FUND COMMENTARY

Oakmark International Natixis Funds


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STRENGTHENING ECONOMIC ACTIVITY SENT GLOBAL EQUITY INDEXES HIGHER IN Q1 2017

THE MARKET ENVIRONMENT

Global markets marched higher in the first quarter as economic activity continued to strengthen. The Dow Jones Industrial Average notched its sixth consecutive quarterly gain, and the STOXX Europe 600 Index advanced for the third quarter in a row. In February, the U.S. personal consumption expenditures (PCE) index surpassed the Federal Reserve's long-term target. The Eurozone's own annual rate of inflation also reached the European Central Bank's 2% target in February for the first time in four years. Citing improvements to the labor market and economic health, the Federal Reserve once again lifted interest rates in the U.S.

While stocks in so-called stable sectors outperformed in 2015 and much of 2016, cyclically oriented names rallied on the heels of the U.K. referendum and the U.S. presidential election. Investors' rotation away from perceived safety continued in early 2017, although sector returns finished mixed for the first quarter. Technology and health care led the global market followed closely by consumer discretionary, where we continue to see large price-value discrepancies based on underappreciated fundamentals. Supported by low unemployment, low energy prices and low interest rates, we believe the global consumer is strong. In contrast, after a significant end-of-2016 surge on expectations of looser bank regulation, returns for financials were more muted for the quarter. We still find great opportunity within the sector as positive lending trends, fee increases and cost reductions continue to play out at the company level.

Overall, we think the stage is set for increased rates of global economic growth. Such growth should provide a boost for corporate earnings and share prices given current valuations, which we still find to be relatively attractive.

As always, the short term is difficult to predict, and we believe an individual quarter has little influence on a business's value. Instead, we aim to invest in companies that we believe are trading at the largest discounts to intrinsic value. Although this often means buying stocks that might be out of favor with the market for a time, we accept that long- term outperformance often comes at the expense of short- term underperformance. While we cannot anticipate when our perception of intrinsic value will be recognized, we will patiently wait as long as the discount exists. It is our experience that this steadfast approach affords the best opportunity to provide superior returns for our clients.

THE PORTFOLIO

Top Performers: Glencore reported that full-year 2016 operating profit reached $10.27 billion and exceeded market forecasts as well as our estimates. The company realized solid performance in both the Industrial and Marketing segments, driven by lower unit costs and decreased operating expenses. Glencore continues to make good progress on its

* in USD

debt reduction plan, and net debt declined by $14.1 billion* over the past 18 months, an achievement that we see as remarkable. We recently met with CEO Ivan Glasenberg, who remains optimistic about rising copper prices in light of steady demand and deteriorating supply. As the company's balance sheet health has improved, free cash flow generation has increased, leading to management's pledge to issue $1 billion* worth of dividends in 2017. We believe Glencore's capital position is solid, and we like that its management team is working to enhance shareholder value. **Grupo Televisa** delivered positive full-year 2016 earnings results during the quarter. In our view, the most favorable aspect of this report was strength in the Content division, which reported sales growth of 7%. The core broadcast Advertising business was also up 1%. Licensing and Syndication and Network Subscription increased 17% and 22%, respectively, as both earn revenues in U.S. dollars and benefited from the currency's appreciation versus the peso. Importantly, upfront deposits for the 2017 advertising season increased by 9%. We discussed these results with a member of Televisa's management team and were pleased that the company has reasonable expectations for the current year, given the large amount of existing economic uncertainty. We believe Grupo Televisa possesses a collection of great assets that the market continues to undervalue, and our investment thesis remains intact. **EXOR**'s share price largely mimicked European market movement in the first quarter and finished higher for the period as a result. The company also benefited from its interests in Ferrari, Fiat Chrysler and CNH Industrial, as these companies delivered fiscal year earnings reports that were largely in line with investors' expectations. In our estimation, EXOR is a well-managed company that has its interests aligned with shareholders, as incentives are based on outperforming the MSCI World Index. We look forward to reviewing the company's full year results upon their release in April, and we continue to believe the company provides value for our shareholders.

Bottom Performers: As we anticipated, **H&M**'s higher than normal first-quarter stock levels led to increased markdowns and lower margins. While the company has started to see an improvement in a number of markets including China, the U.S. and Central/Southern Europe remain weak. However, there are clear signs that H&M is taking initiative to improve results and increase profitability. In the past year, the company appointed a new management team for the H&M brand and revised its growth targets to focus more on comparable and profitable growth. With its quarterly results, H&M announced the launch of the **Arket** brand, a new concept with a price-point above the H&M brand. **Arket** will sell classic garments for women, men, and children as well as home furnishings. We support this move, given the success of its **& Other Stories** and **COS** brands. We continue to think that H&M has a clear value proposition with significant opportunity for continued expansion. We also believe that as benefits materialize from heavy investments made in the last few years and gross margin headwinds abate, shareholders will be rewarded in the long term. **Toyota Motor**'s fiscal nine- month results were weaker than market expectations and included sales and operating profit declines of about 6% and 34%, respectively, from the same period last year. However, Toyota's results were acceptable to us, as we attribute these declines mainly to negative currency effects. Toyota exports more than 50% of cars produced in Japan, and yen appreciation weighed on financial performance for the period. Furthermore, automotive volumes were up 2% for the full nine months and increased 3% in the third quarter. Some key regions saw healthy nine-month unit sales growth, as volumes in Japan rose 9%, Europe increased 8% and Asia advanced 17%. Although management increased its fiscal full-year earnings per share, revenue and operating income guidance, the projections lagged market forecasts. Even so, in our experience Toyota Motor's management team has typically been conservative when issuing future estimates. We remain pleased

* in USD

with Toyota Motor's fundamental performance. **BMW**'s fiscal full-year total revenues and earnings fell short of market expectations, while earnings per share were ahead of forecasts. Overall, we were pleased with BMW's results and especially that its free cash flow reached EUR 5.65 billion, which surpassed our estimates by roughly 50%. During the quarter, we met with Nicolas Peter who became CFO in September 2016. We discussed how BMW is adapting to auto industry and consumer trends, such as autonomous-driving vehicles and ride sharing. BMW believes that vehicle electrification, which is evolving rapidly, is by far the company's most important priority. Management has projected that by 2025, electric vehicles will account for between 15% and 25% of BMW's sales, subject to customer demand and regulatory requirements, and the company is preparing for this product shift. We remain confident that BMW's management team is taking the right steps to grow shareholder value.

During the quarter we initiated positions in **Publicis Groupe** and **Volvo**. We eliminated **Nomura Holdings** from the portfolio.

▶ For more information about **Oakmark International Natixis Funds,** please contact your financial advisor.

The Dow Jones Industrial Average®, also referred to as The Dow®, is a price-weighted measure of 30 U.S. blue-chip companies. The Dow® covers all industries with the exception of transportation and utilities, which are covered by the Dow Jones Transportation Average™ and Dow Jones Utility Average™.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. This index is unmanaged and investors cannot invest directly in this index.

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