

Oakmark Fund: Third Quarter 2019

September 30, 2019

The Oakmark Fund decreased 2.1% during the third quarter, which compares to a 1.7% gain for the S&P 500. For the fiscal year ending September 30, the Oakmark Fund decreased 5.7%, lagging behind a 4.3% gain for the S&P 500. As large shareholders of the Fund, we are never pleased with short-term underperformance, but because of it, the portfolio is now selling for an atypically large discount to our estimate of intrinsic value. We are confident that our disciplined investment process has allowed us to identify businesses with attractive risk-adjusted return potential and that the gap between stock price and intrinsic value should close over time.

Our highest contributing securities for the fiscal year were Ally Financial and Comcast and our largest individual detractors were DXC Technology and Qurate. For the past quarter, our best individual contributors were Alphabet and CVS Health and our largest detractors were Netflix and DXC Technology. Netflix's share price declined during the quarter on the heels of weaker than expected subscriber growth along with fears that rival streaming services will reduce the company's growth prospects. Our view is that the company's weaker subscriber growth was not that surprising following its largest ever subscription price increase, and we are comforted that the variance in subscriber growth was in line with historical precedents. In addition, the global media market is vast and Netflix only captures ~10% of TV viewership in the U.S. We believe there is plenty of room for Netflix and other streaming services to co-exist.

During the quarter, we initiated a new position in Humana (see below) and we eliminated positions in Baxter International and News Corp Cl A. We first bought Baxter in the fourth quarter of 2016 with the belief that new CEO Joe Almeida could increase the company's margins substantially. Since then, margins have increased from 11% to over 18%, and the share price has doubled. With this strong performance, the stock no longer sells at a meaningful discount to our estimate of intrinsic value, so we sold our holdings. In terms of News Corp, we continue to believe that the company's highly valuable businesses are not being properly recognized by the market, but we have lost confidence in the company's management team and its ability to close the value gap. We also underestimated how challenging the transition from print to digital would be for several of the company's global publications whose value growth has fallen short of our expectations. Therefore, we elected to redeploy our assets to purchase other stocks that we believe are undervalued, run by better management teams and offer stronger growth prospects.

Oakmark Fund - Investor Class

Average Annual Total Returns (09/30/19)

Since Inception (08/5/91) 12.17%

10-year 12.08%

5-year 7.27%

1-year -5.68%

3-month -2.06%

Gross Expense Ratio as of 09/30/18 was 0.89%

Net Expense Ratio as of 09/30/18 was 0.85%

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. For the most recent month-end performance data, visit Oakmark.com.



Humana Inc. (HUM - \$255.67)

Humana is a leader and near pure-play in the fastest growing sector of managed care, Medicare Advantage. Each year, more seniors choose Medicare Advantage over traditional Medicare due to the compelling combination of lower costs and expanded benefits. Humana's scale advantages and focus on senior care allow the company to make targeted investments in its members' health, resulting in fewer unnecessary hospitalizations and lower chronic care costs. Much of these savings are then reinvested in the health plan, resulting in a continuously improving customer value proposition. The company's brand also resonates well in the marketplace and has helped drive double-digit annual membership growth over the past decade—well above the rest of the industry. Further, we believe Humana has a long runway ahead as it benefits from an aging population and continued conversion of the more than 60% of seniors who are still enrolled in traditional Medicare. Yet Humana's shares are currently trading at a discount to the S&P 500 earnings multiple, which we believe doesn't give the company enough credit for its durable competitive advantages and strong secular growth outlook.

William C. Nygren, CFA
Portfolio Manager
oakmx@oakmark.com

Kevin G. Grant, CFA
Portfolio Manager
oakmx@oakmark.com

The securities mentioned above comprise the following percentages of the Oakmark Fund's total net assets as of 09/30/19: Ally Financial 3.3%, Alphabet Cl C 3.8%, Baxter 0%, Comcast Cl A 2.6%, CVS Health 2.3%, DXC Technology 0.7%, Humana 1.1%, Netflix 2.7%, News Corp. 0% and Qurate Retail Cl A 0.8%. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.

The net expense ratio reflects a contractual advisory fee waiver agreement through January 27, 2020.

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 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 discussion of the Fund's investments and investment strategy (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) represents the Fund's investments and the views of the portfolio managers and Harris Associates L.P., the Fund's investment adviser, at the time of this letter, and are subject to change without notice.

All information provided is as of 09/30/2019 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

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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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