

A fund manager who has beaten 99% of his peers over the last decade breaks down how he finds value investments where others don't, and the 2 sectors he's looking for opportunities in this year

Mark Reeth

- **Bill Nygren's Oakmark Funds has outperformed most competitors consistently in the last 15 years.**
- **He was early to the idea investors can find value beyond the balance sheet and P/E ratio.**
- **He sees value in energy and financials stocks in 2024.**

Beating the competition in any given year is a sign of a successful investor. Consistently beating the competition for over a decade and a half is a sign Bill Nygren is worth listening to.

The manager of Oakmark Funds outperformed 97% of his peers in the last year — the latest in a string of outperformance that has seen him beat 99% of the competition in the last decade and 98% of the competition over the past 15 years.

Nygren, who's managed Oakmark Funds since 2000, doesn't use a Magic 8 Ball or an AI-powered algorithm to beat the rest of the market year in and year out. Instead, he uses good old-fashioned value-investing techniques that have proven reliable for decades, even as they've evolved.

Finding value in the long run

In a recent interview with Business Insider, Nygren explained that he and his team were some of the first to realize that a changing world meant companies' growth-prospects evaluations also needed to change.

"I think we were one of the value investors that was early to adopt a business value focus on defining what made



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Bill Nygren

a stock cheap as opposed to a pure reliance on GAAP metrics such as P/E and price-to-book value," Nygren said. "When I started in this business a little over 40 years ago, value investing was pretty much just buying the lowest decile of P/E or price-to-book names, and then just waiting for reversion to the mean."

Nygren said that, in the past, that method worked well — in a world where physical goods were built in brick-and-mortar facilities, long-term stock returns were closely correlated with the value of underlying assets, and a

company's value was neatly reflected in its balance sheet.

In other words, when a company builds an auto-manufacturing plant to produce cars, investors can clearly understand the value of the plant, the cars, the labor, and all the other costs that go into producing those goods, and thereby evaluate how much that company's shares should be worth.

But much of the economy has shifted to a different type of business over the years — one that's based on the internet, where there are no physical components whose value investors can easily translate.

"Today, growth is much more about brand value, customer acquisition, global infrastructure, and most of those expenses, brand advertising, R&D, new-product expenses, you can't touch or feel them, they might be worth zero," Nygren said. "So the conservative accountants say all of it goes through the income statement. And the result of that has been that when we first started Oakmark Funds, every once in a while, there'd be a company that we said GAAP doesn't do this company justice because all these expenses are really long-term investments, and if you make adjustments for that, then you can demonstrate how cheap the stock is."

That long-term focus has allowed Nygren to look at a company such as Alphabet, which most investors would consider expensive at today's valuations, and see value where others don't. The tech giant makes an extraordinary number of investments in advanced technology and products that would be a massive asset on the balance sheets of ordinary third-party venture-capital firms, Nygren said, but most investors don't consider that when they look at Alphabet.

"We go to the trouble of adjusting the income statements and balance sheets for those kinds of changes," Nygren said. "And with a company like Alphabet, when you make that kind of change, it goes from looking like it's selling at a significant premium to the S&P 500 to selling at a discount and lots of value."

"It's clearly not a value stock, but when you make those adjustments it sells at less than a market multiple. Then you say, to not own Alphabet is almost saying that you think it's a below-average business. And that type of framing has given us a lot of clarity on names that are not typical for the value investor space," Nygren said.

2 sectors to invest in right now

The average investor would be forgiven for looking around the market right now and struggling to find value. Growth has been the name of the game for months, and with Big Tech earnings sending the largest stocks on the market even higher, it's understandable that good value can be hard to find these days.

But adopting Nygren's mindset of looking deeper for value can reveal some intriguing opportunities. With high market valuations, everything that hasn't shot into the stratosphere in the last few months suddenly looks like a value investment.

"We think it's really unusual how diversified a portfolio you can put together today of companies that are at half the market multiple or less," Nygren said.

One area he's paying close attention to is the financials sector. Nygren said many investors have panned the entire financial industry since the Great Recession due to the opaque nature of their businesses, and last year's small-bank crisis certainly didn't help. But that's precisely why the financial sector looks so appealing right now, and why it comprises over 42% of Oakmark Funds' holdings.

"And I think value investors have been a natural home for a lot of the financial industry because the industry's typically traded at something like three-quarters of the S&P multiple," Nygren said. "Nobody's arguing that most of these companies are great businesses, but they're saying they're a little bit below average and they're usually priced even further below."

Nygren pointed out that many of the banking and insurance companies that took the biggest hits after 2008 have also come the longest way, with more capital in their pockets and a willingness to grow slower by taking on higher-quality loans rather than chasing profits at the expense of safety.

But Nygren wants to clarify that Oakmark Funds isn't only focused on banks. The financials sector is much more than that, Nygren said, and includes companies in the insurance industry, brokerage firms, and exchanges. That's why companies such as Capital One Financial, Intercontinental Exchange, and American International Group are among his fund's top 10 largest holdings.

Beyond finances, Nygren also sees a lot of value in energy sector in 2024.

"I would say that for the entire energy space, similar to financials, you've got an industry that has not performed well in the stock market for quite a while," Nygren said. "It had a good year in '22, but reversed a lot of that last year. The industry has been investing significantly at significantly lower levels than it has in prior decades. So if you look at infrastructure spending, exploration spending over the past decade for the entire ENP space, it's significantly below where it used to be. We think that sets up well for supply-demand balance in the industry."

Nygren said that as environmental, social, and governance investing came to the fore over the last few years, investor interest in the energy sector has waned. But as it's become more apparent that green energy isn't going to supplant fossil fuels immediately, investors are coming back — and finding high-quality companies trading at low price-to-earnings multiples.

"So we think the space has become very shareholder friendly and the price is very attractive," Nygren said. "I'd throw out one name, Conoco Phillips, where the management has put out a 10-year forecast, and at current prices of oil, they expect over the next decade to return about 150% of the current market cap of the company to shareholders and additionally be able to grow their production by about a third."

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Average Annual Total Returns (as of 12/31/23)					
	1 Year	3 Year	5 Year	10 Year	Inception (08/05/1991)
Oakmark Fund (OAKMX)	30.89%	15.02%	16.89%	11.33%	12.72%
S&P 500 Total Return Index	26.29%	10.00%	15.69%	12.03%	10.25%

Expense Ratio: 0.91%

Expense ratios are from the Fund's most recent prospectus dated January 28, 2024; actual expenses may vary.

Average Annual Total Returns (as of 12/31/23)					
	1 Year	3 Year	5 Year	10 Year	Inception (11/01/1995)
Oakmark Select Fund (OAKLX)	43.00%	13.99%	15.94%	8.86%	11.80%
S&P 500 Total Return Index	26.29%	10.00%	15.69%	12.03%	9.30%

Expense Ratio: 1.00%

Expense ratios are from the Fund's most recent prospectus dated January 28, 2024; actual expenses may vary.

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. Total return includes change in share prices and, in each case, includes reinvestment of dividends and capital gain distributions. 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.

As of January 31, 2024, the holdings mentioned above comprise the following percentages of the Fund's total net assets:

Security	OAKMX	OAKLX
Alphabet Cl A	3.2%	6.6%
American Intl Group	2.4%	0.0%
Capital One Financial	2.8%	6.7%
ConocoPhillips	2.4%	2.9%
Intercontinental Exchange	2.7%	5.0%

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

[Access the full list of holdings for the Oakmark Fund here.](#)

[Access the full list of holdings for the Oakmark Select Fund here.](#)

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GAAP stands for generally accepted accounting principles.

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.

Great Recession refers to the global financial crisis of 2008.

ENP refers to Exploration and Production.

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 Oakmark Fund's portfolio tends 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.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during given periods.

Before investing in any Oakmark Fund, you should carefully consider the Fund's investment objectives, risks, management fees and other expenses. This and other important information is contained in a Fund's prospectus and summary prospectus. Please read the prospectus and summary prospectus carefully before investing. For more information, please call 1-800-OAKMARK (625-6275).

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