Harris | Oakmark

QUARTERLY MANAGER COMMENTARY

Global 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.

Performance highlights

Contributors

- BNP Paribas
- Alibaba Group
- Bayer

Detractors

- Kering
- Alphabet Cl A
- WPP

PORTFOLIO PERFORMANCE

The portfolio's return was 4.64% (net) for the reporting period. This compares to the MSCI World Index that returned -1.79% for the same period.

Top contributors:

- BNP Paribas was the top contributor during the quarter. The France-headquartered bank's stock price rose throughout the period as it posted strong fiscal-year 2024 results. Performance was driven by strength in the Corporate and Institutional Banking (CIB) and Personal Finance segments. The company also demonstrated improved efficiency, with revenue growth outpacing cost growth. Given BNP's strong underlying profitability and highly diversified business, we believe the bank is well-positioned for sustained capital generation and long-term growth.
- 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.
- Bayer was a contributor during the quarter. The Germany-headquartered company's stock price rose throughout the period as it delivered in line 2024 results and 2025 guidance. The guidance in particular was reassuring as Bayer is enduring a challenging agriculture market and the patent expiration of its profitable drug Xarelto, so this year's outlook was unusually uncertain. In addition, Bayer unveiled a restructuring program in its Agriculture business that will begin to

close performance gaps to peers and drive margin expansion. We believe this year is critical for Bayer to demonstrate improved execution and note CEO Bill Anderson's efforts on restructuring and organizational change. We appreciate these initiatives and think they will unlock improved performance at Bayer, while we also see promising efforts to bring an end to ongoing litigation.

Top detractors:

- 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.
- Alphabet was a 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.
- WPP Group was a detractor during the quarter. The U.K.-headquartered advertising company's stock price declined after it delivered weaker than expected fourth-quarter 2024 results and 2025 guidance. The results were impacted by client losses, disruptions from restructuring activity, and pullback in more discretionary client spending. Despite the headwinds, margins and free cash flow (FCF) remained resilient. While the economic environment remains uncertain, management believe WPP's growth should start to recover in the back half of 2025, and their FCF generation should rebound as restructuring activities fade. While the past year has been a tough one for WPP, we continue to believe the business can deliver low single-digit growth and much improved FCF. WPP can also monetize equity assets like Kantar for material amounts. We continue to think the discounted valuation overly discounts the company's fundamental value.

PORTFOLIO POSITIONING

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

- 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.

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

- Amazon.com
- Etsy
- Kroger

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.