Harris Associates
Oakmark Funds

Oakmark Equity and Income Fund: First Calendar Quarter 2024

March 31, 2024

Quarter and Calendar-Year Review

The Oakmark Equity and Income Fund ("the Fund") returned 4.92% during the first quarter, compared to 5.15% for the Lipper Balanced Fund Index. This was driven by an 8.53% return on our equity portfolio, which lagged the S&P 500 Index of 10.56%[1]. This was partly due to an underweight in technology stocks, which were boosted by enthusiasm around artificial intelligence, as well as an overweight in mid-cap stocks, where we continue to find compelling valuations. Since its inception in November 1995, the Fund has returned an average of 9.69% per year, outperforming the Lipper Balanced Fund Index's return of 6.97% over the same period.

Oakmark Equity and Income Fund – Investor Class
Average Annual Total Returns (03/31/2024)
Since Inception (11/01/1995) 9.69%
10–year 7.03%
5–year 9.21%
1–year 19.22%
3–month 4.92%
Expense Ratio: 0.86%

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.*

Our fixed income holdings returned 0.30% during the quarter, outperforming the Bloomberg U.S. Aggregate Government/Credit Index of -0.72%. As we've discussed previously, higher interest rates have improved the opportunities available in fixed income securities, and we currently see a more balanced risk-reward value proposition between equities and fixed income than we have in some time.

The Fund ended the quarter with 60.0% in equities, roughly in line with the balanced category average. Fixed income comprised 38.0% of the Fund assets, and cash comprised 2.0%. As always, we continually evaluate our asset allocation the same way that we evaluate our allocations to individual securities – with the goal of delivering attractive risk-adjusted returns with less volatility than a pure equity product would provide. We are pleased with how this approach has paid off over the long term.

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[1] The asset class returns noted above are unaudited and sourced from our proprietary account system.

The largest contributors to the portfolio's return in the quarter were Fiserv, Corebridge Financial, Reinsurance Group of America and KKR. The largest detractors were Charter Communications, Glencore, Howard Hughes and Warner Bros. Discovery. The largest contributors were all financial stocks, which is the Fund's largest sector weighting. Despite the already strong performance from our financial holdings, we continue to find their valuations attractive, and we have identified other compelling opportunities across a wide range of financial companies. In contrast, Charter was the biggest detractor from the Fund's performance due to fears about increasing competition from fiber overbuilding and fixed wireless. While these sources of competition will have a near-term impact, this impact should lessen over the coming years, enabling Charter to resume strong free cash flow growth.

Transactions

We added three new positions—Deere & Company, Kenvue and Delta Air Lines—in the quarter. Deere is a global manufacturer and distributor of equipment used in agriculture, construction and forestry. Deere dominates the highly profitable mid and large agricultural equipment markets in North America and Brazil. Farmers in these markets are highly focused on using technology to improve farm productivity. Deere directly capitalizes on technological developments over time, and we believe it has become the clear leader in precision agriculture. Currently, global agricultural markets have softened after a strong year in 2023. While the exact length of the downturn is impossible to predict, we believe it will be less severe than the previous downcycle as inventory shortages in recent years have contained this cycle's peak. For nearly two centuries, Deere has repeatedly emerged from downturns as a stronger and more profitable company. Trading at 13x our estimate of mid-cycle earnings, this stock offers what in our view is a highly attractive valuation for one of the world's best industrial businesses.

Kenvue became the largest standalone consumer health company following its split-off from Johnson & Johnson in May 2023. The company's highly recognizable brands, such as Neutrogena, Listerine, Tylenol and Band-Aid, have been market share leaders in their respective categories for generations. However, Kenvue's first year as a public company was clouded by market share losses in certain categories and worries over litigation. These concerns caused the company's stock to underperform the S&P 500 by more than 50 percentage points in Kenvue's first 10 months as an independent company. Kenvue now trades for 16.5x trailing earnings, a substantial discount to the market and other consumer health and packaged goods companies. Furthermore, we see an opportunity for Kenvue to operate more efficiently as a standalone entity and to re-invest cost savings into increased product development and marketing, which should help improve growth and ensure that the company's brands remain at the forefront of their categories. We believe that investors are overly pessimistic, and we find Kenvue's current price attractive for a leading consumer company that should grow earnings at a mid-single-digit rate or better over time.

We believe the "big three" U.S. airlines (Delta, United and American) have emerged from Covid-19 in the strongest competitive position they've ever occupied. Last year, the group accounted for 90% of industry profits, up from 70% in 2019. In our view, the increased profitability has been driven by a growing consumer preference for premium travel experiences and the airlines improving their product segmentation. Moreover, many low-cost carrier competitors have been disproportionately impacted by high-cost inflation in recent years. Of the big three, we see Delta as being best positioned. We believe that years of industry-leading operational performance and investments in customer experience have established Delta as the premium airline brand. We also think Delta's geographically optimal hubs, high local market share, robust loyalty program and unique corporate culture all support healthy returns on capital. Delta currently trades at 6x our estimate of normalized EPS. We believe this is an attractive valuation for a competitively advantaged and growing business.

We eliminated one position, HCA, during the quarter as the stock traded at our estimate of fair value. HCA was a very good investment and more than quadrupled from our original investment price in 2016. We believe HCA is a well-managed business with the best collection of assets in the hospital space. Hospital stocks tend to be much more volatile than their actual intrinsic value, and we would gladly purchase HCA again if the discount to value warrants.

We would like to thank our fellow shareholders for their investment in the Fund and welcome any questions or comments.

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The securities mentioned above comprise the following percentages of the Oakmark Equity and Income Fund's total net assets as of 03/31/2024: American 0%, Charter Communications Cl A 1.7%, Corebridge Financial 1.6%, Deere 1.7%, Delta Air Lines 0.7%, Fiserv 2.6%, Glencore 1.9%, HCA 0%, Howard Hughes 0.9%, Johnson & Johnson 0%, Kenvue 1.0%, KKR 0.5%, Reinsurance Group 1.8%, United 0% and Warner Bros Discovery 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.

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.

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

The Bloomberg U.S. Government/Credit Bond Index measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities. This index is unmanaged and investors cannot invest directly in this index.

The Lipper Balanced Fund Index measures the equal-weighted performance of the 30 largest U.S. balanced funds as defined by Lipper. This index is unmanaged and investors cannot invest directly in this index.

The S&P 500 Total Return 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 Equity and Income Fund invests in medium- and lower-quality debt securities that have higher yield potential but present greater investment and credit risk than higher-quality securities. These risks may result in greater share price volatility. An economic downturn could severely disrupt the market in medium or lower grade debt securities and adversely affect the value of outstanding bonds and the ability of the issuers to repay principal and interest.

The Oakmark Equity and Income 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.

Oakmark Equity and Income Fund: The stocks of medium-sized companies tend to be more volatile than those of large companies and have underperformed the stocks of small and large companies during some periods.

All information provided is as of 03/31/2024 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 or call 1-800-OAKMARK (1-800-625-6275).

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