Harris | Oakmark

QUARTERLY MANAGER COMMENTARY

Global All Cap Strategy

March 31, 2025

MARKET ENVIRONMENT

Global equities finished lower during the quarter despite 8 of 11 GICS sectors posting positive returns. By sector, information technology and consumer discretionary generated almost all of the negative momentum, while financials and health care contributed the most to market returns. By country, the U.S. was the largest detractor followed by Denmark, while Germany and the U.K. contributed to market performance.

PORTFOLIO PERFORMANCE

The portfolio's return was 4.63% (net) for the reporting period. This compares to the MSCI World Index that returned -1.79% for the same period.

Top contributors:

- Alibaba Group was a contributor during the quarter. The China-headquartered consumer discretionary company's stock price rose throughout the period as it delivered strong third-quarter 2024 results, driven by accelerating growth in its E-commerce and Cloud businesses. Top-line growth in E-commerce improved meaningfully following the introduction of new fees and monetization tools for merchants. Cloud revenue grew due to strong demand for cloud services and AI demand. Over the past few years Alibaba has aggressively invested in AI and, as a result, is one of the early leaders in China today. Alibaba is unique in that they are a leader in both cloud computing services (similar to AWS) and large language models (similar to ChatGPT). Even with the share price appreciation in 1Q, we believe the company continues to offer attractive upside.

Performance highlights

Contributors

- Alibaba Group
- Lloyds Banking Group
- Prudential

Detractors

- Alphabet Cl A
- Diageo
- Kering

- Lloyds Banking Group was a top contributor during the quarter. The U.K.-headquartered diversified bank's stock price rose throughout the quarter as it posted fiscal-year 2024 results where net-interest income modestly outperformed consensus expectations. In addition, Lloyds issued fiscal-year 2025 and 2026 guidance forecasting robust net-interest margin expansion and announced a 1.7 billion GBP (Great Britain Pound) share buyback. We continue to monitor the Motor Vehicle provision following the onerous appellate court ruling and are optimistic about a favorable ruling from the Supreme Court. In our view, the bank has a strong management team and a balance sheet with high levels of capital, liquidity and reserves which can help it unlock further value.
- Prudential was a contributor during the quarter. The U.K.-headquartered life and health insurance company's stock price steadily rose throughout the period as it delivered strong full-year 2024 results and issued 2025 guidance calling for enhanced cash generation. The results

Past performance is no guarantee of future results. The investment return and principal value of this portfolio and any particular holdings may fluctuate. Portfolio holdings are subject to change without notice.

were highlighted by healthy Annual Premium Equivalent growth and New Business Profits (NBP) margin expansion. NBP benefitted significantly from management's repricing initiatives and a modest mix shift towards higher margin health products. Geographically, the important Hong Kong market performed well, and we think there is further opportunity for growth as it normalizes to pre-Covid levels. We appreciate management's dedication to accelerating its share buyback program and believe the stock offers attractive upside.

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.
- Diageo was a detractor during the quarter. The U.K.-headquartered distiller and vintner's stock price declined despite having delivered first-half 2025 earnings that met consensus expectations for group organic earnings before interest and tax. While revenues exceeded expectations, margins were soft. The company saw sequential improvement in the U.S., driven by strong performance from Don Julio and better-than-expected growth in the Latin America. However, macroeconomic uncertainty around tariffs and temporary demand softness in key markets weighed on the stock. We met with CEO Debra Crew and are encouraged that Diageo cites a study that U.S. household penetration of spirits by U.S. Gen Z are slightly higher than prior generations at their age, as well as the resilience of key brands despite cyclical weakness. We think the stock offers an attractive upside.
- Kering was a detractor during the quarter. The France-headquartered luxury goods company's stock price declined despite fourth-quarter 2024 results that were largely in line with our expectations. The stock's weakness towards the end of the quarter came following the announcement of Gucci's next creative director. We view the legacy and long-term focused management of the company's brands as the largest source of Kering's underlying value and are confident in management's ability to identify key creative personnel that can extract that value for shareholders.

PORTFOLIO POSITIONING

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

- Airbnb is an online marketplace to list, discover and book unique accommodations worldwide. The company benefits from a strong network effect between its guests and hosts. We believe there is a long growth runway as global travel is an attractive market, and alternative accommodations have been taking share. We anticipate Airbnb will drive further growth by creating more valuable services for both sides of its network. This includes the potential for paid placement, which has created significant economic value for comparable marketplaces. In our view, management is aligned with shareholders and well qualified to lead Airbnb as the company attempts to capture these growth opportunities. Short-term concerns about the macro travel environment and declining margins stemming from growth investments allowed us to purchase shares at a discount to our estimate of business value.

- Brenntag is a global leader in the production and distribution of specialty and commodity chemicals. In our view, Brenntag is an advantageously positioned specialty chemicals distributor thanks to its robust network of customers and suppliers, which is a market that has historically grown faster than broader chemical manufacturing. We believe this market is coming out of a cyclical trough with indicators suggesting better growth to come. Moreover, the company's management team is implementing a multi-year plan to reorganize the business structure to better align with the distinct needs of specialty and commodity markets, increase focus on value-over-volume, sharpen incentives, and trim the company's cost structure. Recent temporary challenges in the business environment have weighed on Brenntag's share price, presenting us with the opportunity to initiate a position in the dominant industry player at a discount to our estimate of intrinsic value.
- Keurig Dr Pepper is one of North America's leading beverage companies, with dominant positions in single serve coffee and flavored soft drinks. The soft drink portfolio has an enviable track record of volume growth and market share gains. We believe this strong performance can continue well into the future thanks to favorable demographic trends, brand strength and its unique distribution network. Recently, the stock price came under pressure due to fundamental weakness in the Keurig coffee division. At-home coffee consumption normalized as people returned to work, while price hikes are also weighing on demand. We believe these industrywide challenges will prove transitory as coffee remains a popular beverage across demographics. Keurig is poised to capitalize on this demand with the largest installed base of single-serve brewers and ample runway to further increase household penetration. At the current quote, the market ascribes minimal value to Keurig. We were happy to purchase shares in this above-average business that is trading at a discount to the market, other beverage peers and private market transactions.
- 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.
- Mondelēz International is a global snacking powerhouse with leading market share positions in crackers, cookies and chocolate. The brand portfolio houses iconic names like Cadbury, Milka, Toblerone, Oreo and Ritz. Mondelēz possesses a unique global footprint that over-indexes to snacking occasions. Snacking is an advantaged category that benefits from robust pricing power, low private label competition and rising per capita consumption. We believe these attributes will help Mondelēz sustain industry-leading growth. A rapid rise in commodity

costs has temporarily depressed margins, masking the company's true earnings power. We believe Mondelēz's strong pricing power and commodity relief will help restore profitability. The short-term fears surrounding commodity inflation allowed us to purchase shares at a discounted valuation relative to history, peers and the broader market.

- Pernod Ricard is the second largest producer of premium spirits globally, with over 240 brands distributed across more than 160 markets. Importantly, the company generates most of its revenue from brown spirits, such as whiskey and Cognac, and has the highest exposure in the sector to this category, which is particularly attractive due to high barriers to entry driven by aged inventories. Pernod Ricard also has the most regionally diversified portfolio among peers, with leading scale in its key markets of India, China and France. This further strengthens barriers to entry and has provided a long history of attractive returns and healthy cash conversion for the company. Additionally, we believe the company is poised to benefit from structural tailwinds stemming from premiumization trends and emerging markets growth where it has more exposure than its peers. Lastly, we like that Pernod Ricard is still led by the company's founding family, which is aligned with shareholders as they own 14% of the equity. We believe CEO Alexandre Ricard has a good track record and is committed to growing shareholder value by improving execution, operations and organizational culture, which we view as self-help opportunities to close the company's margin gap relative to peers. The company's share price has come under pressure alongside other spirits producers as a result of post-Covid-19 industry de-stocking and demand normalization, which provided an attractive entry point to invest in this above-average company at a below-average price.

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

- Amazon.com
- Beacon Roofing Supply
- Etsy
- Kroger
- Novartis

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 MSCI World Index (Net) is a free float-adjusted, market capitalization-weighted index that is designed to measure the global equity market performance of developed markets. 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.