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PREMIUM MARKETS

These 5 stocks are perfect examples of a time-tested strategy that has outperformed in a variety of markets according to a stock-picker whose ETF beat many of its peers in its first full year.

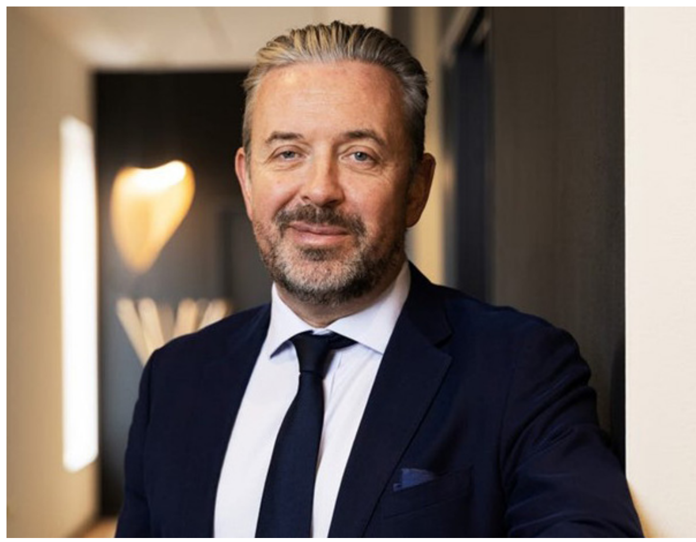
James Faris

- **A longtime investor behind a leading international ETF shared his time-tested strategy.**
- **Keeping a constrained portfolio allows for a “competition for capital” between companies.**
- **Here are five stocks with heavy international exposure that may be worth buying now.**

Investors interested in adding exposure to international equities should consider taking notes from Peter O’Reilly, who’s been managing money for the last three decades.

Searching for stocks outside the US comes naturally to O’Reilly, an Ireland native who bounced between Dublin and London early in his career before joining C WorldWide Asset Management. The Copenhagen-based firm subadvises funds like the Harbor International Compounders ETF (OSEA), which O’Reilly has co-managed since its launch in early September 2022.

The international-focused ETF got off to a remarkable start in its first full year, finishing in the top 10% of its category in 2023, according to Morningstar. But despite launching less than two years ago, O’Reilly said in a recent interview that the ETF’s success didn’t happen overnight.



C WORLDWIDE ASSET MANAGEMENT

Market veteran Peter O’Reilly shared tips for finding quality international stocks.

How ‘competition for capital’ brings better returns

While the Harbor International Compounders ETF doesn’t have a long track record, O’Reilly explained that the strategy it uses has been around since 1986, when C WorldWide’s predecessor, Carnegie Asset Management, first started.

The investing process that O’Reilly and his co-managers follow is time-tested and “evergreen,” he said, meaning that it has delivered solid returns regardless of the economic backdrop.

"We feel the strategy we have can work in a variety of market environments," O'Reilly said. "And that's proven through three decades."

As its name suggests, O'Reilly's ETF is mostly made up of companies based outside the US that he believes can consistently compound corporate earnings over at least a five-year span.

"We have a philosophy that earnings drive share prices over the long term," O'Reilly said.

Like many other portfolio managers, O'Reilly and his colleagues use a bottom-up process centered on finding high-quality companies with sound business models run by proven management teams. They also consider a firm's industry and tailwinds or headwinds it has.

"If we can tick all those boxes, then we say, 'How much do you have to pay for this?'" O'Reilly said. "What we don't do is, we don't start off and say, 'Here's a company trading at "X" — let's build an investment case around that valuation.'"

Valuations matter greatly to O'Reilly, though he said metrics like a price-to-earnings (P/E) ratio aren't overly helpful since they simply show whether a stock is overvalued or unpopular.

What distinguishes O'Reilly's ETF from its competitors is its narrow concentration, as it only has 25 to 30 holdings at a time. The portfolio manager acknowledged that adding more than 30 stocks would boost diversification, but it would come at the expense of conviction.

Having just over two dozen companies at a time boosts returns by creating what O'Reilly called "competition for capital." To explain this concept, the longtime investor borrowed an analogy from soccer, or what he refers to as football.

"You've got 11 players on the pitch, and you have five players on the bench," O'Reilly said of the world's most popular sport. "And it doesn't matter how much you love the players on the bench — if you want to put one on, you take one off. And that creates a competition."

O'Reilly continued: "And that's the same in equity investing. And what that avoids then, it avoids you falling in love with companies. It avoids, when companies underperform, ignoring them. It avoids getting into a situation whereby a company starts off as a trade, then becomes a long-term investment as it goes wrong, and then becomes an investment committee meeting."

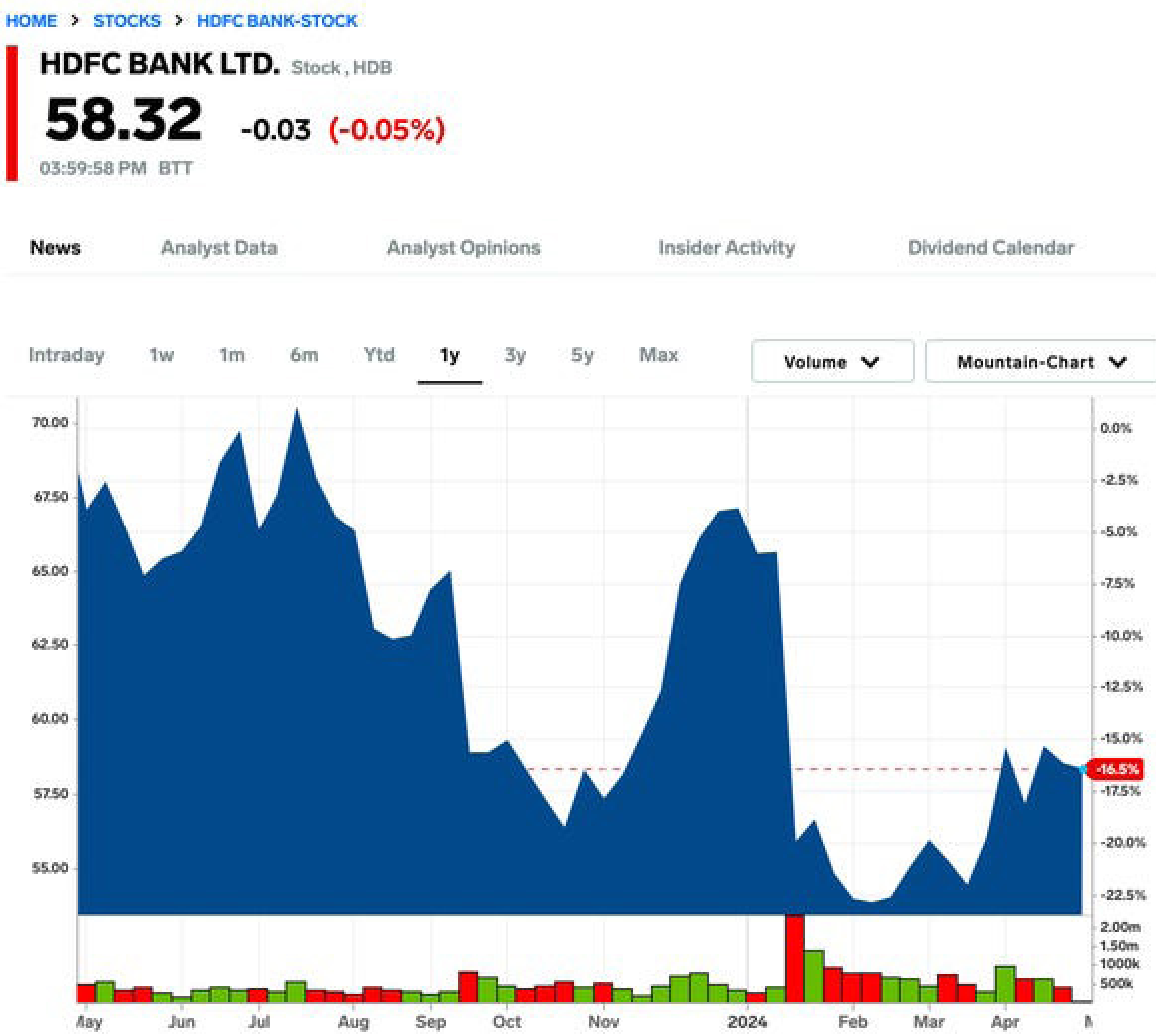
Just as O'Reilly has a concentrated number of holdings, he's also not afraid to pick favorite sectors. Over 28% of his stocks are in the industrials sector — which is more than double the benchmark weight — and he also disproportionately favors technology and healthcare.

The ETF is more balanced when it comes to countries, as no more than 13% of its stocks are from a single nation. Still, four countries — France, Japan, the United Kingdom, and Germany — make up at least 10% of the investment product's positions.

5 international stocks you may want to buy now

After outlining his investing strategy, O'Reilly spoke about five companies he's especially excited about now. Below is each name, along with its ticker, market capitalization, and thesis.

1. HDFC Bank



Markets Insider

Ticker: HDB

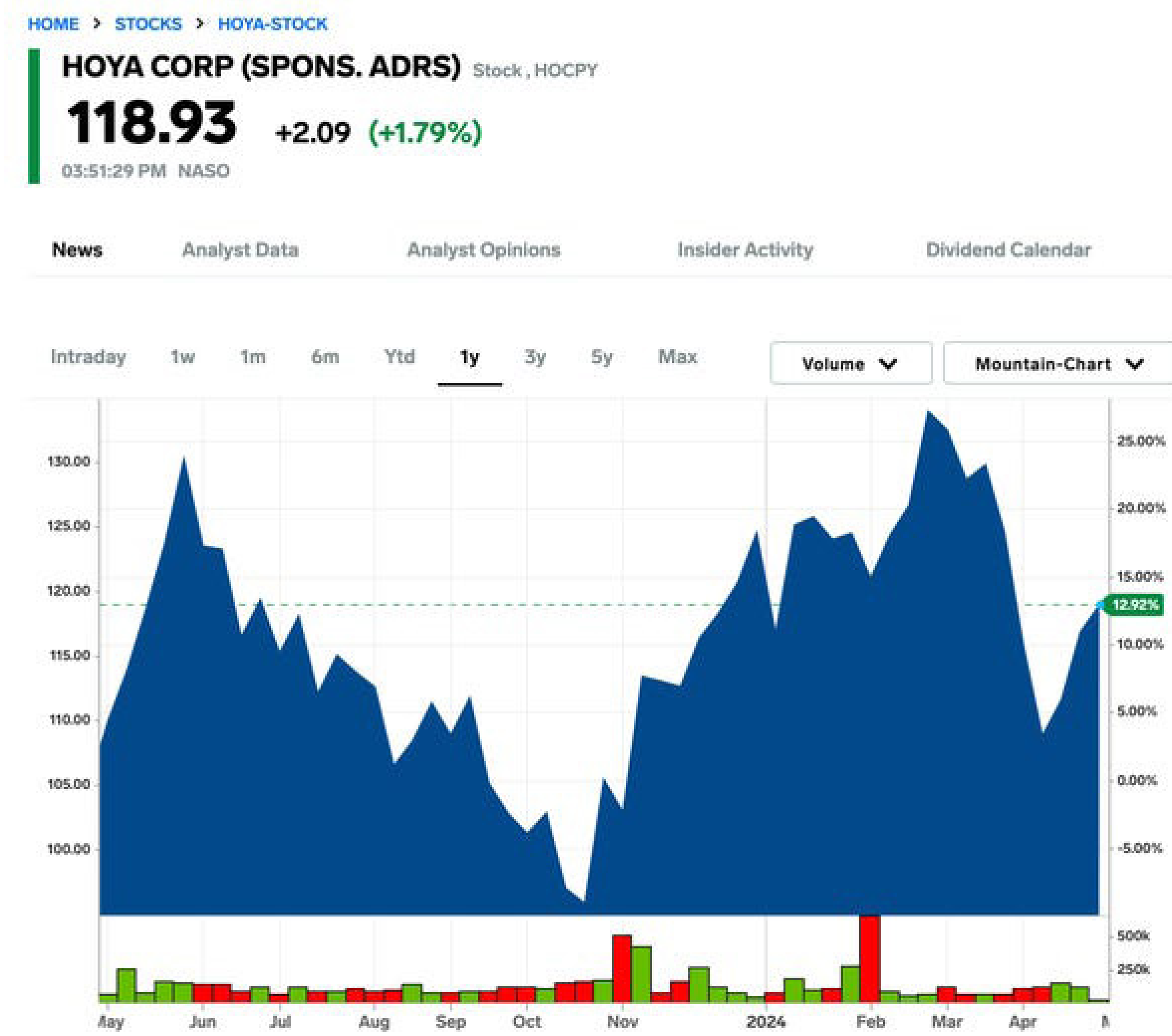
Market cap: $137.8B

Thesis: This India-based bank is benefiting from the rapidly growing middle-class population in what's now the world's most populated country, O'Reilly said. As the nation develops, hundreds of millions of Indians without bank accounts or mortgages will be financially included, which will help HDFC grow.

"It's a bit of a poster boy for a long-term trend that we're looking at," O'Reilly said.

Although HDFC has ample competition, its Western management style is better than that of India's state-owned banks, which have to clean up their balance sheets following bad deals, O'Reilly said. If the company continues to execute, it has a massive opportunity ahead of it.

2. Hoya



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Ticker: HOCPY

Market cap: $41.3B

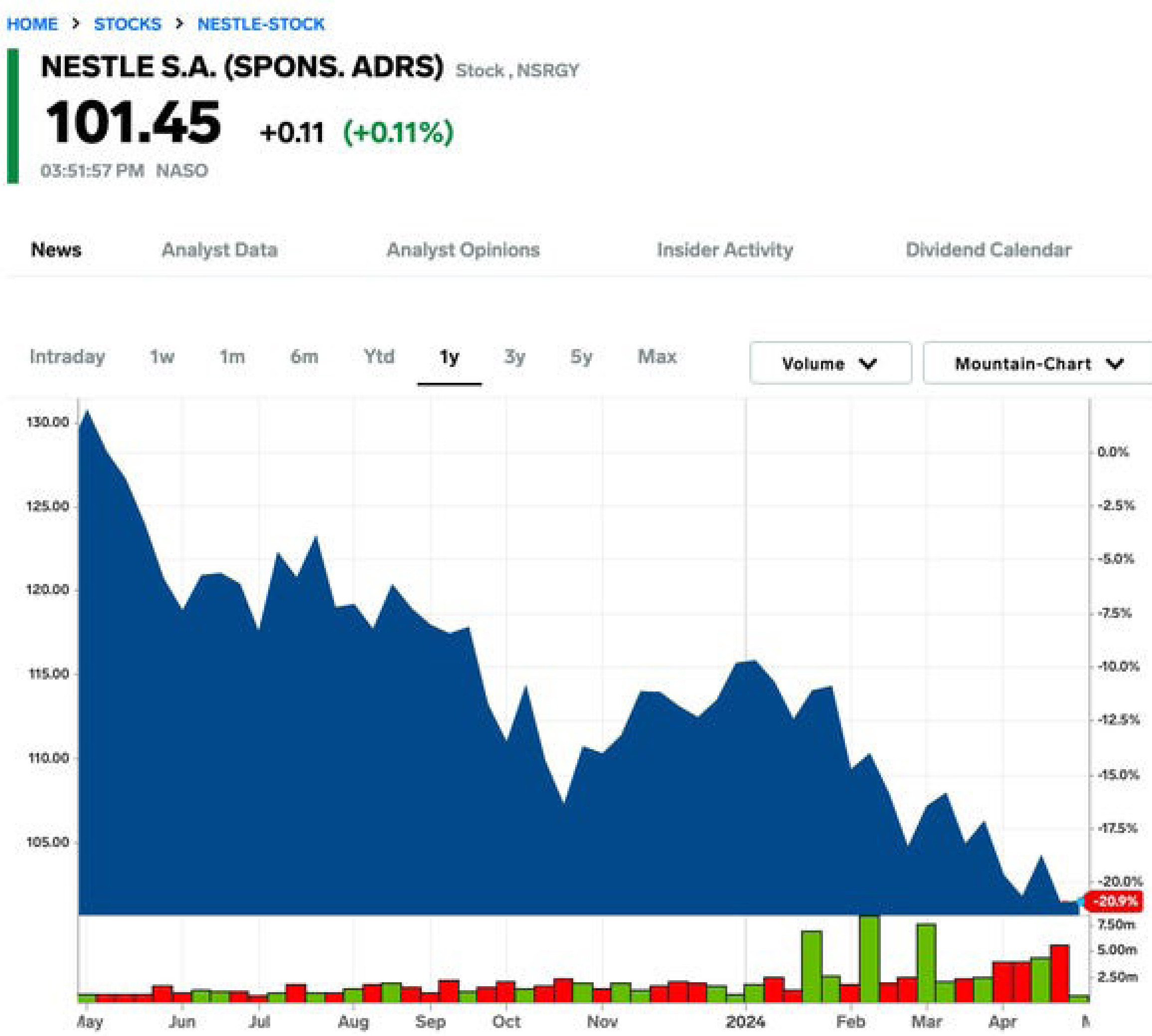
Thesis: This Japanese firm may be best known for making eyeglasses and contacts, which O'Reilly sees as stable growth areas since the world increasingly spends time using screens.

However, the portfolio manager is even more fired up about a business of Hoya's that indirectly powers those electronic devices. The company makes tiny, precise pieces of glass called photomasks, used in the lithography process that helps make semiconductors. All electronics run on chips, though advanced gadgets especially need the glass Hoya designs.

That potentially massive catalyst is being overlooked by the market, in O'Reilly's view.

"We'll often add value by having just that different perspective from the market," O'Reilly said. "We're always more long term than the market. That should not be an advantage, but it is because the market — to use the term — has become very myopic."

3. Nestlé



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Ticker: NSRGY

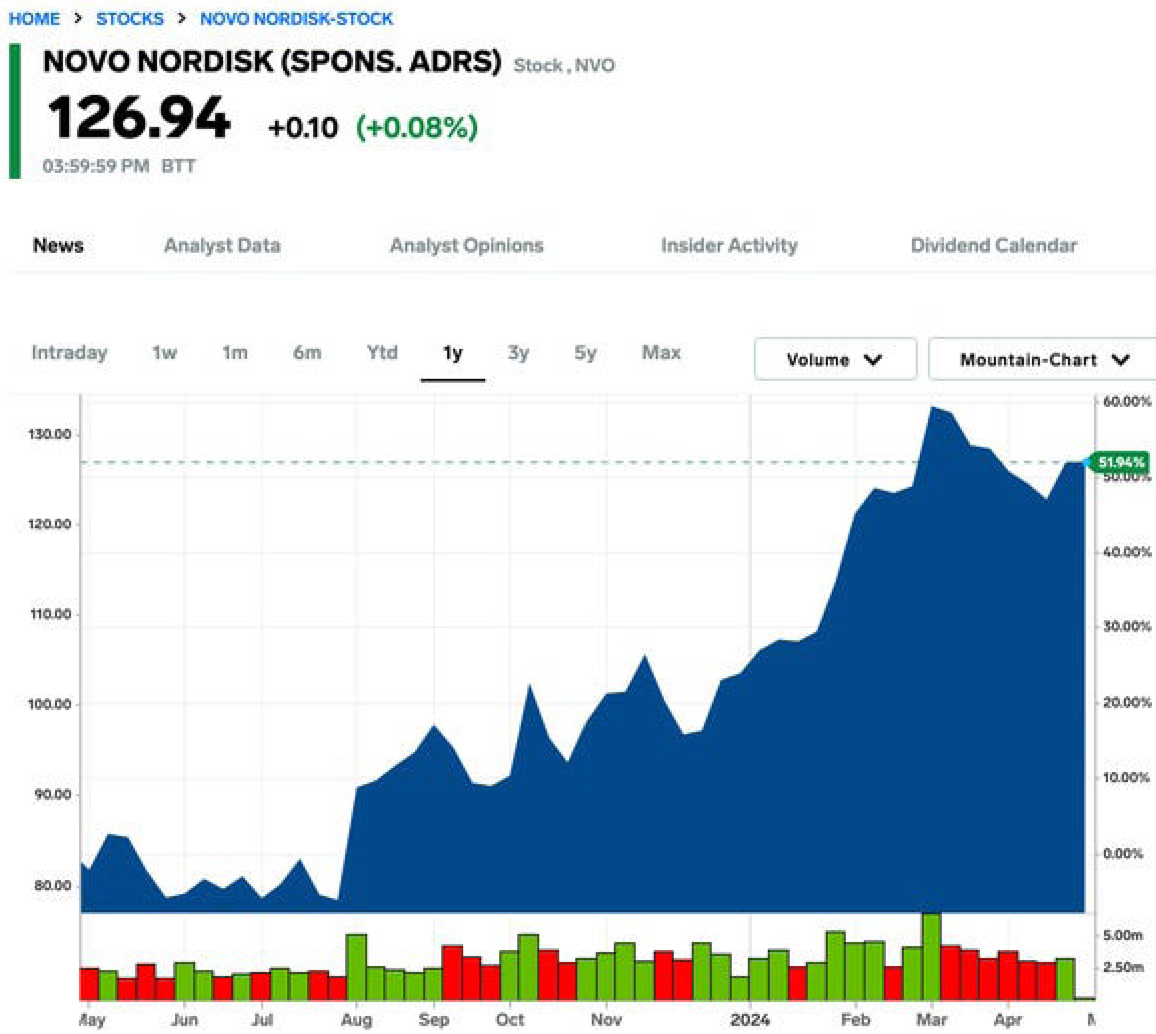
Market cap: $266B

Thesis: Nestlé sells staples like coffee, pet food, and baby food, which are always in demand. The Swiss company's customers form habits by buying those goods regularly, and because its brands are beloved, they're less likely to trade down to cheaper store-brand substitutes.

As prices surged in the last several years, countless firms across industries were able to pass down higher costs to consumers. But as inflation falls back to earth, O'Reilly believes many purveyors of everyday goods will lose their pricing power — with Nestlé as a notable exception.

"As we move to an environment that's a little closer to 2% to 3% inflation, pricing power has become very important again," O'Reilly said. "And that's where you need to have brands, you need to have market position, or you need to have a premium product to offer."

4. Novo Nordisk



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Ticker: NVO

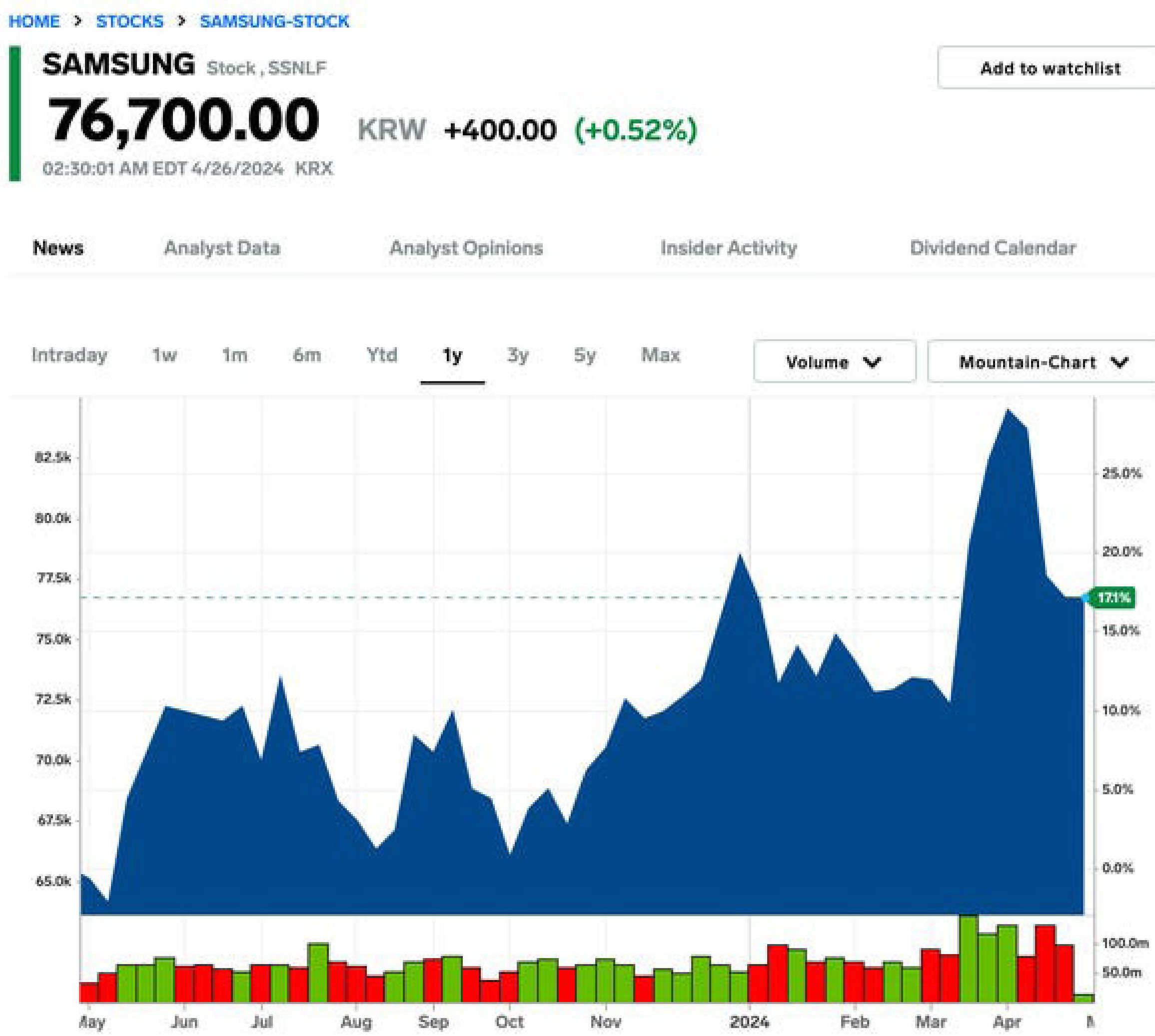
Market cap: $438.3B

Thesis: The maker of wildly popular weight-loss and diabetes treatments Ozempic and Wegovy is the largest position in O'Reilly's portfolio, following an 87.5% spike since the start of 2023.

Both of those products have massive blockbuster potential, O'Reilly said — estimating that the market they're targeting will be worth about $200 billion by 2030.

Healthcare spending as a percentage of nations' GDP will also soar in the coming years as the global population gets older in aggregate, the money manager said. That's a key reason his ETF has an especially large weighting in the sector.

5. Samsung



Markets Insider

Ticker: SSNLF

Market cap: $371.5B

Thesis: Samsung is a semiconductor company that's benefitting from the explosion of interest in artificial intelligence and the continued growth of data centers, O'Reilly said. Its growth may be more volatile than other holdings of his, but he's confident that it can build on its recent gains.

Past rankings are no guarantee of future rankings. Morningstar rankings are based on a fund's average annual total return relative to all funds in the same Morningstar category. Fund performance used within the rankings, reflects certain fee waivers, without which, returns and Morningstar rankings would have been lower. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. Morningstar Rankings are for the fund's respective category, as of 3/31/24. The Morningstar Rankings are based on total returns, with distributions reinvested and operating expenses deducted. Morningstar does not take into account sales charges. The Harbor International Compounders ETF was ranked against Morningstar's Foreign Large Growth category, in percentile rank: 48th out of 407 investments in the category for the 1-year period.

Harbor International Compounders ETF (OSEA): Average Annual Returns as of 3/31/24

	3 month	YTD	1 Yr.	Since Inception (9/7/2022)
Harbor International Compounders ETF at NAV	3.94%	3.94%	12.86%	22.70%
Harbor International Compounders ETF at Market Price	4.47%	4.47%	13.43%	23.13%
MSCI All Country World Ex US (ND) Index	4.69%	4.69%	13.26%	17.39%

The Harbor International Compounders ETF gross expense ratio is 0.55%

Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at harborcapital.com or by calling 800-422-1050.

For an updated list of the Harbor International Compounder ETF's holdings and weights, please access OSEA

Important Information

Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. To obtain a summary prospectus or prospectus for this and other information, visit harborcapital.com or call 800-422-1050. Read it carefully before investing.

Risks

Investing involves risk, principal loss is possible. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value. The ETF is new and has limited operating history to judge.

There is no guarantee that the investment objective of the Fund will be achieved. Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions. Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions. A non-diversified Fund may invest a greater percentage of its assets in securities of a single issuer, and/or invest in a relatively small number of issuers, it is more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio.

The subadvisor considers certain ESG factors in evaluating company quality which may result in the selection or exclusion of securities for reasons other than performance and the Fund may underperform relative to other funds that do not consider ESG factors.

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Benchmarks

The MSCI All Country World Ex. US (ND) Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Morningstar US Fund Foreign Large-Blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Morningstar US Fund Foreign Large Growth portfolios focus on high-priced growth stocks, mainly outside of the United States. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

Important Information

The S&P 500 Index is an unmanaged index generally representative of the U.S. market for large capitalization equities. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Information should not be considered as a recommendation to purchase or sell a particular security. The holdings mentioned may change at any time and may not represent current or future investments.

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As of 3/31/24, HDFC Bank, Hoya Corp, Nestle SA, Novo Nordisk, and Samsung comprised 21.02% of the Fund's total holdings representing 4.74%, 3.69%, 3.40%, 6.26%, and 2.93%, respectively. Fund holdings are subject to change.

C WorldWide is an independent subadvisor to the Harbor International Compounders ETF

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expense.

Alpha refers to excess returns earned on an investment

P/E (Price/Earnings) Ratio is the closing stock price divided by the sum of the last 12 months actual EPS.

Foreside Fund Services, LLC is the Distributor of the Harbor ETFs.

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