

## Oakmark Select Fund: Fourth Quarter 2020

December 31, 2020

From a market standpoint, 2020 ended much better than it started as two highly effective Covid-19 vaccines were approved by the FDA. As a result, investors started looking past the pandemic and stocks began to reflect a return of economic normalcy, which benefited the Oakmark Select Fund beginning in November. In the fourth quarter, the Fund returned 27% compared to 12% for the S&P 500. For calendar year 2020, the Fund increased 11% as compared to 18% for the S&P 500.

This was a very unusual year to say the least. Normally when a concentrated portfolio underperforms, it is driven by stock selection. This year, stock selection within sectors was positive by nearly 400 bps, but our allocation across sectors overwhelmed this silver lining. In fact, nearly two-thirds of this year's underperformance was due to our being underweight technology stocks and the rest is largely due to an overweight in financials and energy—both of which were negatively impacted in the short run by the pandemic. To be clear, we are very much bottom-up value investors, but sometimes a higher view of what drove performance is instructive. We, your fellow shareholders, are not alarmed by the significant difference in short-term performance between the Fund and relevant indexes. This can be expected given that Oakmark Select is a benchmark-agnostic, high-conviction portfolio of roughly 20 stocks. Short-term returns can be uneven and good, as it was in this most recent quarter, or disappointing, as in the first quarter of this year, but we believe our process works over time as demonstrated by the Fund's 11.5% return since its inception more than 24 years ago as compared to 9.2% for the S&P 500 over the same time period.

The largest contributors to performance during the quarter were CBRE Group (+34%), Ally Financial (+43%) and General Electric (+74%). All three companies benefitted from investors anticipating the

### Oakmark Select Fund – Investor Class

Average Annual Total Returns (12/31/20)

Since Inception (11/1/96) 11.53%

10-year 10.35%

5-year 7.23%

1-year 10.76%

3-month 26.57%

Gross Expense Ratio: 1.03%

Net Expense Ratio: 1.01%

*Expense ratios are based on estimated amounts for the current fiscal year; actual expenses may vary.*

*The net expense ratio reflects a contractual advisory fee waiver agreement through January 27, 2022.*

### **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](http://Oakmark.com).*

# HARRIS ASSOCIATES OAKMARK FUNDS

end of the current recession. For the year 2020, Facebook (+93%), Constellation Brands (+91%) and Netflix (+67%) were the largest contributors for very different reasons. Although we could not have predicted a global pandemic, we were glad to own Netflix as consumers spent more time at home, which led to an acceleration of subscriber growth. We established positions in Facebook and Constellation Brands during the first quarter of this year because we believed their shares were being unfairly punished during the market rout. Subsequent fundamental performance from both companies supported this thesis and their stock prices responded accordingly.

In a strong quarter for stocks, the largest detractors to performance are often better described as the smallest contributors. These included Facebook (+4%), Airbnb (+115%) and Regeneron Pharmaceuticals (-14%). You're likely wondering how Airbnb could have been a small contributor when it was up 115%. The short answer is position size. We have long admired Airbnb and because the IPO was priced at a significant discount to our estimate of intrinsic value, we participated. Given the limited size of the offering, we only received a trivial position. The stock almost immediately reflected something closer to intrinsic value, so we sold our position. At Oakmark, we do our best to look at everything that meets our three investment criteria of valuation, business quality and management. While we may not participate in many "unicorn" IPOs, this was a unique case where all three criteria were met. Unfortunately, it was momentary and of minimal size. There were no other new or eliminated positions during the quarter. For the year 2020, the largest detractors were Apache (-57%), American Airlines (sold) and Citigroup (-20%).

Despite the significant recovery in equity prices that generated positive returns for the year, our efforts to recognize losses throughout the year assisted us in avoiding a capital gains distribution again in 2020.

Thank you, our fellow shareholders, for your continued investment in the Oakmark Select Fund.

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The securities mentioned above comprise the following percentages of the Oakmark Select Fund's total net assets as of 12/31/20: Airbnb 0%, Ally Financial 6.2%, American Airlines 0%, Apache 2.0%, CBRE Group Cl A 10.2%, Citigroup 5.7%, Constellation Brands Cl A 4.8%, Facebook Cl A 5.0%, General Electric 4.1%, Netflix 4.5% and Regeneron Pharmaceuticals 0.2%. **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](http://www.oakmark.com) or call 1-800-OAKMARK (625-6275).

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.

**Because the Oakmark Select Fund is non-diversified, the performance of each holding will have a greater impact on the Fund's total return, and may make the Fund's returns more volatile than a more diversified 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.**

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All information provided is as of 12/31/2020 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](http://Oakmark.com) or call 1-800-OAKMARK (1-800-625-6275).*

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