Harris | Oakmark

3Q 2026 INTERNATIONAL EQUITY MARKET COMMENTARY

A conversation with investors

September 30, 2026

For the last two years, the U.S. CIO letters have used the calendar third quarter to field questions. Given the strong reception, we decided to do the same from the International team this quarter. Many thanks to those who took the time to send us your questions. We always want to understand what is top of mind for investors. For space and time reasons, we cannot answer every question, so we prioritized topics where there were multiple submissions. We hope you find this helpful.

How should U.S. investors think about their exposure to international equities today?

This question borders on investment advice, so we have to tread carefully. Every investor has their own unique set of circumstances and risk tolerance, so there is no single appropriate allocation to international equities. That said, our research indicates U.S. investors have less exposure to international markets than what is typically reflected in diversified portfolios (9% versus 30%). The best proxies for a U.S.-based diversified portfolio are target date funds, which allocate assets based on academic portfolio theory and typically allocate 30% of assets to non-U.S. securities. The global indices offer another, admittedly more passive, reference point and are roughly 30% non-U.S. today as compared to a long-term average of closer to 50%. The non-US weighting is lower today after years of collective relative underperformance. Why is that? Currency has certainly played a role. A strong U.S. dollar has reduced the returns U.S. investors received from international markets. At the same time, stronger earnings growth in the U.S., particularly among large technology companies, has supported U.S. equity performance. This has widened the price premium for U.S. stocks and added to concentration risk in the U.S. market relative to the non-U.S. markets. Today, the U.S. is about one-quarter of global GDP, but it accounts for 70% of global equity value.

In aggregate, U.S. investors remain meaningfully underweight international equities relative to the best proxies for diversified portfolios. This has worked well in recent years but may not forever. No one knows the future, so it is prudent to maintain proper diversification, and we believe non-U.S. stocks have a role to play by broadening exposure beyond the increasingly concentrated U.S. market.

How should investors think about currency risk?

There are two types of currency risk investors should understand. The first is translation risk, which is what happens when the value of a foreign investment is converted back into dollars. Consider a Japanese company with all of its costs and revenues in Japan. If the stock rises 10% in yen but the yen weakens by roughly the same amount against the dollar, the currency move would largely offset the stock-price gain for a U.S. investor. If the yen strengthened 10% instead, the combined return would be about 21% in dollars. Exchange

rates do not always move precisely with differences in the prices of goods and services across countries, but there is a gravitational pull over time, called "purchasing power parity". The bottom line is that translation can either add to or subtract from equity returns.

The second currency risk is transactional. This is the risk that manifests if a company has its costs in one currency and associated revenues in another. If the currency in which costs are incurred appreciates relative to the currency in which revenues are generated, then, all else equal, profits will be pressured. The reverse would be true as well. Many Japanese exporters are a good example. Toyota may incur costs in yen to produce cars in Japan and then sell them in the U.S. When the yen weakens, as it has over the last several years, its yen-denominated costs fall relative to its U.S. dollar revenues, thereby increasing profit margins. When the yen strengthens, the opposite occurs. Keep in mind, these examples are simplified. Of course, currency is only one factor. Competitive dynamics can alter these rules of thumb, which is why we spend far more time studying a company's competitive position than forecasting currencies. Over the long term, we believe competitive positioning is a much more important determinant of profitability and intrinsic value.

How are you thinking about the recent yen rally, our current absolute and relative positioning in Japan, and the opportunities we see in the market today?

Japan is an important, deep and diverse market that we know very well. In fact, we have a Japan-only equity strategy at the firm. The market's strong performance in recent years starts with where valuations began. Looking back 10 to 15 years, Japan was exceptionally cheap, and the International Strategy was overweight the country. Part of the re-rating has reflected improvements in how Japanese companies are managed and how they allocate capital. Over the last decade, the country has made strides in corporate governance. More companies now disclose medium-term goals for margins and return on equity (ROE), and we are seeing greater focus on improving profitability and returning capital to shareholders. That matters in a market where many companies still hold excess cash, which can obscure the underlying returns of the business and force investors to be skeptical that earnings will be returned through dividends or share repurchases. The progress is real, but slow. Over the last decade, the Japanese market ROE has only increased 90 bps from 8.7% to 9.6% at the end of last year. That gain is quite modest considering the margin benefit many exporters have received from a weak yen, which we address below. Overall, Japanese companies' relatively low returns on equity reflect lower profitability and a historically weaker focus on returns.

There are also macro factors that influence how we are thinking about our current positioning in Japan. The country is seeing positive inflation for the first time in decades, which adds to nominal growth in a market where the population is aging and declining, albeit ever so slightly. Despite the return of inflation, Japanese interest rates have remained relatively low, particularly compared with the U.S. The resulting interest-rate differential has contributed to significant yen weakness over the past several years. Given Japan's significant export exposure, the weaker yen has been a meaningful tailwind to corporate profit margins. We are concerned about the durability of those margins as exchange rates tend to move back toward purchasing power parity over time. The yen has recently started to strengthen, and if that continues, the currency tailwind that has supported exporters could become a headwind, although the move so far has been modest.

That backdrop also influences where we are finding opportunities in Japan's market today. We are generally more interested in domestically oriented businesses that are less dependent on a weak yen and in companies whose management teams have embraced improving returns on capital, allocating capital more efficiently and managing the business with shareholders in mind. Those characteristics can provide a more durable path to value creation than relying on currency as a tailwind.

Of course, we cannot discuss our view on a market without addressing valuation. The Japanese market is trading for 15x earnings, which is almost one standard deviation above its 15-year average, and at roughly 1.5 turns above the STOXX Europe 600 index, despite generating nearly 5 percentage points lower return on equity. Given the breadth of the market, there will always be opportunities to find interesting investments, but with prices this high collectively, that task has become more difficult in recent years.

How should investors think about the portfolio's quality profile, particularly given that higher-quality businesses have not necessarily been rewarded by the market?

We wrote about quality late last year. At the time, we highlighted that the quality of our International portfolio was increasing, as defined by factor attributes such as earnings stability, profitability, lower leverage and returns on capital. That improvement reflected the fact that these types of businesses were available at more attractive prices, not a change in our value discipline. As a result, today, a quantitative view of the portfolio looks different than it did in the middle of last year. That improvement is also reflected in the portfolio's risk profile, with lower beta and lower predicted volatility.

Since June 2025, several of the five quality measures in our risk model have improved materially relative to the MSCI World ex USA Index. Profitability and earnings variability moved from worse than the index to better than it, and leverage, which was above the index, is now in line with it. At the same time, a greater share of the portfolio's tracking error is coming from stock-specific risk. Stock-specific tracking error has risen 24% since June 2025, compared with a 9% increase in factor tracking error. In other words, more of the portfolio's active risk is now being driven by individual security selection and less by broader factor exposures.

Importantly, these changes have occurred while maintaining our value discipline. As you can see from the tables below, the portfolio currently has higher earnings growth than both the MSCI World ex USA and MSCI World ex USA Value indexes, as well as higher ROE than the Value Index. Meanwhile, the portfolio still sells for a significant discount. For example, International Strategy holdings are selling at a 15% discount to the MSCI World ex USA Value Index on free cash flow despite meaningfully higher earnings growth and returns on equity. This is textbook Harris | Oakmark: buy good businesses, run in the interest of shareholders, at meaningful discounts to intrinsic value.

That does not mean these characteristics will be rewarded by the market immediately. Our time horizon is measured in years, not quarters, and we believe that owning better businesses at attractive valuations improves the odds of outperformance. As long as the fundamentals continue to support our estimates of value, we are comfortable being patient.

Harris | Oakmark International Strategy vs. MSCI World ex. USA Index

	6/30/25	9/30/26	Change	Notes
Profitability	-0.16	+0.05	+0.21	Holdings are more profitable relative to the benchmark.
Low leverage	-0.19	-0.01	+0.18	Holdings' balance sheet leverage is now roughly in line with the index.
Low earnings variability	-0.02	+0.18	+0.20	Holdings now have steadier sales, earnings and cash flows than the benchmark.
Investment quality	+0.13	+0.13	---	This metric combines asset, capital expenditure and net issuance growth.
Earnings quality	+0.13	+0.03	-0.10	This metric measures earnings quality based on cash earnings and accruals.
Net active quality exposure	-0.11	+0.37	+0.48	This net exposure metric started at its 15-month low and ended at its 15-month high with the move being around 17x the standard deviation of weekly changes.

Source: FactSet; MSCI Barra Global Total Market Equity Model for Long-Term Investors (GEMLT). Data as of June 30, 2025 and September 30, 2026. Values are active factor exposures of the International Strategy relative to the MSCI World ex USA Index, measured in standard deviations of the model's global estimation universe; a value of +0.10 means the portfolio's weighted-average exposure is 0.10 standard deviations above the index's. Leverage and earnings variability are shown with signs reversed so that a higher value indicates higher quality on every measure. The "net active quality exposure" is the equal-weighted sum of the five factors MSCI groups under Quality (earnings quality, investment quality and profitability, less earnings variability and leverage); it follows MSCI's grouping and sign convention but is not MSCI's published quality factor. Factor exposures are ex-ante estimates from a third-party risk model and are not forecasts of performance.

Portfolio Characteristics as of September 30, 2026

Key statistics	International Strategy	MSCI World Index ex USA	MSCI World ex USA Value Index
Number of holdings	**59**	736	435
Wtd. avg. mkt. cap.	**$72.8B**	$122.3B	$110.9B
Median mkt. cap.	**$36.2B**	$21.4B	$21.0B
Price/earnings	**13.2x**	14.8x	12.4x
Price/book	**1.9x**	2.1x	1.6x
ROE	**14.5%**	14.9%	12.7%
EPS growth	**20.0%**	9.3%	5.6%
Turnover	**47.7%**	n/a	n/a
Active share	**n/a**	92.0%	92.1%
Emerging markets	**8.8%**	0.0%	0.0%

Cash holdings are excluded. Price/earnings, price/book, and EPS growth d are based on one-year projected consensus estimates. Turnover is trailing one-year as of 09/30/2025, updated annually at year end. **Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

How is increased new idea activity improving the opportunity set today?

From 2022 through 2024, the team averaged 18 new ideas per year. That increased to 36 in 2025, and we have already generated 30 through the first three quarters of 2026.

We believe that increased activity gives us more ways to improve the portfolio. Every new idea competes for capital with what we already own, so this broader pipeline allows us to continually compare existing holdings against potentially more attractive alternatives. That can lead to new purchases, but it also raises the bar for what remains in the portfolio.

Importantly, more activity does not mean lowering our standards. With more ideas reaching the point where they can compete for capital, we have greater flexibility to upgrade the portfolio when a new opportunity is more compelling than an existing holding.

When a holding does not develop as expected, how do you reassess the thesis and decide whether to sell or remain invested? Can you share some recent examples where that review led to different conclusions?

Not every investment will develop the way we initially expect. When a company's fundamentals begin to deviate from our expectations, our response is to go back to the thesis. We ask what has changed, how that affects our estimate of intrinsic value and whether the range of potential outcomes has widened or shifted. That can mean revising our financial assumptions, accounting for a wider range of potential outcomes or reassessing our view of management. Sometimes that work leads us to sell. Other times, it gives us confidence to continue holding. We have had examples of both outcomes recently.

OpenText, a Canadian enterprise software company, is one recent case. The business had not developed as we expected, and we ultimately transferred coverage to a new analyst. As we discussed last year, we will occasionally do this when an analyst has "lost his or her voice" on an investment and we believe a fresh perspective is warranted. The new analyst's review identified concerns around product duration, underinvestment and the possibility that restoring competitiveness would require a material margin reset. That led us to conclude that what appeared to be an inexpensive software company faced more structural competitive challenges than we had anticipated. We became concerned that those challenges would pressure margins and limit the growth of intrinsic value, so we exited the position.

Worldline and WPP are two other examples where continued fundamental deterioration and additional research ultimately reduced our conviction enough to sell.

Since our exits, OpenText, Worldline and WPP have declined approximately -19%, -50% and 5% in local currency, respectively. While short-term share-price movements do not determine whether an investment decision was correct, avoiding those subsequent declines was additive to performance.

Revisiting a thesis does not always lead us to sell. Edenred and Bayer are two recent examples where our work led us to continue holding. Each name went through our Devil's Advocate (DA) process, a formal review that challenges the investment thesis through a full bear-case assessment, an analyst defense, formal debate in our team meeting and a

subsequent vote. The review can be initiated by the analyst or mandated when fundamental performance deviates materially from our expectations.

At Edenred, regulatory changes reduced the economics of parts of the business, but much of that impact is now reflected in our estimates and valuation, while we continue to see attractive underlying growth characteristics. The shares are up 13% in local currency since our formal review, so the outcome is less clear than in some of the examples above. We do not expect every decision to be proven right immediately. What matters to us is whether the facts continue to support our estimate of intrinsic value and prospective return.

Bayer is another example where our review led us to remain invested. Following a formal challenge to the thesis last year, we revisited the key risks around litigation, business quality and execution. At the time, the shares were trading near €20, and we concluded that while management still had much to prove, the underlying value and potential for operational improvement remained attractive. We stayed invested. Since then, litigation risk has declined, pharma has improved and signs of self-help have emerged in crop. The shares are now trading near €48.

The common thread is not whether we buy, sell or hold. It is that when the facts change, we reassess the investment based on the information we have today. Sometimes that confirms that the original thesis remains intact. Other times it tells us that our capital is better invested elsewhere.

Thank you

Thank you again to everyone who submitted questions. Please keep the questions and feedback coming. And as always, thank you for your continued trust and interest in Harris | Oakmark.

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About Harris | Oakmark

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September 30, 2026

Average annualized total returns (%)

	QTD	YTD	1 yr	3 yrs	5 yrs	10 yrs	Since inception
International Strategy Gross of Fees	0.99	2.40	7.64	12.88	6.40	7.86	9.91
International Strategy Net of Fees	0.81	1.86	6.89	12.10	5.67	7.11	8.92
MSCI World Index ex USA	0.89	10.16	15.89	18.89	9.66	9.27	6.77
MSCI World ex USA Value Index	3.71	14.96	24.29	23.69	14.71	10.40	7.71

Returns for periods less than one year are not annualized. Composite inception: 09/30/1992

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The MSCI World ex USA Index (Net) is a free float-adjusted, market capitalization-weighted index that is designed to measure international developed market equity performance, excluding the U.S. The index covers approximately 85% 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.

The MSCI World ex USA Value Index (Net) represents returns for large- and mid-cap securities exhibiting overall value style characteristics across 22 of 23 Developed Markets (excluding the United States). The value investment style characteristics for index construction are based on book value-to-price, 12-month forward earnings-to-price, and dividend yield. The Total Return Index (Net) includes reinvested dividends net of foreign withholding tax. This index is unmanaged and investors cannot invest directly in this index.

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