Harris | Oakmark

QUARTERLY MANAGER COMMENTARY

U.S. Concentrated Strategy

March 31, 2025

MARKET ENVIRONMENT

U.S. equities finished lower during the quarter despite 7 of 11 GICS sectors posting positive returns. By sector, information technology and consumer discretionary detracted, while health care and financials contributed the most to market returns.

PORTFOLIO PERFORMANCE

The portfolio's return was -0.14% (net) for the reporting period. This compares to the Russell 1000 Value Index that returned 2.14% for the same period.

Performance highlights

Contributors

- Intercontinental Exchange
- Deere
- ConocoPhillips

Detractors

- Alphabet Cl A
- IQVIA Holdings
- First Citizens Bcshs Cl A

Top contributors:

- Intercontinental Exchange (ICE) was a contributor during the quarter. The U.S.-headquartered financial exchange and data company's stock price rose during the quarter as it reported solid fourth quarter 2024 results led by 16% growth in its Energy Futures business. After a couple years of using cash flow to pay down debt from its two major mortgage acquisitions Ellie Mae and Black Knight, management resumed share repurchase in the first quarter of 2025. We believe share repurchases are an attractive capital allocation opportunity for ICE today. We continue to view ICE as a well-managed, high-quality business with a bright future ahead.
- Deere was a contributor during the quarter. Despite the strong stock performance, the company's fundamentals are weak due to the trough in the farm cycle. We are encouraged that the management team continues to invest aggressively in the business during this downturn, which can help increase the company's advantages over peers. While it is impossible to precisely predict when the upturn will occur, when it does we believe that Deere will earn over $30 in EPS. At less than 15x our estimate of normal earnings, we believe the stock remains attractive.
- ConocoPhillips was a contributor during the quarter. The U.S.-headquartered oil and gas exploration and production company's stock price rose as the company's 2025 guidance benefitted from the substantial synergies from the recent acquisition of Marathon. We look forward to a large inflection in free cash flow over the next handful of years as several major capital investments come online. We continue to appreciate management's focus on returning to capital shareholders.

Top detractors:

- Alphabet was the top detractor during the quarter. The U.S.-headquartered company's stock price declined despite having posted fourth-quarter 2024 earnings that were in line with consensus expectations. Search revenue growth remained strong, and management reiterated that the new "AI Overviews" feature is driving higher engagement with comparable monetization. The one miss during the quarter was in the Cloud segment, where revenue grew 30% year-over-year but fell slightly short of consensus expectations. We believe the shortfall was largely due to short-term capacity constraints and that the long-term growth outlook for Google Cloud remains robust. We continue to see Alphabet as a collection of great businesses that can further benefit from the company's world class AI capabilities. With shares trading at just 15x our estimate of next year's earnings per share, we believe the stock is meaningfully undervalued.

- IQVIA Holdings (IQV) was a detractor during the quarter. The U.S.-headquartered life sciences tools and services company's stock price declined due to a slowdown in R&D Solutions segment growth amid large pharma portfolio reprioritizations related to the Inflation Reduction Act. However, IQV is growing faster than competitors through this challenging period for the industry and expanding its scope of work with several clients. Management expects R&DS growth to improve in the second half of this year based on strength in leading indicators, such as RFP flow and biopharma funding. In addition, the cyclical recovery in the Technology and Analytics Solutions segment is playing out as anticipated, including a return to double-digit growth in real-world evidence. We were pleased to see management execute a large opportunistic share repurchase in the quarter. We believe the stock is cheap and trading at a significant discount to private market values.
- First Citizens Bancshares was a detractor during the quarter. The U.S.-headquartered bank's stock price declined due to macroeconomic uncertainty, and despite strong fourth-quarter 2024 earnings and positive 2025 guidance, with earnings per share ahead of consensus expectations. Loans and deposits both grew at healthy rates during the fourth quarter, and management expects continued strong growth in 2025. We continue to believe that First Citizens is a well-run regional bank that is led by a best-in-class management team. We appreciate management's track record of value accretive capital allocation and think the stock offers an attractive upside.

PORTFOLIO POSITIONING

We initiated the following position(s) during the period:

- Molina Healthcare is a leading managed care company. Molina is the fourth largest player in managed Medicaid but has consistently delivered industry-leading growth and margins. In our view, this is thanks to the company's exceptional management team and culture of operational excellence. We think Molina has a long runway for growth via continued share gains in Medicaid and untapped opportunities in their Medicare and Marketplace business segments. Recently, fundamentals have been pressured by an unprecedented redeterminations cycle in Medicaid, and valuations have compressed due to uncertainty around policy changes in a new political administration. We believe earnings pressure from redeterminations is temporary and that any Medicaid policy changes will prove manageable, providing us an opportunity to purchase shares at a meaningful discount to intrinsic value.

We eliminated the following position(s) during the period:

- Fiserv
- Salesforce

OUTLOOK

We have argued that for too long of a period the weight of money invested globally was heavily skewed to a handful of U.S. growth names. Despite this, we've remained focused on using our bottom-up, fundamental analysis to inform portfolio construction. Even after this quarter's strong outperformance of value over growth, we believe a large valuation imbalance is still present and will be the fuel for better long-term performance for value equities.

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The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. This index is unmanaged and investors cannot invest directly in this index.