Oakmark International Equity Funds*

FUND COMMENTARY

FIERA INVESTMENTS

GLOBAL MARKETS RECOVER IN THE FOURTH QUARTER

THE MARKET ENVIRONMENT

Major global markets finished mixed in the third quarter. The fourth quarter of 2019 brought a steady recovery in global markets following the volatility that afflicted indexes around the world earlier in the year. As was the case last year, 2019 featured extreme price movements as the latest news, including trade talks, Brexit, European Union political instability and even a political conflict between South Korea and Japan dating back to World War II, influenced stock prices. As an example, while global markets started the year off strong, a few tweets that fueled trade war fears in May sent indexes around the world tumbling. August also saw more measurable declines until markets began to recover and rebound based, in part, on more positive geopolitical headlines.

Other fears that weighed on markets were the possibility of a Jeremy Corbyn victory in the U.K. general election and continued uncertainty surrounding Brexit. With a large, historical victory by the Conservative Party in the U.K., investors' fears of a Corbyn-led socialist-style government were alleviated for the medium term. Instead, Prime Minister Boris Johnson's government acted quickly to move its Brexit bill through Parliament in an attempt to ensure a smooth exit from the European Union.

Meanwhile, China and the U.S. de-escalated their trade dispute with an agreement of a "phase-one" trade deal in the fourth quarter. These events boosted global equity market sentiment toward the end of 2019 and entering into 2020. These developments also provided more solid foundations for businesses to make capital allocation and investment decisions going forward as the news pushed key U.S. indexes to all-time high levels. In fact, all 11 GICS sectors in the S&P 500 Index gained value in 2019 and produced double-digit returns for the year. In China, the Shanghai Composite increased 22% for the year, while Japan's Nikkei 225 Index finished 18% higher in 2019.

Despite the recovery in 2019, we still believe our investment approach offers good upside potential. In fact, our investment philosophy and team have been consistent throughout our history. We continue to look for opportunities to achieve higher returns by estimating business value and buying at a discount. We utilize this strategy with the goal of long-term outperformance for the benefit of our shareholders.

THE PORTFOLIO

Top Performers: The share price of Ryanair Holdings advanced materially following the release of its fiscal second-quarter results. Despite disruptions caused by the grounded Boeing 737 MAX aircraft, net income of EUR 910.2 million far exceeded market projections for EUR 827 million. Total revenue growth of 11% is tracking in line with our expectations, while revenue per available seat mile is trending ahead of our estimates and is progressing positively toward achieving management's 2- 3% growth target for fiscal year 2020. Management also expects traffic to grow by 8% for the fiscal year to 153 million, which is slightly ahead of our forecasts. We appreciate signs of a more rational competitive environment as Ryanair's peers reduce capacity, which should help pricing going forward, and labor relations continue to improve. In addition, even though facing challenges from reduced Boeing MAX 737 deliveries, management did not decrease its passenger growth guidance for fiscal year 2021. We believe the lower supply growth should result in further pricing benefits.

BNP Paribas delivered a positive third-quarter earnings report with total revenue of EUR 10.90 billion, pre-tax income of EUR 2.81 billion and net income of EUR 1.94 billion, all of which exceeded market forecasts. For the full fiscal nine-month period, underlying results were good, by our measure, with constant currency revenue growth from core divisions of 2.8% and operating expenditure growth of only 0.8%. In addition, loan growth for the third quarter increased 5.5% year-over-year. Importantly, the company generated operational leverage across all three segments following low growth in operating expenditures in the first half of the year. In our view, BNP continues to benefit from its 2020 Transformation Plan, which has now generated cumulative savings of EUR 1.5 billion since 2017 and is on track to generate EUR 3.3 billion in savings through 2020. The company's CET1 ratio expanded 10 basis points sequentially to 12.0%, in line with management's target, which, in our view, positions it for an increased scope of shareholder capital returns. We believe that BNP is a solid investment that should reward shareholders into the future.

The share price of Lloyds Banking Group benefited from news of a Brexit agreement between the U.K. and the European Union, which is now pending approval by Parliament. In addition, while the company's third-quarter revenue and underlying operating profit fell short of our estimates, we were pleased that total costs declined over 5% from a year ago and were far below our forecasts, which illustrates to us that management's efficiency improvements are producing positive results. Importantly, the company expects non-underlying costs to fall below GBP 1 billion in 2020 (down about 70% from 2019) as the compensation period for payment protection insurance claims has lapsed. Therefore, Lloyds no longer needs to set aside funds for this purpose and it can deploy additional cash to achieve other business objectives. In our view, Lloyds is now well positioned for strengthening performance going forward, and it appears the market agrees.

Bottom Performers: Along with its third-quarter trading update, Rolls-Royce Holdings stated that full-year free cash flow and earnings would be at the low end of the previously issued guidance range, which weighed on its share price. Management expects that 2019 free cash flow and earnings will be closer to GBP 600 million, owing to design fixes for the Trent 1000 engine and higher costs associated with the Trent 1000 TEN engine. Even so, management maintained full-year 2020 free cash flow guidance at GBP 1 billion. Shortly after releasing the trading update, the U.S. Navy awarded Rolls-Royce a $1.21 billion contract to provide maintenance, repair and other services for the V-22 AE1107C aircraft engine. Later, Bradley Singer, COO at activist firm ValueAct Capital, resigned from the Roll-Royce Board of Directors after serving for three years. We spoke with Singer who expressed that he is comfortable with the other board members and the direction management is taking considering the positive changes enacted at the company, including better accounting practices, improved key performance indicators and a significant cost efficiency program.

Investors reacted negatively to advertising and media company Publicis Groupe's third-quarter revenue shortfall and management's lower guidance. We believe that the revenue shortfall is due to both industry and company-specific issues. Agencies have been reducing their brand spending as more work is being done in-house and internet giant platforms are becoming more dominant. These changes have eroded traditional brands while also providing advertisers with personalization at scale. In our view, Publicis's recent acquisition of Epsilon should significantly boost its ability to deliver personalization at scale. A bad quarter for its media division and the Sapient transition led by new management in the U.S. weighed on the company's 2019 organic growth in North America. Despite the company's weak results, Publicis retained its operating profit margin (OPM) target of 17.3% in 2019, which does not yet include Epsilon's contribution. Publicis's margins have expanded as a result of its fast-growing solutions, leaner organization, real estate consolidations and strong performance for Epsilon OPM. The company also retains a strong balance sheet and robust cash conversion, in our view.

Liberty Broadband holds a stake of approximately 25% in Charter Communications, which delivered solid third-quarter earnings results in October, in our view. Strong residential broadband subscriber net additions amounted to 351,000 vs. market expectations for 277,000 net additions and led to a +5.4% subscriber growth rate (the highest since 2017). In addition, capital intensity continues to decline. Management expects capital expenditures in the cable segment will come in lower than previous guidance and guided to a further decline in capital intensity in 2020. Furthermore, recent price increases have yet to hit the income statement and should drive further margin expansion next year. Charter also repurchased 2.5% of its shares outstanding in the third quarter. Later in the fourth quarter at an investor conference, Charter CEO Tom Rutledge pointed out that he sees opportunity to increase internet penetration across residential, small-to-medium business and enterprise business platforms. Charter offers a minimum speed of 200 megabytes per second in the vast majority of its service areas (and up to 1 billion bits per second), which provides a distinct speed advantage over competitors. Rutledge also stated that the company is leveraging digital technology for customer orders in an effort to further reduce service-related costs, which we believe can work to enhance efficiencies and profitability.

During the quarter, we initiated positions in Bunzl and Trip.com Group. We eliminated Azko Nobel and Diageo from the portfolio.

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IMPORTANT DISCLOSURES

* On July 3, 2019, the issued and outstanding shares of Natixis Investment Managers Canada Corp (the holding company of the manager) were acquired by Fiera Capital Corporation. The name of the manager of the Oakmark International Natixis Funds was changed to Fiera Investments LP. On July 12, 2019, the Oakmark International Natixis Funds were renamed Oakmark International Equity Funds.

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