GURUFOLIO

OAKMARK FUND

BILL NYGREN PORTFOLIO

Portfolio Date: 2018-09-30
Updated on 2018-11-30

Portfolio Overview

Portfolio:	Oakmark Fund
Fund Type:	Mutual Fund
Portfolio Date:	2018-09-30
Number of Stocks:	58
Equity Value:	$20.56 Billion
Number of New Buys:	2
Q/Q Turnover:	3%

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I. Portfolio Overview, Profile

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Profile

Bill Nygren is Portfolio Manager of The Oakmark Fund, The Oakmark Select Fund, and the Oakmark Global Select Fund. Bill has an M.S. in Finance from the University of Wisconsin-Madison, and a B.S. in Accounting from the University of Minnesota.

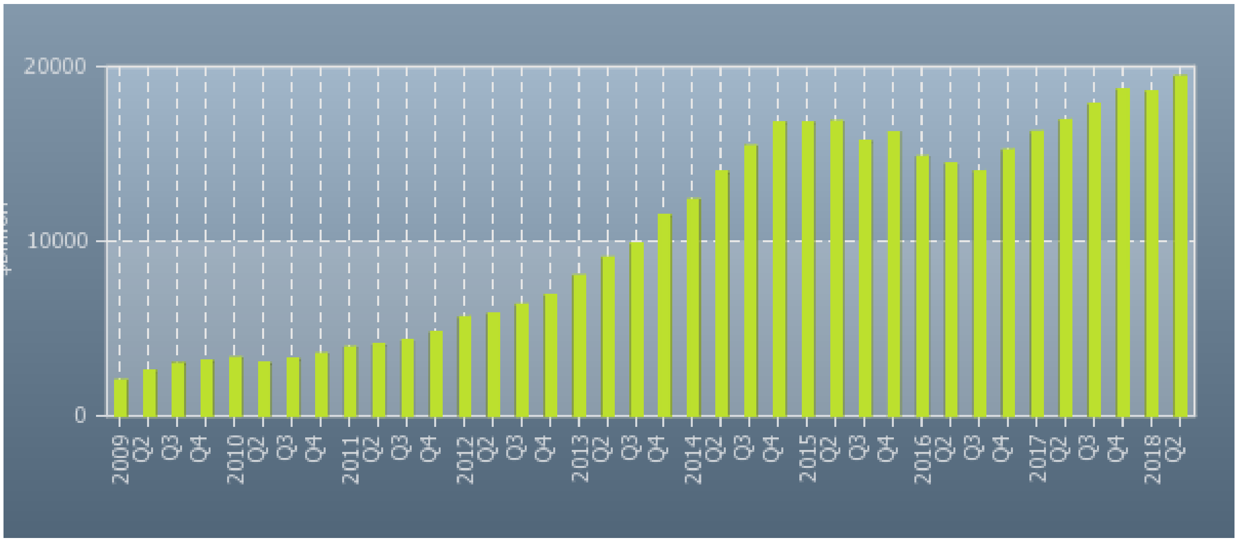
Investing Philosophy

Bill Nygren and his partners are value investors, and they invest in companies that they believe trade at a substantial discount to what they consider to be the true business value. They believe that, over time, the price of a stock will rise to reflect the value of the underlying company. In evaluating potential investments, they focus on the following characteristics: A company's stock price and whether it is a significant discount to their estimate of underlying business value, free cash flows and intelligent investment of excess cash, and a high level of manager ownership. They look at each purchase as if they are buying a piece of a business, and not just a stock certificate.

II. Performance of Oakmark Fund

Year	Return (%)	S&P 500 (%)	Excess Gain (%)
2017	21.14	21.71	-0.6
2016	18.35	11.99	6.4
2015	-3.95	1.24	-5.2
2014	11.51	13.47	-2.0
2013	37.29	32.3	5.0
5-Year Cumulative (Average)	**110.8 (16.1%/year)**	**107.2 (15.7%/year)**	**3.6 (0.4%/year)**
2012	20.97	15.99	5.0
2011	1.82	1.9	-0.1
2010	12.18	15.05	-2.9
2009	44.77	26.35	18.4
2008	-32.61	-36.79	4.2
10-Year Cumulative (Average)	**184.2 (11%/year)**	**125 (8.4%/year)**	**59.2 (2.6%/year)**
2007	-3.64	5.14	-8.8
2006	18.26	15.85	2.4
2005	-1.31	4.83	-6.1
2004	11.73	10.7	1.0
2003	25.3	28.19	-2.9
15-Year Cumulative (Average)	**347.4 (10.5%/year)**	**307.7 (9.8%/year)**	**39.7 (0.7%/year)**
2002	-14.41	-21.58	7.2
2001	18.29	-11.76	30.1
2000	11.78	-9.75	21.5
1999	-10.47	20.4	-30.9
1998	3.73	28.7	-25.0
20-Year Cumulative (Average)	**370.3 (8%/year)**	**294.5 (7.1%/year)**	**75.8 (0.9%/year)**
1997	32.59	33.47	-0.9
1996	16.21	22.49	-6.3
1995	34.42	38.04	-3.6
1994	3.31	0.4	2.9
1993	30.5	10.08	20.4
25-Year Cumulative (Average)	**1213.1 (10.8%/year)**	**883.9 (9.6%/year)**	**329.2 (1.2%/year)**
1992	48.9	7.62	41.3

III. Historical Total Value ($Billion) of Filings



V. Equity, Cash, Bond Asset Allocations

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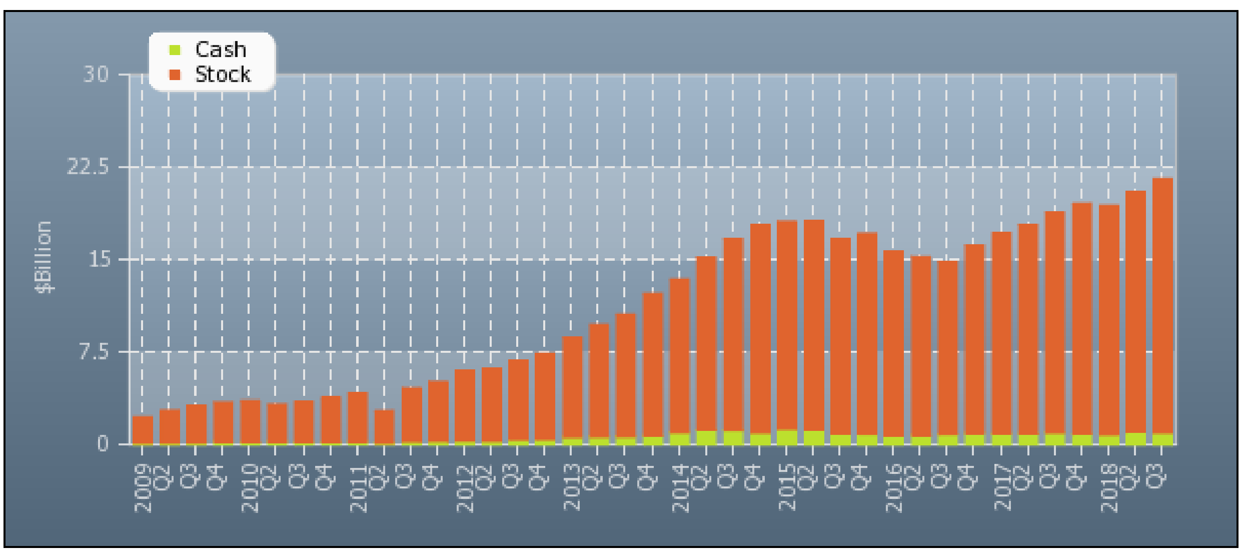
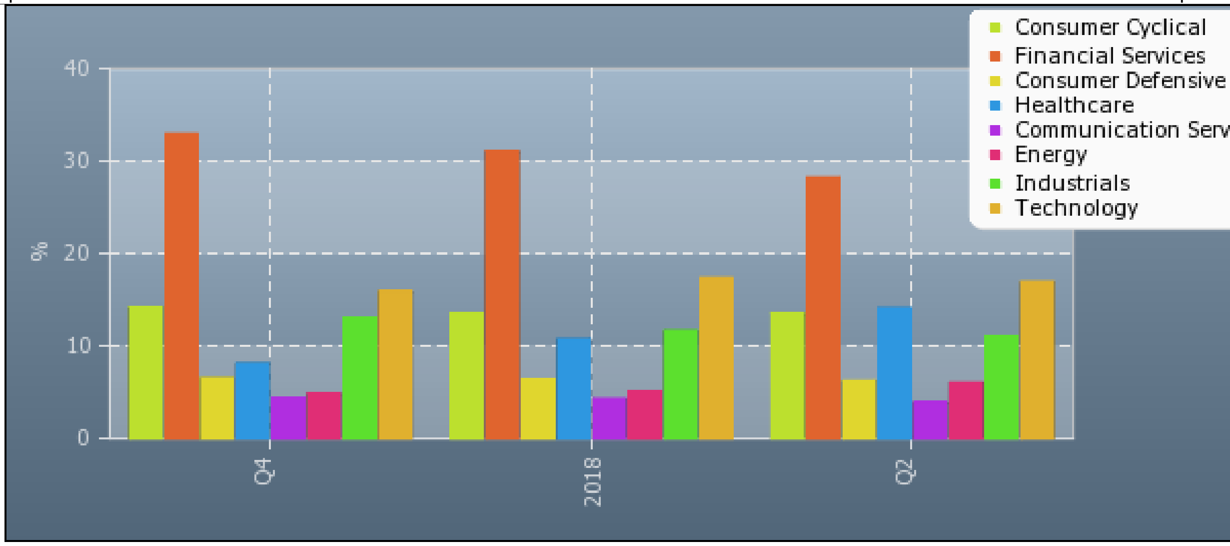


VII. Industry/Sector Shift in Past 12 Months



VIII. Comments by Bill Nygren on Stocks in the Portfolio

Bill Nygren Comments on Schwab

Schwab (SCHW) is the largest discount brokerage firm in the United States with more than $3 trillion in client assets and 11 million active brokerage accounts. This size provides Schwab with meaningful scale advantages over its smaller competitors. As the largest discount brokerage firm, the company is able to offer lower prices and invest more in superior customer service and technology than its peers. Schwab management calls this its â€œno trade-offsâ€ policyâ€"i.e., investing to provide the best product at the lowest price, and these investments attract even more clients to Schwabâ€™s platform. As a result, Schwab has been able to grow its client assets at a double-digit rate in recent years, and given that the company still has less than 15% market share, we believe such growth should continue for the foreseeable future. The company also meaningfully benefits from rising interest rates, as the higher rates allow Schwab to reinvest its bank deposits at higher yields. We believe the combination of client asset growth and rising interest rates should drive substantial asset growth at Schwab in the coming years, and on our estimates, the company is currently valued at a discount to the overall S&P 500 P/E multiple. We believe this represents a bargain price for a well above average business.

From Bill Nygren (Trades, Portfolio)'s Oakmark Fund third quarter 2018 shareholder letter.

Bill Nygren Comments on DXC

DXC (DXC) is a leading IT services company that was formed through the recent combination of Computer Sciences Corporation and Hewlett Packard Enterprise Services. The company has established a global footprint and a broad suite of technology offerings, which places it in a limited group of vendors that are able to serve the IT needs of large multinational corporations. We believe CEO Mike Lawrie is among the best turnaround managers at work today. He has a history of taking leadership of underperforming IT companies, then removing costs, divesting assets and re-directing investments into high-return opportunitiesâ€"a formula that has driven tremendous gains in shareholder value over time. We expect Lawrie will continue to execute on this proven blueprint as he integrates the HP acquisition and we believe that he is uniquely suited to uncover substantial hidden profits in this $19B business. DXC currently trades at just 10x 2019 consensus earnings, a significant discount to the S&P 500 multiple of 17x, despite DXC profits being forecasted to grow at a rate faster than the market for the foreseeable future.

From Bill Nygren (Trades, Portfolio)'s Oakmark Fund third quarter 2018 shareholder letter.

Bill Nygren Comments on Gartner

If you were paging through Value Line in February looking for cheap stocks, it would have been easy to skip right past Gartner (NYSE:IT). Value Line says, â€œGartner Inc. is the worldâ€™s leading information technology research and advisory companyâ€¦â€ You would have quickly seen that it is a database-driven, asset-light business that would be expected to command a higher than market P/E ratio. Despite the stock falling from $142 to $119, its P/E was still 31 times expected 2018 earnings and its book value was only $2 per share. Gartner didnâ€™t look like a value stock and, in fact, it was even included in the Russell 1000 Growth Index. But last quarter we bought it for the Oakmark Fund. So, itâ€™s fair to ask: has Oakmark changed, or does Gartner somehow meet our value criteria?

A closer look reveals that Gartner stock fell when management opted to substantially increase selling and marketing expenses to pursue accelerated organic growth, which in turn decreased the companyâ€™s reported earnings. The way GAAP (generally accepted accounting principles) works, because the future benefit of a marketing expense is uncertain, the cost is immediately expensed. But at a company like Gartner, these marketing expenses could easily be seen as long-term investments in company growth. Thatâ€™s because a Gartner customer tends to remain with the company for a long timeâ€”a little more than six years, on average. So we adjusted the sales and marketing expenses to reflect a six-year life, just like GAAP would treat the purchase of a machine that was expected to last six years. With that one adjustment, Gartnerâ€™s expected EPS increased by almost $3. Using our adjusted earnings, which we believe reflect a more realistic view of those intangible assets, Gartner appears to be priced as just an ordinary company. And, as we have said many times, buying an extraordinary company at an ordinary price is value investing at its finest.

From Bill Nygren (Trades, Portfolio)'s market commentary second quarter 2018.

Bill Nygren Comments on Hilton Worldwide

Hilton Worldwide (NYSE:HLT) is a high-quality, well-managed company that was the target of a successful leveraged buyout by Blackstone in 2007. We believe the companyâ€™s transformation into an asset-light, fee-driven business with a more resilient earnings profile is underappreciated. After spinning off most of the companyâ€™s owned hotels and timeshare businesses early last year, Hilton now generates over 90% of its profits from fees (requiring minimal capital investment) and produces substantial free cash flow (greater than 100% of net income). The company should generate high single-digit operating income growth for several years. We became interested in Hilton after we determined that its competitive moat is widening. The companyâ€™s unit growth leads the industry and its global pipeline share is almost 22%â€”over four times larger than its current share of existing rooms (approximately 5%). We initiated our position at a particularly attractive price due to the temporary pressure created by HNAâ€™s sale of its 26% stake in the company for non-fundamental reasons.

From Bill Nygren (Trades, Portfolio)'s Oakmark Fund second-quarter shareholder letter.

Bill Nygren Comments on Gartner

Gartner (NYSE:IT) is the worldâ€™s leading provider of information technology research and advice for information technology executives. The companyâ€™s research reports and benchmarking data are used by information technology executives across industries to make mission-critical decisions with potential multi-million dollar ramifications, and the subscription price represents just a fraction of the typical information technology budget. In other words, Gartner is the Consumer Reports of the information technology industry. However, while the Gartner brand has been among the most recognizable in information technology research for more than 35 years, most sizeable enterprises are still not Gartner subscribers. The company is investing heavily in sales and marketing to grow its customer base and based on the excellent long-term track record of Gartner management, we believe these investments are likely to drive years of double-digit growth. While the company trades at a high multiple of GAAP earnings, that multiple falls significantly after adjusting sales and marketing expenses to account for the multi-year life of new customers. (See Bill Nygren (Trades, Portfolio)â€™s market commentary). On our adjusted earnings estimates, Gartnerâ€™s price-to-earnings ratio is in line with the S&P 500. We believe this is a bargain price for a high-return, high-growth business with an excellent management team.

From Bill Nygren (Trades, Portfolio)'s Oakmark Fund second-quarter shareholder letter.

Bill Nygren Comments on Bristol-Myers Squibb

Bristol-Myers Squibb (NYSE:BMY) is a global biopharmaceutical company with leading franchises in oncology, immunoscience and cardiovascular drugs. Long-time shareholders may recall a successful Bristol-Myers Squibb investment that we sold in 2013. We got another opportunity to own this company during the past quarter when investors became fearful that a competing drug would take share in the cancer market. We believe these fears are overstated because cancer remains a dangerous disease that is difficult to treat. The companyâ€™s two most valuable drugs Opdivo and Yervoy should continue to grow revenue as they maintain effectiveness with new tumor types. Bristol Myers Squibb also has the most new molecular agents and the highest number of combinations of agents in trials. Moreover, the companyâ€™s R&D and marketing prowess also make it a desired partner for promising academic and small biotech innovators. Collectively, these assets should assure Bristol-Myers Squibbâ€™s oncology leadership for many years. We believe intrinsic value is closer to the $70 level it traded for earlier this year than its more recent price in the low $50s.

From Bill Nygren (Trades, Portfolio)'s Oakmark Fund second-quarter shareholder letter.

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