FUND COMMENTARY

Oakmark International Natixis Funds

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MACRO EVENTS HAVE LESS OF AN IMPACT ON INTRINSIC VALUE THAN MOST REALIZE

The Market Environment

During the third quarter, major global markets were influenced by a mix of positive global economic progress, geopolitical tension and the landfall of multiple, devastating hurricanes. In the U.S., Hurricanes Harvey, Irma and Maria ravaged the southern half of the country, along with the U.S. territory of Puerto Rico. Goldman Sachs noted that Hurricane Harvey could create a full percentage point drag on third-quarter economic growth, as the U.S. dealt with an approximately 20% reduction in refining capacity. As a result of the fuel shortage, retail gasoline prices reached their highest point in about two years. In addition, the number of initial jobless claims climbed to reach nearly 300,000 to hit the highest level since the first half of 2015.

In Asia, the region was impacted by North Korea's execution of yet another ballistic missile test this year, which prompted Japan to issue a temporary shelter-in- place alert. In response to the escalating crisis, Japanese Prime Minister Shinzo Abe called a snap election in what is widely seen as an attempt to consolidate power with a vote in late October. In addition, the Bank of Japan opted to maintain its key interest rates in September.

Similarly, the Bank of England, the European Central Bank and the Federal Reserve also kept interest rates unchanged in September. That being said, the Bank of England indicated it was getting ready to raise interest rates within months in an effort to coerce inflation back down to 2%. Also, while the Federal Reserve kept interest rates unchanged in September, data showed that the Consumer Price Index improved 0.4% in August for the largest increase since January and to best analysts' expectations.

We find that macro events often have a smaller impact on the intrinsic value of a company than most realize. Although investors' reactions may temporarily pressure the share prices of companies perceived to be exposed to uncertainty and instability, we remain focused on the underlying fundamentals of a business. We stick to our discipline, even when our investment thesis is out of favor, as long as we continue to find compelling valuations over the long term.

The Portfolio

Top Performers: Glencore's first-half earnings results were largely in line with our expectations and showed a significant improvement with a 58% increase in EBITDA and 334% increase in EBIT year-over-year. Notably, the industrial business has shown dramatic improvement thanks to the combination of higher commodity prices and continued cost control measures. During the quarter, Glencore, in conjunction with Yancoal, announced the acquisition of the Hunter Valley Operations coal assets in Australia. The assets are a great complement to Glencore's existing assets in the region. This transaction will boost Glencore's production of high-quality thermal coal and more importantly, there should be significant operational synergies. As a result, we view this transaction as positive both strategically and financially and believe Glencore remains an attractive investment for our shareholders. Baidu delivered strong second-quarter earnings results, as earnings per share (CNY

16.00 vs. CNY 9.71), revenue (CNY 20.87 billion vs. CNY 20.69 billion) and adjusted earnings (CNY 6.01 billion vs. CNY 4.57 billion) bested consensus estimates. In addition, guidance for the company's third- quarter revenue was in excess of analysts' outlooks. We met with CEO Robin Li and President and COO Qi Lu during the reporting period, and we came away impressed with the company's new strategic direction to focus on strengthening the mobile division and leading in artificial intelligence commercialization. We are also enthusiastic about the positive impact made by Lu after having been with the company less than one year. We believe management has a solid plan for the future and that the investment will continue to provide value for our shareholders. Investors were pleased with the results from **Allianz's** preliminary second-quarter earnings report. Revenue (EUR 29.99 billion vs. EUR 28.40 billion) exceeded market outlook, while operating profit increased 23% year-over-year. Management also announced its expectations to achieve the higher end of its EUR 10.8 billion (+/- 500 million euros) operating profit target range. Upon release of the official first-half figures, details supported the preannounced numbers, as Allianz's capital generation and balance sheet remain strong in our view. In addition, the company announced a transaction with Liverpool Victoria to combine the two companies' U.K. property and casualty operations during the reporting period. We spoke with the management team regarding the deal and find that the deal provides significant scale in the U.K., while giving a strong brand to Allianz at an attractive price. Furthermore, the capital absorbed was offset by the sale of Allianz's Oldenburgische Landesbank (OLB). Our investment thesis for Allianz is intact, as we believe its capital position is solid and its management team is working to enhance shareholder value.

Bottom Performers: WPP's fiscal first half fell short of market forecasts. The shortfall was driven by lower than projected like-for-like sales across segments. Profit before tax and earnings per share were also less than investors expected. Some of the factors that negatively influenced WPP's performance were account losses during the Mediapalooza event, exposure to developed market multinationals that have reduced advertising spending and digital revenues that are growing slower than those at Internet giants in the U.S. and China. Although management is expecting business to gradually improve in the second half of the year, the company lowered its full- year net sales organic growth guidance to a range of zero to +1% from the prior 2% growth prediction. However, this adjustment did not surprise us, as our growth estimates were closer to management's revised outlook. While WPP may face some very near-term challenges, we believe this investment will build shareholder value in the long term. WPP offers its clients an integrated marketing team composed of members from different areas of specialty across the firm, which has proven successful in recent years, as revenues attributed to this methodology have grown. Furthermore, the company's founder and CEO Sir Martin Sorrell's net worth is driven by his share ownership in WPP. Subsequently, he has a vested interest in growing shareholder value. Along with Sorrell's ongoing focus on expanding operating margins, he has effectively anticipated changes, such as the move to digital advertising and the increasing importance of business in emerging markets, adding to our confidence in this investment. Our investment thesis for WPP is intact and we used recent share price weakness to increase our position. **Publicis Groupe** was negatively impacted as industry peer WPP, the largest advertising agency in the world, delivered first-half earnings results that fell short of consensus expectations. WPP also warned of decreased advertising spending moving forward, which pressured the share prices of media stocks across the board. That being said, Publicis Groupe's first-half earnings results released earlier in the reporting period were generally favorable, as earnings per share (EUR 1.89 vs. EUR 1.86), revenue (EUR 4.84 billion vs. EUR 4.82 billion) and operating profit (ER 638 million vs. EUR 629 million) bested analysts' estimates. Moreover, we find the company's new CEO Arthur Sadoun to be personable, smart and commercially- focused, with accomplishments in managing creatives, working with clients and leading transformations. We also find it impressive that Sadoun expanded the margins of Publicis Communications by 100 basis points in 2016 and accelerated growth while driving huge cultural and organizational changes. We think that while Publicis Groupe may face some short-term obstacles, its long-term outlook is promising. Fiscal first-quarter sales results from **Olympus** were somewhat softer than our estimates, although the first quarter is typically weak for the core medical business. Total sales advanced 2% and medical sales grew 3%. However, underlying medical trends were discouraging, as sales in its key market, North America, declined 1%, offset by strength in Asian emerging markets. Total operating profit dropped year-over-year, driven by a decline in the medical business, which management attributed to the influence of product mix and higher selling, general and administrative expenses. Even so, management stated that medical performance was in line with its initial forecasts and left full-year guidance unchanged. The imaging business posted another profitable quarter, mainly due to product mix and effective cost control. We continue to believe that Olympus offers a good amount of upside potential for shareholders.

During the quarter, we initiated positions in **Liberty Global** Cl A and Cl C. We eliminated **Prada** from the portfolio.

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

Contributors and detractors indicated in this commentary are based on the Canadian Dollar.

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