amount of spread dispersion between credit asset classes, sectors and ratings quality. The Fund maintains a higher proportion of corporate debt and securitized debt compared to the Bloomberg U.S. Aggregate Bond Index at 41% versus 26% and 34% versus 28%, respectively. The Fund's allocation decisions accounted for approximately 39 basis points of outperformance versus the benchmark during the fourth quarter of 2023.

While security selection and allocation decisions resulted in outperformance during the fourth quarter, the Fund's modestly shorter average duration relative to the benchmark was a headwind. The Fund extended its duration as real rates increased in the latter part of the second quarter and continued to do so early in the third quarter when yield increased. The quick and significant repricing of the yield curve in November and December caused long-duration assets to generate more returns. By the end of the quarter, the Fund held an overall duration of roughly 5.9 years in contrast to the benchmark's duration of approximately 6.2 years.

Calendar 2023

The year began with historically attractive corporate spreads, very attractive valuations for structured products, and elevated rate volatility due to the Fed's tightening cycle. This environment favored active managers, including the Oakmark Bond Fund's bottom-up, research-driven strategy. As with the fourth-quarter returns, full-year returns were the result of security selection and asset allocation. The Fund returned 6.90% for the year and outperformed its benchmark by 1.37%.

Security selection accounted for approximately 68 basis points of outperformance versus the benchmark as corporate credit spreads and ABS spread contracted, and our securities outperformed the broader market. The positions that contributed most significantly to positive security selection were the Carvana Auto Receivables Trust Series due 01/10/2029, the Southern Company 3.75% Junior Subordinated Hybrids due 9/15/2051 and the Cushman & Wakefield 6.75% Secured Notes due 5/15/2028. Some positions lagged the benchmark, and that detracted from security selection during the year; these included SVB Financial Group 4.25% Perpetual Preferred bond, Signature Bank New York 4.0% Subordinated bond due 10/15/2030 and SVB Financial Group 4.0% Perpetual Preferred bond.

Asset allocation decisions were the largest driver of portfolio outperformance during 2023, accounting for approximately 139 basis points of outperformance. As mentioned above, the Fund's asset allocation is a byproduct of expected risk-adjusted returns for individual securities, and as a result, the Fund was overweight in both corporate credit and structured products versus its benchmark.

The Fund's duration positioning versus its benchmark was a modest headwind for the calendar year, detracting approximately 13 basis points of outperformance versus the Bloomberg U.S. Aggregate Bond Index. The Fund entered the year with a duration position that was meaningfully shorter than its benchmark and gradually adjusted that position to just short of its benchmark by year end. With both five-year and ten-year real rates still attractive historically and Fed policy normalizing, this near-neutral stance aligns well with the environment as we enter 2024.

Connect with us
We value our relationship with our investors and welcome any questions or concerns. Please don't hesitate to reach out to our team. We hold regular investor calls and meetings where you can interact with us and learn more about our strategies and future plans. You can also email us at aabbas@harrisassoc.com or mhudson@harrisassoc.com.

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The securities mentioned above comprise the following preliminary percentages of the Oakmark Bond Fund's total net assets as of 12/31/2023: Ally Financial 4.700% Due 08-15-69 0.6%, Anglo American CC 01/29 144A 3.875% Due 03-16-29 0.8%, Apollo Com CC 06/24 144A 4.625% Due 06-15-29 0.6%, Arcelormittal CC 10/27 6.550% Due 11-29-27 0.9%, CRVNA 2023-P4 N 8.050% Due 10-10-30 0.1%, Cushman & Wake CC 07/23 144A 6.750% Due 05-15-28 0.9%, FHLMC Multifamily Structured Pass Through due 10/25/2036 3.5%, Signature Bank New York 4.0% Subordinated bond due 10/15/2030 0%, Southern Company 3.75% Junior Subordinated Hybrids due 9/15/2051 0.8%, SVB Financial Group 4.0% Perpetual Preferred bond 0% and SVB Financial Group 4.25% Perpetual Preferred bond 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.

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 12/31/2023 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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