Oakmark U.S. Equity Funds*

FUND COMMENTARY

FIERA INVESTMENTS

U.S. INDEXES SET ALL-TIME HIGHS IN Q4 ON THE BACK OF U.S./CHINA TRADE DEAL

THE MARKET ENVIRONMENT

At the outset of the fourth quarter, investors faced a continuation of some unresolved difficulties that started the year. In typical fashion, markets reacted to news that was mainly driven by "Deal or No Deal" issues, such as U.S. trade disputes with China along with Mexico and Canada. Late in the quarter, the U.S. and China reached a partial trade deal, and a new version of an agreement between the U.S., Mexico and Canada moved toward implementation in 2020. Because these developments have provided more solid foundations for businesses to make capital allocation and investment decisions going forward, 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.

Economic indicators also influenced markets, with positive news largely outweighing negative news. Disappointing data included gross domestic product growth of only 2.1% in the third quarter, well short of comparable 2017 and 2018 quarters as well as policy-makers' targets. In addition, the Institute for Supply Management indicated that manufacturing activity continued to contract as new orders declined in November for the fourth consecutive month. Meanwhile, the unemployment rate remained at a multi-decades low level, new residential home sales rose nearly 17% year-over-year in November and November construction of new homes grew 3.2%, which reflected a 12-year high level. Furthermore, in a survey conducted by Bankrate, the country's top economists revealed that although some areas of the economy have slowed, there is only about a 35% chance that a recession will occur within the next year as trade war-related threats have moderated. Importantly, consumer spending, a key economic growth driver, was strong. Retail industry experts reported November sales increased 2.1% from a year ago with record-setting Black Friday and Cyber Monday online holiday spending followed by Super Saturday spending that exceeded $34 billion, making it the largest single retail sales day in U.S. history.

Owing to our experience, we are prepared to confidently navigate a wide array of macro environments. We apply the same disciplined investment approach when markets advance as well as when markets retreat. Throughout our history, we have implemented a consistent philosophy and an intensive research process. We continue to stay alert for attractive investment opportunities while ensuring that our clients' goals remain at the forefront.

THE PORTFOLIO

Top Performers: Regeneron Pharmaceuticals delivered strong third-quarter earnings results as exhibited by year-over-year revenue growth of 23%. Specifically, EYLEA net sales grew 14% and DUPIXENT increased 141%. Earnings per share rose nearly 14% from a year earlier to $6.67 and exceeded market expectations of $6.40. Management also announced a $1 billion share repurchase program and indicated its LIBTAYO lung cancer trial was progressing well. We spoke with a member of the company's management team during the quarter and learned that Regeneron is optimistic the launch of competitor Beovu will afford growth for EYLEA as well. In addition, prescriptions for DUPIXENT are still accelerating with direct-to-consumer advertisements for asthma that will launch soon.

In our view, State Street delivered a solid third-quarter earnings report. Earnings per share ($1.51 vs. $1.39) and revenue ($2.90 billion vs. $2.86 billion) results bested analysts' expectations. Servicing fees were up 2% sequentially as price pressure continued to subside and net interest income increased 1.5% sequentially (excluding one-time benefits) as deposit levels stabilized, helping to offset interest rate declines. Management also announced expectations for total fee revenue growth of 1-2% for the fourth quarter along with continued moderation in pricing pressure in the fourth quarter of 2019 and the first quarter of 2020. We continue to believe the valuation for this high-quality company remains attractive, offering a compelling reason to own.

Bank of America issued third-quarter results with revenue and earnings per share that slightly exceeded market expectations. From our perspective, the company continues to execute well despite the low interest rate environment. Year-over-year average deposit balances rose 4% and strong mortgage origination activity led to average core loan growth of 6%. Consumer checking accounts grew 2.3%, new credit card applications were up 5% and net new household growth in the Merrill Lynch wealth management segment was robust at 27%. Management returned $9.3 billion of capital to shareholders through dividend payments and share repurchases. We found it especially notable that Bank of America continues to take market share in nearly every business segment, and CEO Brian Moynihan expressed expectations that these trends will continue.

Bottom Performers: Even though Ally Financial reported third-quarter revenue and earnings per share (EPS) that beat market expectations, its share price fluctuated in the quarter. We thought results showed good progress from the dual benefit of higher new auto yields and falling deposit costs that continue to drive margin

expansion. Net revenue rose 7% from a year ago and EPS grew 11%, driven by strong origination growth and improved pricing, despite higher expenses. Consumer auto originations increased 14% to $9.38 billion and deposits advanced nearly 18% to $119.2 billion, which we viewed as solid. The company remains on pace to achieve full-year EPS guidance, despite having to absorb an incremental $25-30 million in expenses associated with a recent acquisition. However, market analysts were disappointed with certain elements of the release (a slightly higher retail auto net charge-off rate and lower than projected loan growth) and that management did not raise full-year guidance, which pressured Ally's share price.

American International Group issued third-quarter results that were slightly weaker than we had estimated, owing to higher than expected catastrophe losses and an actuarial adjustment in the life insurance business that depressed quarterly earnings per share. However, adjusted book value per share rose about 1% to $57.60 (from $56.89 in prior quarter). Notably, the adjusted return on equity (ROE) reached 4.1% (compared with -2.4% in the year- ago period), which marks progress toward reaching the company's strategic near-term goal for core ROE of at least 10%. In December, CEO Brian Duperreault, CFO Mark Lyons and CEO of General Insurance Peter Zaffino spoke at an investor conference. They reaffirmed guidance for a double-digit adjusted return on equity by the end of 2021, mainly driven by core results from the general insurance segment. In addition, AIG plans to complete the sale of most of Fortitude Re in mid-2020 and intends to use the proceeds to pay down debt and continue deleveraging the balance sheet in keeping with management's near-term strategic capital allocation objectives. We continue to believe the company's leadership team is taking the right steps to enhance shareholder value.

Constellation Brands' fiscal second- quarter total revenues met market estimates and earnings per share (including a loss related to the Canopy Growth Corporation business) were better than forecasts. However, revenue and operating profit in the wine and spirits business contracted and were weaker than investors had projected. Management attributed the segment's underperformance largely to the pending sale of low-end wine brands to Gallo. From our perspective, Constellation's results were solid and its performance has been tracking well compared with our expectations. The core beer business (which accounts for over 80% of earnings) continues to build market share and this segment's earnings margin expanded to a record 41.8%. Like-for-like adjusted beer volume depletions rose 7.5%, despite comparable prior-period results that were elevated from the rollout of Corona Premier and Corona Familiar brands last year.

In a later regulatory filing, Constellation stated expectations for a fiscal third-quarter equity income loss related to its ownership stake in Canopy Growth. The company will realize an equity impact of $46 million on a reported basis (-$71 million on a comparable non-GAAP basis), which translates to a 14% decline in core earnings or an earnings per share reduction of $0.30. While Constellation's results in the near term may suffer from this issue, our long-term assessment of the company remains unchanged.

During the quarter, we eliminated Chesapeake Energy and Halliburton 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 Natixis Funds was changed to Fiera Investments LP. On July 12, 2019, the Oakmark Natixis Funds were renamed Oakmark U.S. Equity Funds.

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