

Oakmark International Small Cap Fund: First Calendar Quarter 2024

March 31, 2024

The Oakmark International Small Cap Fund (“the Fund”) returned 0.51% for the quarter ending March 31, underperforming the benchmark, the MSCI World ex USA Small Cap Index (net), which returned 2.58% for the same period. Since its inception in November 1995, the Fund has returned an average of 8.62% per year. For additional color on our views of the market environment during the most recent quarter, please see our [international market commentary](#).

Konecranes (Finland) was a top contributor during the quarter. In February, the industrials company reported a strong set of fourth-quarter results. Organic revenue growth came in above our expectations, mainly driven by the service and port solutions segments. Service sales increased by 11% in local currencies, driven by strength in both spare parts and field service. We like that Konecranes’ service business is delivering higher growth that is largely recurring in nature and of much higher quality than the growth in the equipment manufacturing divisions. This is a key component of our investment thesis. In addition, port solutions grew revenue by over 38% in local currencies in the fourth quarter as the business delivered on high order intake from prior periods while comparable EBITA margins increased. Also of note, port solutions entered 2024 with an order book higher than the previous year. Lastly, Konecranes reported 2024 guidance largely in line with our expectations. We continue to believe this investment offers an attractive upside.

St. James’s Place (U.K.) was a top detractor during the quarter. In January, the wealth manager reported net inflows for 2023 that were £4.6 billion lower than in 2022. The disappointing update came on the heels of the company’s announcement of a large overhaul of its fee structure. In February, the company reported full-year 2023 results. Underlying cash results fell below our expectations primarily due to the margin from new business and other revenues and expenses.

Oakmark International Small Cap Fund – Investor Class

Average Annual Total Returns (03/31/2024)

Since Inception (11/1/1995) 8.62%

10–year 4.65%

5–year 8.45%

1–year 12.74%

3–month 0.51%

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](#).

The big miss, in our view, was the large provision charge that St. James's Place took to account for potential client reimbursements. There were increasing complaints from clients that the company was charging them without actually dispensing any advice. St. James's Place conducted an internal investigation, which cited service gaps that existed before the company implemented Salesforce in 2021. The provision charge covers the appointment of an investigative assessment, the anticipated cost of refunding service fees, the administration costs to operate the refund program, and an interest expense to compensate for the time value of money. We met with management following the release of results and continue to believe in the long-term prospects of St. James's Place.

We initiated new positions in the following during the quarter:

- Fielmann (Germany) is one of the largest optical retail companies in the world. It provides eyewear, contact lenses, hearing aids and primary eyecare services—all products that benefit from steady demand and significant barriers from online disruption. Industry headwinds related to higher costs and weak consumer confidence have weighed on the stock price, but we are comfortable with Fielmann's defensive positioning and pricing actions to offset inflation. The company's margins have declined in recent years due to investments in internal initiatives that are nearly completed, which should provide the opportunity for improved cost control and profitability going forward. We believe the company's fundamental performance is nearing an inflection point, and we were able to purchase shares at a discount to our estimate of intrinsic value.
- TIS, Inc. (Japan) is one of Japan's largest IT services companies. We are familiar with TIS as we previously owned it but sold it when the stock price reached our estimate of intrinsic value. More recently, the stock has underperformed because growth is likely to slow next year due to the completion of several large-scale projects, which makes for a difficult comparison base. However, excluding these large projects, business fundamentals remain robust as IT spending in Japan continues to be very strong. In our view, the country lags most developed nations in digitizing its economy. This fact, combined with its shortage of IT engineering talent, should bode well for Japanese IT spending in the future. In addition to long-term structural demand for IT services, we like that TIS is led by a strong management team with a good track record of creating shareholder value through smart capital allocation decisions.

During the quarter, we sold Applus Services and Vitesco Technologies Group based on acquisition offers.

Geographically, we ended the quarter with approximately 54.9% of our holdings in Europe, 20.5% in the U.K., 7.9% in Asia and 5.7% in Japan. The remaining positions are 4.2% in Australasia, the Americas with 3.1% in Latin America and 2.3% in North America (Canada), and 1.4% in Africa/Middle East.

Thank you for your continued confidence and support.

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The securities mentioned above comprise the following percentages of the Oakmark International Small Cap Fund's total net assets as of 03/31/2024: Applus Services 0%, Fielmann Group 0.3%, Konecranes 2.4%, St. James's Place 1.8%, TIS Inc 0.2% and Vitesco Technologies Group 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.

EBITA refers to Earnings before the deduction of expenses for Interest, Taxes and Amortization which is a measure of operating income.

The MSCI World ex USA Small Cap Index (Net) is designed to measure performance of small-cap stocks across 22 of 23 Developed Markets (excluding the United States). The index covers approximately 14% 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.

On occasion, Harris may determine, based on its analysis of a particular multi-national issuer, that a country classification different from MSCI best reflects the issuer's country of investment risk. In these instances, reports with country weights and performance attribution will differ from reports using MSCI classifications. Harris uses its own country classifications in its reporting processes, and these classifications are reflected in the included materials.

The 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.

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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Date of first use: 04/05/2024

FCM-3794EX-07/24