The second quarter seemed like the first quarter movie was played backwards. At the beginning of the year, stock prices increased modestly and then quickly plummeted in the fastest ever bear market, with the S&P 500 Index dropping by 34% in 23 trading days. The second quarter started with the fastest ever 50-day stock price recovery, during which the S&P 500 shot up 40% (including a few days at the end of March), which was followed by a modest decline. Though not intuitive, a 40% gain doesn't offset a 34% decline (0.66 x 1.40 = 0.92), so the S&P 500 now sits somewhat below its beginning of the year level. For anyone who rebalanced their portfolios after the first quarter decline by adding equity exposure, the sharp rally presented another opportunity to rebalance—this time to trim exposure after price increases. The speed of both the decline and the recovery shows why we suggest using large market moves rather than the calendar as the signal that it's time to rebalance your portfolios.

In addition, the first quarter began with all of us working in our offices and ended with everyone working from home. That, too, played out in reverse in the second quarter as businesses began returning to their offices in June. We now have about 50 of our 200 employees back in the office, including most of our investment team. Though I'm incredibly proud of how well our employees functioned in work-from-home mode, it is great being back in the office and collaborating with peers, despite it being mask-to-mask.

When companies reported their first-quarter results in April and May, we heard unprecedented use of the word "unprecedented." The Bloomberg article that included the quote at the top states that almost 75% of companies used the word "unprecedented" during their quarterly conference calls—and IBM topped the charts using it seven times! Calling the environment "unprecedented" gave management teams cover for not meeting their forecasts. As unusual as the past six months have been, I won't use that word because it unnecessarily heightens investor concerns. Economic conditions change, sometimes abruptly, and we need to respond by changing our valuation estimates to reflect the new expectations. This isn't the first time conditions have shifted rapidly and it won't be the last. When lockdown began in March, we quickly changed our near-term forecast to the severely adverse scenario that the Fed uses for its annual bank stress tests. Despite three months of new data to refine that forecast, it's still our best guess, and it makes the stocks we own appear undervalued.

The financial media has made a parlor game out of guessing what letter or other shape the economic decline and recovery will look like, so our shareholders ask us the same question. We are estimating values based on a scenario that looks kind of like a check mark: a quick, nearly vertical decline, followed by a less vertical, longer recovery that ends up at a higher level than from where the decline started. So, given that the recession began in March, the recovery should get underway in the second half of 2020 and by 2022, GDP should surpass 2019 levels. More important, our valuations are based on discounting cash flows for many years past 2022, years that we expect to average "normal," and these are much more meaningful to our estimate of intrinsic value than the exact moment the GDP fully recovers. Based on our forecast, we think the S&P 500 is roughly appropriately priced, yet we are having no problem identifying individual stocks that appear significantly undervalued.

Many strategists now claim that "value looks cheap compared to growth." Though I understand what they mean, and even agree with it, the phrase bothers me. To them, "value" is a euphemism for inferior businesses. But "value" and "growth" aren't opposites. When we say we are value investors, it doesn't mean that we limit our investments to below-average businesses. It simply means that we estimate what each business is worth based on its own unique fundamentals and buy only those that are priced well below that estimate. It's just logical that the value we ascribe to rapid growth businesses is more than we ascribe to slow growth—or declining—businesses. Using our definition of "value," rapidly growing companies, like Alphabet and Facebook, are "cheap" today, despite having trailing P/E ratios that are higher than the average stock. And slower growth companies, like banks such as Citigroup and Capital One with trailing P/E ratios that are a small fraction of the average stock, also look cheap. To us, “value stocks” are always cheap because, by our definition, they are the stocks priced at the largest discounts to our estimates of business value, regardless of their P/Es and growth rates. Notwithstanding our more inclusive definition of value, last quarter, on days the Russell 1000 Value Index outperformed the S&P 500, Oakmark and Oakmark Select performed better than both over 80% of the time. Based on that, we believe that we are well positioned to profit from a recovery of traditional value investing.

When strategists say that value is cheap, they are referring to stocks that are typically priced at a discount to the average stock (using a statistic like P/E or P/B ratio) and are saying that the current discount is larger than it normally is. That is clearly the case for financial stocks today and is why we have more of your assets invested in that industry than in any other. Over the past 30 years, banks have been priced at an average P/E that is about 33% below the S&P 500. For that reason, they are almost always referred to as “value stocks.” Because this year won’t be a representative year, P/E ratios based on 2020 earnings provide little information about how a stock is being priced. Using consensus 2021 estimates instead, the banks we own are selling at an average of 9 times earnings while the S&P 500 sells at 19 times. Selling at a P/E discount of 53% to the S&P 500, our banks would have to increase in price by 40% to be priced at their average discount.

Further, we believe that big banks today are much better businesses than they were previously due to economies of scale in spending for online banking, fraud protection, regulatory compliance and technology. This creates an important cost advantage relative to smaller competitors. In addition, they have more equity relative to their assets, which significantly reduces their risk. Some investors are concerned that with short-term interest rates near zero, banks will struggle with profitability. We believe that banks could charge fees to offset this lost interest income. But that hasn’t been necessary because spreads on mortgages, auto loans and credit cards have expanded as interest rates on U.S. government bonds have fallen. We could argue that the historic P/E discount for banks is no longer appropriate given improved business quality, but that argument isn’t even necessary today because bank stocks look so inexpensive compared to their own history.

Last quarter I closed by saying that when I write next quarter’s report, if we are going to baseball games, eating indoors and re-booking travel plans, the stock market will likely be higher. We aren’t quite there yet, but baseball is developing rules that would allow fans to safely attend games, restaurants are open at reduced capacity and domestic travel has resumed. Three months ago, when less was known about the coronavirus, there was a fear that walking past someone who didn’t know they were sick, or touching the same doorknob as they did, was risking one’s life. Today, much more is understood about both how the disease is transmitted and its severity. It now appears much less dire than was feared back in March, which explains why the stock market has reacted by reversing most of its losses.

Though we believe the market is now reasonably priced, we expect both the economy and value investing to recover and believe that our portfolios are considerably undervalued and well positioned for both recoveries.

Thank you for your interest and for your investment in our funds.

Fund	3 Month	1 Year	3 Year	5 Year	10 Year	Since Inception
OAKMX	23.01%	-6.67%	2.06%	5.55%	11.33%	11.65%
S&P 500 Total Return Index	20.54%	7.51%	10.73%	10.73%	13.99%	9.71%
Russell 1000 Value Index	14.29%	-8.84%	1.82%	4.64%	10.41%	9.24%

Gross Expense Ratio (as of 09/30/2019): 0.92%
Net Expense Ratio (as of 09/30/2019): 0.88%
Fund Inception: 08/05/1991

Fund	3 Month	1 Year	3 Year	5 Year	10 Year	Since Inception
OAKLX	23.26%	-10.48%	-4.18%	0.74%	8.98%	10.44%
S&P 500 Total Return Index	20.54%	7.51%	10.73%	10.73%	13.99%	8.50%
Russell 1000 Value Index	14.29%	-8.84%	1.82%	4.64%	10.41%	7.71%

Gross Expense Ratio (as of 09/30/2019): 1.07%
Net Expense Ratio (as of 09/30/2019): 1.00%
Fund Inception: 11/01/1996

The net expense ratios reflect a contractual advisory fee waiver agreement through January 27, 2021.

Past performance is no guarantee of future results. The performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted. The investment return and principal value vary so that an investor's shares when redeemed may be worth more or less than the original cost. To obtain most recent month-end performance data, visit oakmark.com.

The securities mentioned above comprise the following preliminary percentages of the Oakmark Fund's total net assets as of 06/30/20: Alphabet Cl A 3.9%, Capital One Financial 2.8%, Citigroup 3.2%, Facebook Cl A 3.5% and IBM 0%.

View the full list of Oakmark Fund holdings as of the most recent quarter-end.

The securities mentioned above comprise the following preliminary percentages of the Oakmark Select Fund's total net assets as of 06/30/20: Alphabet Cl A 10.4%, Capital One Financial 3.6%, Citigroup 5.9%, Facebook Cl A 5.5% and IBM 0%.

View the full list of Oakmark Select Fund holdings as of the most recent quarter-end.

Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.

The S&P 500 Total Return Index is a float-adjusted, capitalization-weighted index of 500 U.S. large-capitalization stocks representing all major industries. It is a widely recognized index of broad, U.S. equity market performance. Returns reflect the reinvestment of dividends. This index is unmanaged and investors cannot invest directly in this index.

The Russell 1000® Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values. This index is unmanaged and investors cannot invest directly in this index.

The price to earnings ratio ("P/E") compares a company's current share price to its per-share earnings. It may also be known as the "price multiple" or "earnings multiple", and gives a general indication of how expensive or cheap a stock is. Investors should not base investment decisions on any single attribute or characteristic data point.

The Price to Book Ratio is a stock's capitalization divided by its book value.

The Oakmark Funds' portfolios tend to be invested in a relatively small number of stocks. As a result, the appreciation or depreciation of any one security held by the Fund will have a greater impact on the Fund's net asset value than it would if the Fund invested in a larger number of securities. Although that strategy has the potential to generate attractive returns over time, it also increases the Fund's volatility.

Because the Oakmark Select Fund is non-diversified, the performance of each holding will have a greater impact on the Fund's total return, and may make the Fund's returns more volatile than a more diversified fund. Oakmark Select Fund: The stocks of medium-sized companies tend to be more volatile than those of large companies and have underperformed the stocks of small and large companies during some periods.

The information, data, analyses, and opinions presented herein (including current investment themes, the portfolio managers' research and investment process, and portfolio characteristics) are for informational purposes only and represent the investments and views of the portfolio managers and Harris Associates L.P. as of the date written and are subject to change and may change based on market and other conditions and without notice. This content is not a recommendation of or an offer to buy or sell a security and is not warranted to be correct, complete or accurate.

Certain comments herein are based on current expectations and are considered "forward-looking statements". These forward looking statements reflect assumptions and analyses made by the portfolio managers and Harris Associates L.P. based on their experience and perception of historical trends, current conditions, expected future developments, and other factors they believe are relevant. Actual future results are subject to a number of investment and other risks and may prove to be different from expectations. Readers are cautioned not to place undue reliance on the forward-looking statements.

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The S&P 500 Index staged a comeback during the second quarter after falling by 20 percentage points during the first three months of the year. The rebound was driven by increased optimism regarding the pace and shape of the economic recovery as shelter-in-place restrictions eased throughout many parts of the country and most businesses were allowed to reopen in some capacity. The Oakmark Fund performed well during this period on both an absolute and relative basis. For the quarter, the Fund appreciated by 23%, outperforming the S&P 500's return of 21%. We remained active during the second quarter as we carefully assessed the potential impacts from the coronavirus—positive and negative, cyclical and structural—on our portfolio holdings. The heightened market volatility has afforded us the opportunity to upgrade the portfolio by rebalancing existing positions and adding new ideas that offer compelling risk-adjusted return potential.

Apache and Facebook were the top contributors for the quarter. The former benefitted from a rebound in oil prices, while the latter reported resilient advertising trends and strong engagement. The biggest detractors for the quarter were General Electric and Wells Fargo. Concerns about future parts and services revenue, tied to General Electric's installed base of aircraft engines, weighed on its share price during the period. Wells Fargo's continued regulatory issues and temporarily inflated cost base have disproportionately hurt its near-term earnings expectations amid a challenging macro environment. We believe both companies remain attractive investment opportunities and are priced at unsustainably low multiples of their normal earnings. Our strongest contributing sectors were financials and communication services and our lowest contributing sectors were consumer staples and health care. To illustrate the amount of volatility and opportunity we're seeing in the market, three of the positions we added to the Fund during the first quarter (Pinterest, Match Group and Workday) appreciated by at least 44% during the period, more than twice the S&P 500's return.

During the second quarter, we eliminated positions in Apple, Delphi, FedEx, Fiat, Intel and Texas Instruments and we added new positions in General Dynamics, Reinsurance Group of America and T-Mobile. Apple, Intel and Texas Instruments all approached our estimate of intrinsic value, so we sold them in favor of more attractive alternatives. Each of these securities handily outperformed the S&P 500 over their decade-plus presence in the Oakmark Fund. Apple increased a remarkable 30x since our first purchase in January of '09! We sold Delphi and Fiat because both companies are currently engaged in proposed mergers at disappointing prices. After selling nearly half of our FedEx position during the first quarter, we completed the sale during the current period. The stock performed well on a relative basis and was no longer attractive relative to our opportunity set.

We appreciate your continued support and confidence in the Oakmark Fund. Below is a brief description of our new additions during the quarter:

General Dynamics (GD)

General Dynamics is one of the leading U.S. defense contractors and controls the world's premier business jet franchise (Gulfstream). Short-term fears that the coronavirus will hurt demand for business jets drove down the share price, so we were able to purchase this high-quality business at a large discount to both its historical and peer valuation levels. Taking a longer term view, we believe the company is poised to benefit from new product introductions within its business jet division, an improvement in free cash flow conversion and a highly visible, decade-long increase in deliveries of next generation nuclear-powered submarines. As these positives come into clearer view, we believe the discount to intrinsic value will close.

Reinsurance Group of America (RGA)

RGA primarily reinsures life insurance contracts. As the coronavirus spreads throughout the world, the company's share price collapsed to levels that, in our view, reflected a worst-case scenario. Our discussions with management, as well as our own scenario analysis, further buttressed our assessment, and we established a position at a price well below the company's tangible book value. RGA also maintains a conservative balance sheet, and we expect it will earn double-digit returns on tangible equity on average over time. We were excited to purchase this stock as it is trading for just a mid-single digit multiple of our estimate of normalized earnings per share.

T-Mobile U.S. (TMUS)

We initiated a position in T-Mobile after the company announced that regulators would approve its merger with Sprint. AT&T and Verizon have long dominated the market for wireless services due to their incumbent network quality advantage. The recently closed merger of T-Mobile and Sprint creates the first opportunity for a challenger to build the fastest, most reliable and highest capacity wireless network in the United States. We believe the impact of this combination will be non-linear from not only a network perspective but also a financial one. Our long-term investing horizon enables us to look several years ahead to assess the benefits of scale, synergy and low-incremental cost growth, which should generate more subscribers, faster revenue growth and higher margins. We like that the company will be led by veteran T-Mobile managers who have successfully integrated previous acquisitions and have gained impressive market share, despite a previously inferior network. A secondary offering by a large, non-economic seller gave us the opportunity to purchase our stake at a below market price.

The securities mentioned above comprise the following preliminary percentages of the Oakmark Fund's total net assets as of 06/30/20: Apache 1.6%, Apple 0%, AT&T 0%, Delphi 0%, Facebook Cl A 3.5%, FedEx 0%, Fiat 0%, General Dynamics 1.0%, General Electric 1.5%, Intel 0%, Match Group Cl A 1.4%, Pinterest Cl A 1.1%, Reinsurance Group 1.4%, Sprint 0%, Texas Instruments 0%, T-Mobile US 0.9%, Verizon 0%, Wells Fargo 1.5% and Workday Cl A 1.4%. **Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.**

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