

The Oakmark Fund

The Oakmark
Select Fund

The Oakmark Small
Cap Fund

The Oakmark Equity
and Income Fund

The Oakmark
Global Fund

The Oakmark
International Fund

The Oakmark
International Small
Cap Fund

FIRST QUARTER REPORT

DECEMBER 31, 2002

THE OAKMARK FAMILY OF FUNDS

2003 First Quarter Report

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For More Information

Access our web site at www.oakmark.com to obtain a prospectus, an application or periodic reports, or call 1-800-OAKMARK (1-800-625-6275) or (617) 449-6274.

Turn to the end of this report to read about Oakmark's Philosophy and Process and look up financial terms in the Oakmark Glossary.

Letter from the President

Dear Fellow Shareholders,

At the end of the calendar year, we, like you, are frustrated by the difficult market environment. The Dow¹, S&P 500², EAFE³, and NASDAQ⁴ each posted significant double-digit losses for the year. The bear market has broadened, and we have experienced our first negative year in some time. While the Funds have fared well on a relative basis, absolute returns are not in line with our long-term goal of positive rates of return. By adhering to our core value philosophy, we strive to avoid significant losses so that negative years are not large enough to impair the long-term goals of our clients.

Uncertainty and Investing

The troubling uncertainties of the economy, potential war with Iraq, and corporate scandals and bankruptcies have been hanging over Wall Street. We believe the bear market has been worse than justified by these factors. In our opinion, these negative factors do not warrant this extreme bear market. The economy is bottoming, and interest rates and inflation remain low. We are also completing the third straight down year for stocks. Thus we enter 2003 with a conviction that most of the negative outcomes are reflected in equity prices.

During times of uncertainty, an investment firm should attend to what it *can* control, as opposed to what it cannot. Therefore, we concentrate on our strengths that we believe increase the probability of superior long-term performance:

- Adhering to a disciplined philosophy and process—one which has been employed successfully at Harris Associates, adviser to the Oakmark Funds, for over 25 years
- Employing an investment strategy that properly balances risk and reward—qualities important to our fund portfolios
- Focusing on an appropriate investment horizon—avoiding over reacting to short-term events
- Relying on an experienced research group—a team made up of seasoned investment professionals averaging 16 years of experience, with many who have been with the firm for over 10 years

This final point is worth highlighting. Recent changes that strengthen corporate full disclosure and tighten Wall Street oversight are appropriate, and they will, in our view create a competitive advantage for investment firms, like ours, with significant internal research capabilities.

Equities: The Critical Decision

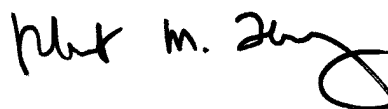
Historically, market valuation has tended to reflect the extremes of investor sentiment. When the tech market



was overvalued in March 2000, investors were pouring an unprecedented amount of money into these equities. Shortly thereafter, we witnessed a major correction in this sector. Now, after three years of the worst bear market since the Great Depression—when we believe the long-term prospects for equities are improving—investor opinion has rarely been more negative. We believe that valuation excesses have been removed from the market and that short-term emotional volatility creates opportunity for long-term investors.

Apprehensive investors are moving from stocks to investments assumed to be lower risk, such as bonds and cash. Unfortunately, this decision results from an analysis of what has done well instead of what will do well. Given the expected returns of the stocks in our portfolios and the very low interest rate environment, we believe the most critical decision an investor can make in the year ahead is to maintain or increase one's equity exposure.

On a final note, I am pleased to announce that John Raitt, a partner and investment analyst who has been with Harris Associates L.P. since 1986 and served as our Director of Research from 1998 to 2002, has been named President and CEO of Harris Associates L.P. I will retain the titles of Chairman and Chief Investment Officer. John has played an integral role at our firm and will join me in communicating with all of our shareholders in the future.



Robert M. Levy
President
January 3, 2003

THE OAKMARK FAMILY OF FUNDS

Summary Information

<i>Performance for Period Ended December 31, 2002⁵</i>	The Oakmark Fund (OAKMX)	The Oakmark Select Fund (OAKLX)	The Oakmark Small Cap Fund (OAKSX)
3 Months*	7.51%	10.02%	6.60%
6 Months*	-10.34%	-7.12%	-16.87%
1 Year	-14.41%	-12.47%	-13.07%
<i>Average Annual Total Return for:</i>			
3 Year	4.21%	11.54%	4.65%
5 Year	1.00%	13.05%	-1.73%
10 Year	11.36%	N/A	N/A
Since inception	16.46%	21.17%	9.03%
<i>Value of \$10,000 from inception date</i>	\$56,902 (8/5/91)	\$32,699 (11/1/96)	\$18,595 (11/1/95)
<i>Top Five Holdings as of December 31, 2002⁶</i>	Washington Mutual, Inc. 3.6%	Washington Mutual, Inc. 17.8%	SureBeam Corporation, Class A 4.5%
	H&R Block, Inc. 3.2%	H&R Block, Inc. 9.1%	Ralcorp Holdings, Inc. 4.0%
	The Home Depot, Inc. 2.3%	Yum! Brands, Inc. 4.9%	Catellus Development Corporation 3.6%
	Fannie Mae 2.3%	First Data Corporation 4.8%	Tupperware Corporation 3.5%
	Yum! Brands, Inc. 2.2%	Burlington Resources Inc. 4.3%	Insituform Technologies, Inc., Class A 3.5%
<i>Company and % of Total Net Assets</i>			
<i>Top Five Industries as of December 31, 2002</i>	Retail 10.6%	Banks & Thrifts 17.8%	Computer Software 6.9%
	Pharmaceuticals 9.6%	Other Consumer Goods & Services 13.0%	Food & Beverage 6.6%
	Other Consumer Goods & Services 7.3%	Retail 10.9%	Medical Products 6.6%
	Cable Systems & Satellite TV 6.1%	Information Services 7.2%	Banks & Thrifts 6.2%
	Food & Beverage 6.1%	Computer Services 6.7%	Other Consumer Goods & Services 5.7%
<i>Industries and % of Total Net Assets</i>			

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

The Oakmark Equity and Income Fund (OAKBX)		The Oakmark Global Fund (OAKGX)		The Oakmark International Fund (OAKIX)		The Oakmark International Small Cap Fund (OAKEX)	
6.12%		14.87%		8.99%		8.04%	
-2.97%		-5.46%		-16.00%		-16.00%	
-2.14%		-2.11%		-8.46%		-5.12%	
11.45%		10.82%		-0.77%		-0.77%	
10.91%		N/A		4.85%		10.40%	
N/A		N/A		9.75%		N/A	
13.68%		9.40% ⁷		9.54%		6.60%	
\$25,087 (11/1/95)		\$13,587 (8/4/99)		\$25,465 (9/30/92)		\$15,818 (11/1/95)	
Synopsys, Inc.	3.4%	eFunds Corporation	6.1%	Vivendi Universal SA	4.2%	Bulgari S.p.A.	4.3%
Burlington		Vivendi Universal SA	5.1%	GlaxoSmithKline plc	3.8%	Gurit-Heberlein AG	4.1%
Resources Inc.	3.1%	The Interpublic Group		Telefonaktiebolaget		Neopost SA	4.0%
Laboratory Corporation		of Companies, Inc.	5.0%	LM Ericsson, Class B	3.5%	Kobenhavns	
of America Holdings	2.9%	Novell, Inc.	4.6%	Hunter Douglas N.V.	3.0%	Lufthavne A/S	3.9%
SAFECO Corporation	2.8%	First Health Group		John Fairfax		Grupo Aeroportuario del	
First Health Group		Corp.	4.2%	Holdings Ltd.	2.9%	Sureste S.A. de C.V.	3.6%
Corp.	2.7%						
U.S. Government Notes	33.5%	Information Services	9.8%	Pharmaceuticals	9.3%	Retail	10.0%
Oil & Natural Gas	6.1%	Computer Software	8.3%	Banks & Thrifts	8.4%	Airport Maintenance	7.5%
Computer Software	5.0%	Broadcasting &		Food & Beverage	8.0%	Machinery & Industrial	
Retail	4.9%	Programming	6.2%	Retail	5.5%	Processing	6.6%
Medical Products	4.3%	Banks & Thrifts	5.8%	Other Financial	5.4%	Banks & Thrifts	6.0%
		Computer Services	5.3%			Financial Services	5.3%

THE OAKMARK AND OAKMARK SELECT FUNDS

At Oakmark, we look for stocks with prices less than 60% of intrinsic value, **with intrinsic value that is likely to grow** and with management that acts in the interest of outside shareholders. The combination of these factors creates our biggest competitive advantage—the ability to be more patient than most investors.



The New York Times began the New Year with a business section headlined “Wall Street Down a Third Year, Leaving Fewer Optimists.” Yes, the market had its third losing year in succession, and yes, 2002 was the worst in both breadth and magnitude. But no, three down years does not increase the probability of suffering further losses. That logic is backwards—lower prices increase the probability of

achieving good returns. Realizing the difficulty of viewing lower prices as an opportunity, Warren Buffett used an analogy to a mundane consumer product:

“If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the ‘hamburgers’ they will soon be buying. This reaction makes no sense.”

Last quarter, we were presented with an opportunity to acquire inexpensive “hamburgers”. H&R Block (HRB) has been one of our largest holdings for several years. The business has performed well, as has the stock. In November, a small independent research firm published a sell report that was highly critical of HRB. They highlighted a likely end to the rapid growth of the company’s cyclical mortgage origination business and touted that HRB was being sued for an amount that exceeded its shareholders’ equity.

When reading any research report, one has to sort carefully through what is factual and what is opinion. In addition, while most scenarios are “possible,” one needs to consider how likely those possibilities really are. Last year we were all reminded of the obvious conflicts between research and investment banking and the tendency for reports on banking clients to have a positive spin. Most business schools even teach students to be suspicious of opinions expressed in research on banking clients. Because of that inherent conflict, “independent” research, meaning no investment banking ties, has been put on a pedestal. But the lack of banking ties by no means insures that independent research is unbiased. Some “independent”

Highlights

- Lower stock prices have increased the probability of good returns.
- Buying growing businesses gives us the luxury of a long timeframe.
- Biased stock research highlights the value of depending on our own research.

firms are funded largely by short-sellers, and their reports often have the goal of scaring investors out of stocks their clients are already short. We believe the chance that investors will be misled by these reports is higher because their conflict is less obvious. The sell report on HRB knocked the stock down from \$40 to \$29 in just a few days. Our first reaction was less thinking about Warren Buffett’s hamburgers and more thinking of Randy Newman’s lyrics “short people got no reason to live.”

The Wall Street Journal piled on with a negative article on HRB (on the very day it hit its low!) that stated disparagingly that in the prior year, their tax business “grew just 23%.” Just 23%? We would be happy if most of our holdings grew half that fast! After fighting through the frustration, and sorting out the misinformation, we asked, “Does HRB still fit our investment criteria? Is it selling below 60% of a growing value, and does its management act in our interest?” Answering those questions with enthusiastic yesses, we concluded the price drop was uncalled for and we added substantially to our position.

In previous letters, we have addressed our willingness to have extremely long holding periods, our criteria for managements, and our calculation of business value. Using HRB as an example, let’s look at how we project business value growth. Why do we want businesses that grow? A big risk of value investing is that the statistically cheapest stocks are frequently structurally disadvantaged companies. They may be facing market share losses, declining sales prices or unusually high capital expenditures. Their value five years from now may be less than today. To avoid that “value trap,” we look for companies whose value is likely to grow at above average rates. This growth gives us the luxury of investing for a longer timeframe than most of our competitors. How do we find undervalued stocks in which per-share business value is growing at above average rates? Although the market is reasonably efficient at pricing sales growth, we think it is less efficient at differentiating

between cyclical and secular growth, evaluating multi-division companies, and translating balance sheet change into per-share value change.

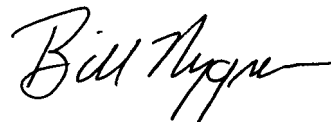
HRB has a great tax preparation business. It has strong secular growth resulting from growth in the number of tax returns, growth in the percentage of filers who use paid preparers, and growth in its industry leading market share. Combine that with its strong cash generation—it is one of few businesses that can grow revenues ten percent without needing either higher capital expenditures or more working capital—and you get a business we believe is deserving of a very high multiple.

Skeptics argue that HRB's mortgage origination business sharply increases the risk of owning the stock. That division has performed so well over the past several years, primarily due to the cyclic refinancing boom, that a rapid return to trendline earnings might cause a one year decline in HRB's reported EPS⁸. We acknowledge that possibility and even agree it is likely. But we are not focused on EPS growth. Instead, we look at business value growth.

To see how the value of a company changes over time, we make projections for each of its divisions, and then sum up the values. We project the HRB tax business will continue growing at an above-average rate, albeit probably less than the "only 23%" it achieved last year. We expect HRB's total income to grow more slowly than its tax income grows since we are not forecasting growth in the mortgage business. The multiple we use to value the mortgage business—a competitive, commodity-like business—is much lower than the multiple we use for the tax business. Because the percentage of HRB's earnings coming from the tax business will be increasing, the multiple we think is appropriate for the entire company will also be increasing. Finally, the mortgage business and the tax business each produce large amounts of cash beyond what needs to be reinvested in the business. Management expects to continue using that cash to repurchase stock. So, looking out five years, we see higher earnings, a mix shift toward a higher multiple business, and fewer shares outstanding. These factors combine to produce an expected rate of per-share value growth that is far above average.

After purchasing our "hamburgers" on sale, we got something we don't experience very often—near instant gratification. HRB settled its lawsuit for a small amount of money – which is consistent with what we and the company had always expected. HRB's stock price, which hit \$29 the day the Journal wrote their negative story, topped \$39 five trading days later. In the long run, business value always wins out over attempts to drive stock prices away from underlying value. As much as we knew that to be true, the market's quick reaction was still comforting.

One last comment on HRB—not H&R Block, but rather Henry R. Berghoef—co-manager of The Oakmark Select Fund. For the last several years, Henry has served as our Associate Director of Research in addition to contributing many of the stock recommendations that have driven Oakmark's performance. Effective the first of the year, Henry became Director of Research, assuming full responsibility for our research department. The research group Henry inherits is, I believe, the best in the business. His leadership assures a continuation of Oakmark's strong research heritage. We will continue to benefit from Henry's input as an analyst and co-manager of The Oakmark Select Fund. In addition, we will now benefit from the imprint he puts on all of our research. Congratulations Henry!



William C. Nygren, CFA
Portfolio Manager

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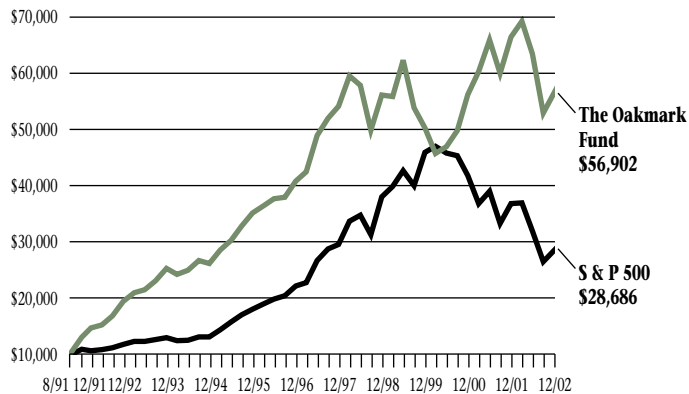
January 6, 2003

THE OAKMARK FUND

Report from Bill Nygren and Kevin Grant, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK FUND FROM ITS INCEPTION (8/5/91) TO PRESENT (12/31/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX²



Average Annual Total Returns⁵

	Total Return Last 3 Months*	(as of 12/31/02)				Since Inception (8/5/91)
		1-year	5-year	10-year		
Oakmark Fund	7.51%	-14.41%	1.00%	11.36%	16.46%	
S&P 500	8.44%	-22.10%	-0.59%	9.34%	9.67%	
Dow Jones Average ¹	10.38%	-15.13%	2.82%	12.02%	11.74%	
Lipper Large Cap Value Index ⁹	8.64%	-19.68%	-0.39%	8.71%	9.29%	

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

The Oakmark Fund increased in value by 8% last quarter, reducing the loss for the year to 14%. Despite suffering our largest calendar year loss since the fund's inception in 1991, our performance was strong relative to other equity investors. With the S&P 500 down 22% for the year, achieving positive returns was nearly impossible. The Oakmark Fund lost less money than did 86% of the 827 funds Morningstar¹⁰ classifies as Large Cap Value funds, and according to a recent Wall Street Journal article the average equity mutual fund lost 22% which is 50% more than we lost. In the most recent Berkshire Hathaway annual report, Warren Buffett stated: "Some people disagree with our focus on relative figures, arguing that 'you can't eat relative performance!' But, if you expect that owning the S&P 500 will produce reasonably satisfactory results over time, it follows that, for long-term investors, gaining small advantages annually over that index must prove rewarding." Another great investor, Peter Lynch, was asked about his "poor" performance which occurred in a very weak equity market. Lynch responded "Let's say you play golf. You shoot 72 and everybody else shoots in the 80s. The next day, the winds are blowing twenty miles an hour and it's raining. You shoot a 78 and everybody else shoots in the 90s. Do people say 'What happened to your golf game?'"

Losing less than other investors never feels as satisfying as does making money, but it is just as important as we work toward our goal of producing excellent long-term returns. Over the past three years, we are up while the market has seriously declined. Over the past decade, The Oakmark Fund has achieved a 11% annualized return. Not only has that beaten the market and most of our peers, but compounding that return for a decade more than tripled our investors' capital.

During the quarter, we did not add any new positions, and we eliminated two—Newell Rubbermaid and CVS. We made money on our Newell investment over two years when most stocks fell dramatically. With CVS, we lost some of our original investment (though far less than either the market or the average retail stock), as an increasingly competitive environment proved our projections to be too optimistic. In both cases, we used the proceeds to add to existing holdings that we feel are high-quality businesses that now sell at lower multiples.

Best wishes,

William C. Nygren, CFA
Portfolio Manager
bnygren@oakmark.com

Kevin Grant, CFA
Portfolio Manager
kgrant@oakmark.com

January 6, 2003

THE OAKMARK FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—90.6%		
Food & Beverage—6.1%		
Kraft Foods Inc.	2,095,000	\$ 81,558,351
H.J. Heinz Company	2,310,000	75,929,700
General Mills, Inc.	1,605,000	<u>75,354,750</u>
		232,842,801
Household Products—1.5%		
The Clorox Company	1,390,200	\$ 57,345,750
Other Consumer Goods & Services—7.3%		
H&R Block, Inc.	3,029,300	\$ 121,777,860
Fortune Brands, Inc.	1,745,600	81,187,856
Mattel, Inc.	2,774,800	53,137,420
Cendant Corporation (a)	1,895,100	<u>19,860,648</u>
		275,963,784
Broadcasting & Programming—2.8%		
Liberty Media Corporation, Class A (a)	9,149,400	\$ 81,795,636
The Walt Disney Company	1,500,000	<u>24,465,000</u>
		106,260,636
Building Materials & Construction—2.1%		
Masco Corporation	3,733,000	\$ 78,579,650
Cable Systems & Satellite TV—6.1%		
AOL Time Warner Inc.	6,367,700	\$ 83,416,870
EchoStar Communications Corporation (a)	2,475,000	55,093,500
General Motors Corporation, Class H (Hughes Electronics Corporation) (a)	5,100,000	54,570,000
Comcast Corporation, Special Class A (a)	1,800,000	<u>40,662,000</u>
		233,742,370
Hardware—1.8%		
The Black & Decker Corporation	1,622,200	\$ 69,576,158
Marketing Services—1.2%		
The Interpublic Group of Companies, Inc.	3,165,000	\$ 44,563,200
Publishing—3.2%		
Gannett Co., Inc.	884,500	\$ 63,507,100
Knight-Ridder, Inc.	916,000	<u>57,937,000</u>
		121,444,100
Recreation & Entertainment—1.1%		
Carnival Corporation	1,678,300	\$ 41,873,585

THE OAKMARK FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—90.6% (cont.)		
Restaurants—4.4%		
Yum! Brands, Inc (a)	3,509,000	\$ 84,987,980
McDonald's Corporation	5,000,000	<u>80,400,000</u>
		165,387,980
Retail—10.6%		
The Home Depot, Inc.	3,681,500	\$ 88,208,740
J.C. Penney Company, Inc.	3,552,900	81,752,229
Safeway Inc. (a)	3,327,000	77,718,720
The Kroger Co. (a)	4,790,000	74,005,500
The Gap, Inc.	3,199,000	49,648,480
Toys 'Я' Us, Inc. (a)	3,125,000	<u>31,250,000</u>
		402,583,669
Bank & Thrifts—5.6%		
Washington Mutual, Inc.	3,937,300	\$ 135,954,969
U.S. Bancorp	3,700,000	<u>78,514,000</u>
		214,468,969
Insurance—1.6%		
MGIC Investment Corporation	1,437,900	\$ 59,385,270
Other Financial—2.3%		
Fannie Mae	1,370,000	\$ 88,132,100
Medical Products—2.2%		
Guidant Corporation (a)	2,671,100	\$ 82,403,435
Pharmaceuticals—9.6%		
Merck & Co., Inc.	1,500,000	\$ 84,915,000
Abbott Laboratories	2,050,000	82,000,000
Bristol-Myers Squibb Company	3,450,000	79,867,500
Schering-Plough Corporation	3,225,000	71,595,000
Chiron Corporation (a)	1,274,000	<u>47,902,400</u>
		366,279,900
Telecommunications—1.5%		
Sprint Corporation	4,021,000	\$ 58,224,080
Telecommunications Equipment—0.7%		
Motorola, Inc.	2,975,000	\$ 25,733,750

THE OAKMARK FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—90.6% (cont.)		
Computer Services—4.8%		
First Data Corporation	2,365,500	\$ 83,762,355
SunGard Data Systems, Inc. (a)	2,601,600	61,293,696
Electronic Data Systems Corporation	1,958,300	<u>36,091,469</u>
		181,147,520
Computer Systems—1.0%		
Sun Microsystems, Inc. (a)	12,500,000	\$ 38,875,000
Office Equipment—1.5%		
Xerox Corporation (a)	6,927,400	\$ 55,765,570
Aerospace & Defense—2.9%		
Honeywell International, Inc.	3,050,000	\$ 73,200,000
The Boeing Company	1,125,000	<u>37,113,750</u>
		110,313,750
Other Industrial Goods & Services—1.0%		
Illinois Tool Works Inc.	604,200	\$ 39,188,412
Waste Disposal—1.7%		
Waste Management, Inc.	2,874,300	\$ 65,878,956
Oil & Natural Gas—4.0%		
ConocoPhillips	1,635,335	\$ 79,133,860
Burlington Resources Inc.	1,671,100	<u>71,272,415</u>
		150,406,275
Electric Utilities—2.0%		
Duke Energy Corporation	2,520,000	\$ 49,240,800
TXU Corp.	1,525,000	<u>28,487,000</u>
		77,727,800
Total Common Stocks (Cost: \$3,466,204,554)		3,444,094,470

THE OAKMARK FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Par Value	Market Value
Short Term Investments—9.8%		
U.S. Government Bills—6.8%		
United States Treasury Bills, 1.175% - 1.47% due 1/2/2003 - 4/10/2003	\$260,000,000	\$ 259,632,406
Total U.S. Government Bills (Cost: \$259,616,838)		259,632,406
Repurchase Agreements—3.0%		
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$110,006,111 collateralized by U.S. Government Agency Securities	\$110,000,000	\$ 110,000,000
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$2,399,335 collateralized by a U.S. Government Agency Security	2,399,201	2,399,201
Total Repurchase Agreement (Cost: \$112,399,201)		<u>112,399,201</u>
Total Short Term Investments (Cost: \$372,016,039)		372,031,607
Total Investments (Cost \$3,838,220,593)—100.4%		\$ 3,816,126,077
Other Liabilities In Excess Of Other Assets—(0.4%)		<u>(15,606,770)</u>
Total Net Assets—100%		<u><u>\$3,800,519,307</u></u>

(a) Non-income producing security.

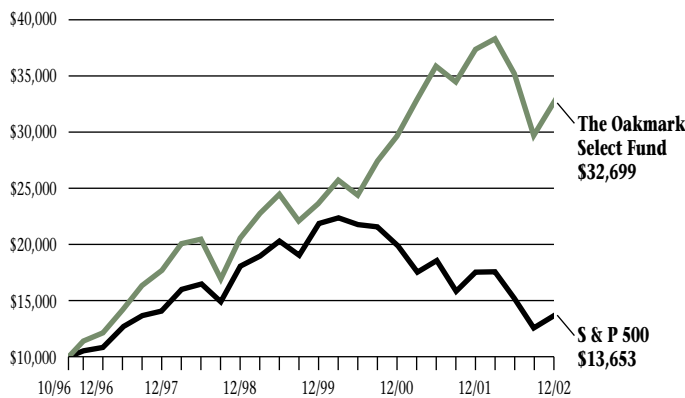
THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



The Oakmark Select Fund gained 10% in the quarter reducing the calendar year loss to 12%. The S&P 500 lost 22% for the year, making 2002 the worst year for the stock market since 1974. In 2000 and 2001, despite the market declining a total of 20%, we were able to grow our value by 59%. In those two years, the large capitalization stocks and technology stocks that dominated the market averages declined sharply in price. However, the rest of the market, which is what most of our portfolio was selected from, generally increased in value. But in 2002, nearly three-quarters of the stocks in the S&P 500 declined. It was nearly impossible to overcome the market decline with good stock selection. Fortunately, we enter 2003 with lower valuation levels which we feel increases the probability of good returns ahead.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX²



Average Annual Total Returns⁵

	(as of 12/31/02)			
	Total Return Last 3 Months*	-1-year	5-year	Since Inception (11/1/96)
Oakmark Select Fund	10.02%	-12.47%	13.05%	21.17%
Return after taxes on distributions ¹¹		-12.50%	11.59%	19.83%
Return after taxes on distributions and sale of Fund shares		-7.66%	10.44%	17.80%
S&P 500	8.44%	-22.10%	-0.59%	5.18%
S&P MidCap 400 ¹²	5.83%	-14.51%	6.41%	11.04%
Lipper Mid Cap Value Index ¹³	6.59%	-14.66%	2.07%	6.09%

The graph does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance, before and after taxes, is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

We neither added nor eliminated any stocks during the quarter. The changes were limited to position size changes. As previously discussed, we took advantage of negative mis-information about H&R Block to increase our position at favorable prices. On the flip side, we sold almost a quarter of our Sprint position, because of the eighty percent increase off its October low.

The Sprint sale is an instructive example of how we manage the portfolio for both pre-tax and after-tax returns. When Sprint stock fell from April through October, we felt it was becoming more attractive so we added several million shares to our position. As the stock rallied this quarter, its relative attractiveness decreased, and we sold several million shares. These incremental purchases and sales were nicely additive to our pre-tax returns. Even better, from a tax perspective, instead of selling the shares we bought in the summer, we sold shares we bought in the prior year and realized a taxable loss on the sale. Because of transactions like the Sprint example, The Oakmark Select Fund has a realized loss carry-forward that will be used to reduce or eliminate future taxable distributions.

Best wishes,

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January 6, 2003

THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—91.0%		
Other Consumer Goods & Services—13.0%		
H&R Block, Inc.	9,359,800	\$ 376,263,960
Mattel, Inc.	8,470,500	<u>162,210,075</u>
		538,474,035
Cable Systems & Satellite TV—4.1%		
AOL Time Warner Inc.	13,000,000	\$ 170,300,000
Information Services—7.2%		
The Dun & Bradstreet Corporation (a)	4,534,900	\$ 156,408,701
Moody's Corporation	3,409,000	<u>140,757,610</u>
		297,166,311
Publishing—4.0%		
Knight-Ridder, Inc.	2,606,500	\$ 164,861,125
Restaurants—4.9%		
Yum! Brands, Inc (a)	8,472,000	\$ 205,191,840
Retail—10.9%		
The Kroger Co. (a)	11,175,700	\$ 172,664,565
Office Depot, Inc. (a)	10,326,200	152,414,712
Toys 'Я' Us, Inc. (a)	12,698,500	<u>126,985,000</u>
		452,064,277
Bank & Thrifts—17.8%		
Washington Mutual, Inc.	21,351,400	\$ 737,263,842
Investment Management—2.9%		
Stilwell Financial Inc (b)	9,173,000	\$ 119,891,110
Health Care Services—4.0%		
IMS Health Incorporated	10,392,000	\$ 166,272,000
Pharmaceuticals—3.4%		
Chiron Corporation (a)	3,809,400	\$ 143,233,440
Telecommunications—3.7%		
Sprint Corporation	10,727,500	\$ 155,334,200
Computer Services—6.7%		
First Data Corporation	5,578,800	\$ 197,545,308
Electronic Data Systems Corporation	4,301,500	<u>79,276,645</u>
		276,821,953

THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—91.0% (cont.)		
Office Equipment—4.1%		
Xerox Corporation (a)	21,047,700	\$ 169,433,985
Oil & Natural Gas—4.3%		
Burlington Resources Inc.	4,201,800	\$ 179,206,770
Total Common Stocks (Cost: \$3,276,249,599)		3,775,514,888
Short Term Investments—9.5%		
U.S. Government Bills—6.7%		
United States Treasury Bills, 1.17% - 1.48% due 1/9/2003 - 5/15/2003	\$280,000,000	\$ 279,352,102
Total U.S. Government Bills (Cost: \$279,324,547)		279,352,102
Repurchase Agreements—2.8%		
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$114,006,333 collateralized by U.S. Government Agency Securities	\$114,000,000	\$ 114,000,000
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$2,670,163 collateralized by a U.S. Government Agency Security	2,670,015	2,670,015
Total Repurchase Agreement (Cost: \$116,670,015)		<u>116,670,015</u>
Total Short Term Investments (Cost: \$395,994,562)		396,022,117
Total Investments (Cost \$3,672,244,161)—100.5%		\$ 4,171,537,005
Other Liabilities In Excess Of Other Assets—(0.5%)		<u>(20,821,002)</u>
Total Net Assets—100%		<u><u>\$4,150,716,003</u></u>

(a) Non-income producing security.

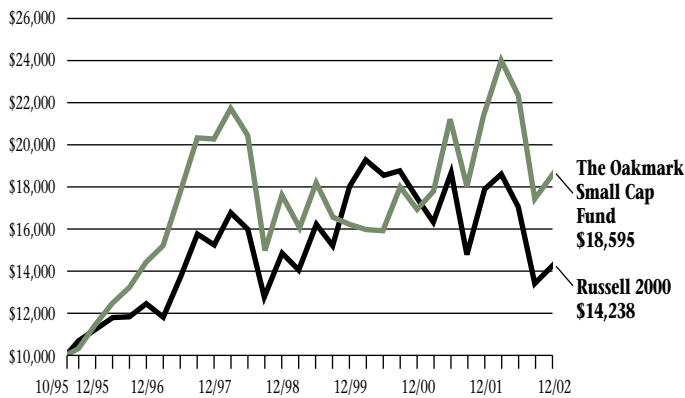
(b) Effective January 2, 2003, Stilwell Financial Inc changed its name to Janus Capital Group Inc.

THE OAKMARK SMALL CAP FUND

Report from James P. Benson and Clyde S. McGregor, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/02) AS COMPARED TO THE RUSSELL 2000 INDEX¹⁴



Average Annual Total Returns⁵

(as of 12/31/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
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Oakmark Small Cap Fund	6.60%	-13.07%	-1.73%	9.03%
Russell 2000	6.16%	-20.48%	-1.36%	5.05%
S&P Small Cap 600 ¹⁵	4.91%	-14.63%	2.44%	8.67%
Lipper Small Cap Value Index ¹⁶	5.62%	-11.20%	2.81%	9.00%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

During the fourth calendar quarter of 2002 stocks generally rose and this trimmed full year losses. For the fourth quarter, stocks rebounded in value as the S&P 500² Index rose by over 8% and the Russell 2000 Index climbed by more than 6%. For the full year, however, the Russell 2000 was down by over 20%. Your Fund gained approximately 7% during the past three months, bringing the full calendar year return to a decline of 13%. While we are pleased we can report that our 2002 results were over 7% better than the Russell 2000, our absolute returns were disappointing.

The Benefit of Thinking Long Term

Many commentators have recently discussed the sad state of the stock market and they often leave the impression that investors should perhaps look to other asset classes for their investment dollars. They point out that this is the first time in 61 years that the Dow Jones Industrial Average¹ has declined for three consecutive years or that the NASDAQ Index⁴ is down over 67% since January 1, 2000. During the past three years, the Russell 2000 Index added to investors' misery by declining by about 21%. This clearly outperformed the NASDAQ, but an absolute decline of this magnitude is still painful.

Despite the headwind of generally declining stock prices, your Fund was able to achieve a 15% increase over the past three years as our analysts identified above average investments for your Fund. The collective goal of our analytical team is to find attractive investments that we believe are undervalued. While we employ several different modeling techniques to estimate a company's private market value, perhaps our biggest advantage is that we think in terms of several years—not weeks or months—for our anticipated holding period for an investment. The currently depressed environment for stock valuations is being met with glee, not despair, by our analysts since investing is always a forward looking exercise. We believe the combination of lower stock prices, a growing gross domestic product, rising productivity and accommodative fiscal and monetary policy bodes well for stocks over the next several years. Our future outlook, while tempered by global political problems, is generally upbeat and we view the current environment as a good entry point to invest for the long term.

Can Patience Improve Investment Performance?

The ability to see the future clearly is obviously impossible, yet that is our daily goal. If we can correctly discern a future trend or event before most other investors, then we have the potential to enjoy a significant gain or perhaps avoid a large loss. However, correctly identifying a future event is only part of the process—the second

Highlights

- Investing is a forward-looking exercise, and our analysts believe the depressed environment for stock valuations offers ample opportunity.
- Of all the techniques we employ to determine private market value, our biggest advantage is thinking in terms of years, not weeks or months, for our holding period.
- During the quarter, four stocks were sold and two new companies added.

critical step in this process is to determine which companies will be aided and which companies may be hurt by the event. Lastly, once the aforementioned items have been identified, the timing of any investment action needs to be considered.

An example of our thought process is our investment in Surebeam. This company is a leader in food processing safety. Their patented electron beam technology eliminates many food borne pathogens such as E. coli, Listeria Monocytogenes and Salmonella from meats, fruits, vegetables and spices. We believe this technology, which only costs a few cents per pound, has the possibility of becoming an industry standard much like pasteurization became a standard for milk several decades ago. We believe the value of Surebeam's technology more than covers the current stock price even if Surebeam is unable to grow beyond a niche provider. However, if their process becomes a de facto standard, Surebeam has the potential to grow into a very large company and we would expect its stock to do very well as a result. Exactly when this will happen is uncertain, as the food processing industry has historically been slow to adopt new technologies. This is where our patient, long term view comes into play since we are not looking for just one good quarter, but rather a management team that can successfully grow a business for many years. Surebeam's technology is approved for use by the U.S. government for many types of food, thus regulatory approval is one large hurdle that has already been overcome. Adoption of Surebeam meat products (especially ground beef) by grocery stores began to grow rapidly in the fourth quarter of 2002 and we believe this growth will continue into 2003. While we do not know exactly when the stock market will begin to reflect our estimated value of Surebeam, we do expect that patience is likely to be a profitable virtue.

Portfolio Update

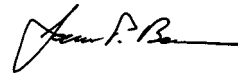
During the past quarter we sold four stocks from your Fund's portfolio while we added two new companies. The stocks sold were IDEXX Laboratories, Sensient Technologies, Teekay Shipping and Pathmark Stores. IDEXX, Sensient and Teekay had been good performers for the Fund and we elected to sell these positions so that we could reinvest the proceeds into stocks that we believe sell at a larger discount to value. We sold Pathmark as we became concerned about the deteriorating fundamental outlook for this regional grocery store chain.

During the fourth quarter we initiated positions in DoubleClick Inc. and Triarc Companies. We believe both of these companies are robust financially since they possess large amounts of net cash on their balance sheets. In Triarc's case, net cash per share exceeded our purchase price, thus we effectively bought their operations (consisting principally of the Arby's restaurant chain) for nothing. While we remain somewhat surprised that we can occasionally buy companies with decent operations for less than the net cash on their balance sheet, we intend to continue investing in situations such as these until the stock market takes away these opportunities.

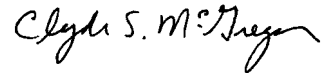
DoubleClick is a provider of software tools to online advertisers that help these companies plan, execute and analyze online advertising, email marketing and database marketing. DoubleClick's stock trades at only a modest premium to the firm's almost \$4 per share in net cash, yet DoubleClick has built a leading online advertising software business that generates approximately \$300 million in annual revenues. While revenues at DoubleClick have been under pressure in recent quarters reflecting the soft economy, we believe customized online marketing is a very cost effective way for companies to reach their target audience. Therefore, we believe DoubleClick is likely to be successful over time and their strong cash position should help them weather the economic slowdown in good shape.

Conclusion

We would like to thank all of our shareholders for your ongoing interest in and your support of The Oakmark Small Cap Fund. We wish everyone a happy, healthy and prosperous New Year!



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January 2, 2003

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—95.3%		
Food & Beverage—6.6%		
Ralcorp Holdings, Inc. (a)	579,000	\$ 14,556,060
Del Monte Foods Company (a)	1,230,000	<u>9,471,000</u>
		24,027,060
Household Products—3.5%		
Tupperware Corporation	850,000	\$ 12,818,000
Other Consumer Goods & Services—5.7%		
Department 56, Inc. (a)	760,000	\$ 9,804,000
Callaway Golf Company	475,000	6,293,750
Central Parking Corporation	250,000	<u>4,715,000</u>
		20,812,750
Security Systems—2.8%		
Checkpoint Systems, Inc. (a)	968,300	\$ 10,012,222
Apparel—3.6%		
Oakley, Inc. (a)	900,000	\$ 9,243,000
R.G. Barry Corporation (a)	900,000	<u>3,690,000</u>
		12,933,000
Automobile Rentals—1.9%		
Dollar Thrifty Automotive Group, Inc. (a)	325,000	\$ 6,873,750
Building Materials & Construction—3.5%		
Insituform Technologies, Inc., Class A (a)	750,000	\$ 12,787,500
Educational Services—3.3%		
ITT Educational Services, Inc. (a)(b)	509,500	\$ 11,998,725
Hotels & Motels—1.8%		
Prime Hospitality Corp. (a)	810,000	\$ 6,601,500
Information Services—3.3%		
eFunds Corporation (a)	1,327,600	\$ 12,094,436
Marketing Services—0.8%		
DoubleClick Inc. (a)	429,400	\$ 2,430,404
Grey Global Group Inc.	1,000	<u>611,100</u>
		3,041,504
Restaurants—0.9%		
Triarc Companies, Inc. (a)	125,000	\$ 3,280,000

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—95.3% (cont.)		
Retail—2.5%		
ShopKo Stores, Inc. (a)	740,000	\$ 9,213,000
Bank & Thrifts—6.2%		
BankAtlantic Bancorp, Inc., Class A	1,000,000	\$ 9,450,000
People's Bank of Bridgeport, Connecticut	360,000	9,050,400
PennFed Financial Services, Inc.	150,000	<u>4,072,500</u>
		22,572,900
Insurance—3.3%		
The PMI Group, Inc.	400,000	\$ 12,016,000
Other Financial—2.6%		
NCO Group, Inc. (a)	600,000	\$ 9,570,000
Real Estate—4.8%		
Catellus Development Corporation (a)	650,000	\$ 12,902,500
Trammell Crow Company (a)	495,000	<u>4,455,000</u>
		17,357,500
Medical Products—6.6%		
Hanger Orthopedic Group, Inc. (a)	950,000	\$ 12,492,500
CONMED Corporation (a)	350,000	6,856,500
Sybron Dental Specialties, Inc. (a)	300,000	<u>4,455,000</u>
		23,804,000
Pharmaceuticals—3.6%		
Pharmaceutical Resources Inc (a)	424,300	\$ 12,644,140
Elan Corporation plc (a)(c)	115,000	<u>282,900</u>
		12,927,040
Computer Services—2.8%		
CIBER, Inc. (a)	1,805,000	\$ 9,295,750
Interland, Inc. (a)	600,000	<u>780,000</u>
		10,075,750
Computer Software—6.9%		
Sybase Inc (a)	800,000	\$ 10,720,000
MSC.Software Corp. (a)	1,272,100	9,820,612
Mentor Graphics Corporation (a)	587,000	<u>4,613,820</u>
		25,154,432
Computer Systems—1.3%		
Optimal Robotics Corp., Class A (a)(d)	763,500	\$ 4,581,000
Data Storage—1.8%		
Imation Corp. (a)	182,000	\$ 6,384,560

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—95.3% (cont.)		
Office Equipment—3.2%		
InFocus Corporation (a)	1,000,000	\$ 6,160,000
MCSi, Inc. (a)	1,125,000	<u>5,343,750</u>
		11,503,750
Instruments—0.3%		
Measurement Specialties, Inc. (a)	550,000	\$ 1,155,000
Machinery & Industrial Processing—4.7%		
SureBeam Corporation, Class A (a)	4,000,000	\$ 16,160,000
Columbus McKinnon Corporation (a)	254,800	<u>973,591</u>
		17,133,591
Other Industrial Goods & Services—0.7%		
Integrated Electrical Services, Inc. (a)	650,000	\$ 2,502,500
Chemicals—1.0%		
H.B. Fuller Company	140,000	\$ 3,623,200
Oil & Natural Gas—5.3%		
St. Mary Land & Exploration Company	350,000	\$ 8,750,000
Cabot Oil & Gas Corporation	250,000	6,195,000
Berry Petroleum Company	250,000	<u>4,262,500</u>
		19,207,500
Total Common Stocks (Cost: \$377,510,896)		346,062,170
Short Term Investments—5.3%		
U.S. Government Bills—2.8%		
United States Treasury Bills, 1.08% - 1.155% due 1/2/2003 - 1/9/2003	\$10,000,000	\$ 9,998,640
Total U.S. Government Bills (Cost: \$9,998,640)		9,998,640
Repurchase Agreements—2.5%		
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$8,000,444 collateralized by U.S. Government Agency Securities	\$ 8,000,000	\$ 8,000,000
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$1,234,236 collateralized by a U.S. Government Agency Security	1,234,167	1,234,167
Total Repurchase Agreement (Cost: \$9,234,167)		<u>9,234,167</u>
Total Short Term Investments (Cost: \$19,232,807)		19,232,807
Total Investments (Cost \$396,743,703)—100.6%		\$ 365,294,977

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Subject to Call	Market Value
Call Options Written—0.0%		
Educational Services—0.0%		
ITT Educational Services, Inc., January 25 Calls	(40,000)	\$ (11,000)
ITT Educational Services, Inc., January 22.50 Calls	(50,000)	<u>(75,000)</u>
		(86,000)
Total Call Options Written (Premiums Received: \$(130,196))—0.0%		\$ (86,000)
Other Liabilities In Excess Of Other Assets—(0.6%)		<u>(2,063,746)</u>
Total Net Assets—100%		<u>\$363,145,231</u>

- (a) Non-income producing security.
- (b) A portion of this security has been segregated to cover written option contracts.
- (c) Represents an American Depository Receipt.
- (d) Represents a foreign domiciled corporation.

THE OAKMARK EQUITY AND INCOME FUND

Report from Clyde S. McGregor and Edward A. Studzinski, Portfolio Managers



"The fixity of a habit is generally in direct proportion to its absurdity."

Proust

Our Results

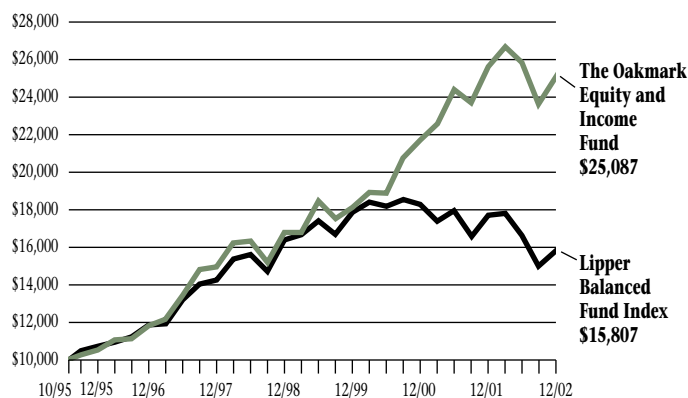
The Oakmark Equity and Income Fund increased 6% for the quarter ended December 31, bringing the calendar year loss to 2%. For the calendar year 2002, the Fund outperformed both the market averages and our primary benchmark, the Lipper Balanced Fund Index, which lost 11% during the year. Suffice it to say that we are not pleased with this result. We appreciate all too well that it is absolute positive returns that preserve and grow your capital. Over time we have achieved that growth and compounding of capital for our long-term investors. Rest assured that it remains our goal and primary focus for both you and ourselves.

Enough Misery To Go Around

Not too long ago, Queen Elizabeth II of Great Britain, in her annual address, spoke about the prior year having been an "annus horribilis" or terrible year. In retrospect, it certainly was that for the markets. Last year was the worst year for stock mutual funds since 1974. If you were looking for a place to hide, they were few and far between. The New York Times fourth quarter Mutual Funds Report cites statistics from Morningstar showing only two fund groups, real estate and gold funds, had positive returns for the year. The New York Times also cites information from Lipper indicating that more than 96% of equity funds finished the year in the red. According to Morgan Stanley research, seventy-five per cent of all stocks in the S&P 500 Index declined in 2002, every single sector in the S&P 500 declined for the year, and style (value or growth) or market capitalization (large or small) made no difference in terms of carnage.

A great deal of time, effort, and newsprint is now being devoted to trying to identify the culprits to blame for this watershed year of investment debacles. The "usual suspects" now include greedy managements fixated on short-term returns, investment bankers and their in-house analysts, the accounting profession, overworked and understaffed regulatory bodies, and governmental leaders in both the legislative and executive branches who were more than willing to accept the largesse flowing into their political action committees from any source when the bulls were running through Main Street U.S.A.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/02) AS COMPARED TO THE LIPPER BALANCED FUND INDEX¹⁷



Average Annual Total Returns⁵

(as of 12/31/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
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Oakmark Equity and Income Fund	6.12%	-2.14%	10.91%	13.68%
S&P 500 ²	8.44%	-22.10%	-0.59%	7.63%
Lehman Govt./Corp. Bond ¹⁸	1.73%	11.04%	7.61%	7.52%
Lipper Balanced Fund Index	5.47%	-10.69%	2.10%	6.59%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

We would like to suggest something radical. In our own way all of us share some culpability for letting unreasonable expectations and an unwillingness to confront the reality of the history of long-term returns from stocks, bonds, and bills in this country blind us to where we were in investment time (or as Pogo would put it, “We have met the enemy and he is us”). Specifically, five consecutive years of returns in the stock market in this country in excess of 19% led people to expect this as the “new” norm, rather than focus on the fact that each successive year was another statistical outlier more than two standard deviations beyond the historic norm. Thus when regression to the mean began, it was first met with disbelief and ultimately shell-shock.

We again refer you to the excellent data compiled by Professor Ibbotson and Ibbotson Associates that describes in detail long-term returns from various asset classes in this country. What we suggest you will find is that long-term returns on stocks, excluding inflation, probably fall in a range of from 7 to 10% on average. A typical balanced fund with a 60% equity/40% fixed-income allocation, again excluding inflation, will probably show an average return of from 6 to 8%. When returns fall outside those bands, the causes of such deviation should be examined.

Will Godot Ever Show Up?

There is a scene in Beckett’s “Waiting for Godot” where one of the characters, almost in despair, laments, “Nothing ever changes. Everything is always the same.” We have to confess that we worry on occasion that many of you will get bored with a certain sameness in these reports, as we relate what we are doing and what if anything we are doing differently. In some respects it would certainly be easier to write these reports if we paid a great deal of attention to macroeconomic forecasting and grand themes (we don’t), for then we could regale you with charts, graphs, interesting bits of gossip, and many of the other everyday facets of what passes for the investment research process at some firms. Well, nothing has changed. We remain focused on selecting individual stocks to invest in which ideally we would like to buy at 60% of our assessment of intrinsic value, where the business value is growing and the managements actually think and act like shareholders and stewards of capital. And if we ever tell you that something has changed in terms of philosophy or implementation, you should question us on it.

In practical terms, during the quarter we initiated positions in Concord EFS Inc., Laboratory Corporation of America, Omnicare, Inc., and Textron when these businesses were available, however briefly, at prices that met our criteria. In particular, one business which met our criteria and which we were able to purchase was Laboratory Corporation of America, the #2 independent medical lab testing company in the country. The quality and competitive position of the business had already begun to

Highlights

- Seventy-five percent of all stocks in the S&P 500 declined in 2002; the carnage caught every market sector, investment style, and market capitalization.
- During the quarter we initiated new positions in five companies, including Laboratory Corporation of America, the #2 independent medical lab testing company.
- We will sell holdings if they violate our core investment tenets; one such sale this past quarter was the result of our assessment of management’s shareholder orientation.

intrigue us when it suddenly became available at a very attractive price when the market reacted to an earnings short-fall pre-announcement and the stock sold off more than 40%. The business should benefit over time from continued outsourcing and as consolidation in the industry allow the larger companies to bring to bear the benefits of scale.

Also of benefit, will be the demographics of an aging population—we do tend to be tested more as we get older. And, the number and type of tests will increase as genetic discoveries revolutionize medical science with new non-invasive diagnostic tests replacing or supplementing previously invasive (and with some degree of risk) procedures for detecting diseases such as colon and other types of cancer. Finally, this is a business with certain barriers to entry given the Laboratory Corporation’s huge number of contractual managed care relationships in place.

We would also like to discuss briefly the sale of one investment, namely our holding in Legacy Hotel REIT. Legacy is a Canadian hotel real estate investment trust whose primary assets are the former Canadian Pacific urban hotels in Canada. Many of those hotels are unique in both history and setting, and they have been well maintained over time. In many Canadian cities such as Toronto there are effective competitive barriers to entry in the form of taxes, zoning, and a lack of available land. Post-September 11th, we had the opportunity to take a position in the company at an attractive price relative to business value. Since that time both Canada’s hotels in general and Legacy’s portfolio in particular, had statistically outperformed the American competition in terms of occupancy and REVPAR (revenue per available room) growth. Legacy was also in the position of having first right of refusal to acquire other Canadian Pacific hotel and resort assets if they were to be sold. We were pleased when they exercised those rights, acquiring irreplaceable assets such as The Empress Hotel in Victoria, BC and Le

Chateau Frontenac in Quebec City, Quebec. We were also enthusiastic when Legacy indicated it was considering at some point in the future the acquisition of another irreplaceable asset, namely Le Chateau Whistler. While this was a small position relative to the overall portfolio, the competitive position of the properties, the growing business value, and management's apparent shareholder focus all met our investment criteria. All of that changed in the last quarter when management (which is also the management of Fairmont Hotels) announced their first acquisition of a U.S. property in Washington, DC. One, we (and many other shareholders) found the price being paid to be excessive, especially as management seemed to be overly optimistic about the dilution entailed and the competitive potential of the property. Two, it changed the basic nature of the investment. Three, it appeared to us that management was not acting in the best interest of Legacy's shareholders. Accordingly, after considering our options, we exited our position at a small loss. We will do the same thing, whenever our assessment of management's shareholder orientation proves to be incorrect as indicated by both action, explanation, and our independent assessment of same.

The Future

One of Mark Twain's more entertaining essays was about the variability and unpredictability of the weather in New England. We feel the same way about the markets. The good news is that recognizing that neither we (nor anyone else that we know of) have any special skill in this regard, we don't devote any time to it, preferring to continue our search for business values that meet our investment criteria. Rest assured that still is the primary focus of our daily activities (and we also tremendously enjoy doing it). We are grateful to you, our shareholders and partners, for entrusting us with your capital to manage and your patience.



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January 6, 2003

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Shares Held	Market Value
Equity and Equivalents—57.2%		
Common Stocks—56.7%		
Food & Beverage—0.1%		
UST Inc. (a)	100,000	\$ 3,343,000
Broadcasting & Publishing—0.8%		
Gemstar-TV Guide International Inc. (a)	7,000,000	\$ 22,750,000
Cable Systems & Satellite TV—1.7%		
General Motors Corporation, Class H (Hughes Electronics Corporation) (a)	4,392,300	\$ 46,997,610
Information Services—2.3%		
Ceridian Corporation (a)	4,294,600	\$ 61,928,132
Marketing Services—1.0%		
The Interpublic Group of Companies, Inc.	2,050,000	\$ 28,864,000
Recreation & Entertainment—0.9%		
International Game Technology (a)	345,000	\$ 26,192,400
Retail—4.4%		
J.C. Penney Company, Inc.	2,200,000	\$ 50,622,000
BJ's Wholesale Club, Inc. (a)	2,275,000	41,632,500
Office Depot, Inc. (a)	1,980,000	29,224,800
		<u>121,479,300</u>
Insurance—3.0%		
SAFECO Corporation	2,200,000	\$ 76,274,000
RenaissanceRe Holdings Ltd. (b)	150,000	5,940,000
PartnerRe, Ltd. (b)	25,000	1,295,500
		<u>83,509,500</u>
Other Financial—0.9%		
GATX Corporation	1,050,000	\$ 23,961,000
Real Estate—1.7%		
Catellus Development Corporation (a)	2,031,500	\$ 40,325,275
Hospitality Properties Trust	200,000	7,040,000
		<u>47,365,275</u>
Health Care Services—2.4%		
Caremark Rx, Inc. (a)	2,795,300	\$ 45,423,625
IMS Health Incorporated	1,050,000	16,800,000
Omnicare, Inc.	125,000	2,978,750
		<u>65,202,375</u>

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held	Market Value
Equity and Equivalent—57.2% (cont.)		
Managed Care Services—2.7%		
First Health Group Corp. (a)	3,000,000	\$ 73,050,000
Medical Centers—2.9%		
Laboratory Corporation of America Holdings (a)	3,400,000	\$ 79,016,000
Medical Products—4.1%		
Guidant Corporation (a)	1,750,000	\$ 53,987,500
Apogent Technologies Inc. (a)	1,750,000	36,400,000
Techne Corporation (a)	525,000	14,998,200
Edwards Lifesciences Corporation (a)	275,000	<u>7,004,250</u>
		112,389,950
Pharmaceuticals—2.3%		
Watson Pharmaceuticals, Inc. (a)	2,225,000	\$ 62,900,750
Computer Services—0.4%		
Concord EFS, Inc. (a)	647,900	\$ 10,197,946
Computer Software—5.0%		
Synopsys, Inc. (a)(c)	2,000,000	\$ 92,300,000
Novell, Inc. (a)	8,000,000	26,720,000
Mentor Graphics Corporation (a)	2,500,000	<u>19,650,000</u>
		138,670,000
Computer Systems—1.1%		
The Reynolds and Reynolds Company, Class A	1,164,000	\$ 29,647,080
Aerospace & Defense—3.4%		
Honeywell International, Inc.	2,100,000	\$ 50,400,000
Rockwell Collins, Inc.	1,882,900	<u>43,796,254</u>
		94,196,254
Agricultural Equipment—0.1%		
Alamo Group Inc.	141,900	\$ 1,738,275
Diversified Conglomerates—0.3%		
Textron, Inc.	215,000	\$ 9,242,850
Instruments—1.7%		
Varian Inc. (a)	1,599,400	\$ 45,886,786

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Equity and Equivalents—57.2% (cont.)		
Machinery & Industrial Processing—2.9%		
Rockwell Automation International Corporation	2,075,000	\$ 42,973,250
Cooper Industries, Ltd.	1,000,000	<u>36,450,000</u>
		79,423,250
Transportation Services—0.1%		
Nordic American Tanker Shipping Limited (b)	154,900	\$ 2,097,346
Agricultural Operations—2.4%		
Monsanto Company	3,500,000	\$ 67,375,000
Forestry Products—2.0%		
Plum Creek Timber Company, Inc.	2,309,644	\$ 54,507,598
Oil & Natural Gas—6.1%		
Burlington Resources Inc.	2,000,000	\$ 85,300,000
XTO Energy, Inc.	1,528,000	37,741,600
St. Mary Land & Exploration Company	1,044,300	26,107,500
Cabot Oil & Gas Corporation	750,000	<u>18,585,000</u>
		167,734,100
Total Common Stocks (Cost: \$1,519,431,772)		1,559,665,777
Convertible Bonds—0.5%		
Cable Systems & Satellite TV—0.5%		
EchoStar Communications Corporation, 4.875% due 1/1/2007	\$15,000,000	\$ 13,293,750
Total Convertible Bonds (Cost: \$12,326,085)		13,293,750
Total Equity And Equivalents (Cost: \$1,531,757,857)		1,572,959,527
Fixed Income—36.3%		
Preferred Stocks—0.1%		
Bank & Thrifts—0.1%		
Pennfed Capital Trust, Preferred, 8.90%	27,500	\$ 694,100
BBC Capital Trust I, Preferred, 9.50%	19,964	501,895
Fidelity Capital Trust I, Preferred, 8.375%	43,500	<u>436,305</u>
		1,632,300
Telecommunications—0.0%		
MediaOne Finance Trust III, Preferred, 9.04%	20,000	\$ 494,000
Total Preferred Stocks (Cost: \$2,048,387)		2,126,300

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Par Value	Market Value
Fixed Income—36.3% (cont.)		
Corporate Bonds—1.6%		
Broadcasting & Programming—0.5%		
Liberty Media Corporation, 8.25% due 2/1/2030, Debenture	\$12,900,000	\$ 13,567,291
Building Materials & Construction—0.0%		
Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note	\$ 750,000	\$ 742,500
Cable Systems & Satellite TV—0.1%		
CSC Holdings Inc., 7.875% due 12/15/2007	\$ 3,000,000	\$ 2,883,750
Hotels & Motels—0.2%		
HMH Properties, 7.875% due 8/1/2005, Senior Note Series A	\$ 3,450,000	\$ 3,398,250
Park Place Entertainment, 7.00% due 7/15/2004, Senior Notes	2,750,000	2,782,059
		<u>6,180,309</u>
Retail—0.5%		
The Gap, Inc., 6.90% due 9/15/2007	\$ 9,187,000	\$ 8,957,325
Rite Aid Corporation, 7.625% due 4/15/2005, Senior Notes	4,900,000	4,483,500
Ugly Duckling Corporation, 12.00% due 10/23/2003, Subordinated Debenture	650,000	585,000
		<u>14,025,825</u>
Medical Products—0.2%		
CONMED Corporation, 9.00% due 3/15/2008	\$ 5,610,000	\$ 5,834,400
Machinery & Industrial Processing—0.1%		
Columbus McKinnon Corporation New York, 8.50% due 4/1/2008	\$ 3,000,000	\$ 2,160,000
Electric Utilities—0.0%		
Midland Funding Corporation, 11.75% due 7/23/2005	\$ 500,000	\$ 510,000
Total Corporate Bonds (Cost: \$43,531,697)		45,904,075
Government and Agency Securities—34.6%		
Canadian Government Bonds—0.4%		
Canada Government, 3.50% due 6/1/2004	\$15,000,000	\$ 9,569,719

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Par Value	Market Value
Government and Agency Securities—34.6% (cont.)		
U.S. Government Notes—33.5%		
United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed	\$243,725,250	\$ 263,946,890
United States Treasury Notes, 5.75% due 11/15/2005	150,000,000	165,814,500
United States Treasury Notes, 3.50% due 11/15/2006	150,000,000	156,093,750
United States Treasury Notes, 1.875% due 9/30/2004	125,000,000	125,874,000
United States Treasury Notes, 3.375% due 1/15/2012, Inflation Indexed	66,363,700	72,543,820
United States Treasury Notes, 7.875% due 11/15/2004	25,000,000	27,917,000
United States Treasury Notes, 5.25% due 5/15/2004	25,000,000	26,333,000
United States Treasury Notes, 2.875% due 6/30/2004	25,000,000	25,552,725
United States Treasury Notes, 3.00% due 2/29/2004	25,000,000	25,498,050
United States Treasury Notes, 3.00% due 1/31/2004	25,000,000	25,464,850
United States Treasury Notes, 7.25% due 8/15/2004	5,000,000	5,469,335
		<u>920,507,920</u>
U.S. Government Agencies—0.7%		
Federal Home Loan Mortgage Corporation, 3.75% due 11/26/2007	\$ 10,000,000	\$ 10,165,630
Fannie Mae, 3.875% due 9/7/2004	5,000,000	5,023,440
Federal Home Loan Bank, 5.10% due 12/26/2006	2,035,000	2,110,041
Federal Home Loan Bank, 3.875% due 12/15/2004	1,000,000	1,040,222
Federal Home Loan Bank, 3.625% due 6/13/2007	485,000	487,192
		<u>18,826,525</u>
Total Government and Agency Securities (Cost: \$915,244,610)		948,904,164
Total Fixed Income (Cost: \$960,824,694)		996,934,539

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Par Value/Shares Subject to Call	Market Value
Short Term Investments—7.0%		
U.S. Government Bills—4.2%		
United States Treasury Bills, 1.17% - 1.33% (c) due 1/2/2003 - 2/6/2003	\$115,000,000	\$ 114,946,215
Total U.S. Government Bills (Cost: \$114,940,234)		114,946,215
Repurchase Agreements—2.8%		
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$70,003,889 collateralized by U.S. Government Agency Securities	\$70,000,000	\$ 70,000,000
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$6,233,995 collateralized by U.S. Government Agency Securities	6,233,649	<u>6,233,649</u>
Total Repurchase Agreement (Cost: \$76,233,649)		76,233,649
Total Short Term Investments (Cost: \$191,173,883)		191,179,864
Total Investments (Cost \$2,683,756,434)—100.5%		\$2,761,073,930
Call Options Purchased—0.0%		
Retail—0.0%		
Office Depot, Inc., April 17.50 Calls	150,000	\$ 75,000
Total Call Options Purchased (Cost: \$76,000)		\$ 75,000

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Shares Subject to Call/ Shares Subject to Put	Market Value
Call Options Written—0.0%		
Computer Software—0.0%		
Synopsys, Inc., January 50 Calls	(300,000)	\$ (135,000)
Total Call Options Written (Premiums Received: \$(233,993))—0.0%		\$ (135,000)
Put Options Written—0.0%		
Retail—0.0%		
Office Depot, Inc., January 15 Puts	(150,000)	\$ (112,500)
Computer Software—0.0%		
Synopsys, Inc., January 45 Puts	(300,000)	\$ (375,000)
Total Put Options Written (Premiums Received: \$(1,273,471))—0.0%		\$ (487,500)
Foreign Currencies (Cost \$19)—0.0%		19
Other Liabilities In Excess Of Other Assets—(0.5%)		<u>(12,865,882)</u>
Total Net Assets—100%		<u><u>\$2,747,660,567</u></u>

(a) Non-income producing security.

(b) Represents a foreign domiciled corporation.

(c) A portion of this security has been segregated to cover written option contracts.

THE OAKMARK GLOBAL FUND

Report from Gregory L. Jackson and Michael J. Welsh, Portfolio Managers



Fellow Shareholders,

The Oakmark Global Fund had a strong quarter, gaining 15% for the three-month period ending December 31, 2002. This quarter's results compare favorably with the 8% increase for the MSCI World Index and the 6% increase for the Lipper Global Fund Index.

For the calendar year 2002, The Oakmark Global Fund lost 2%, compared to the significant declines of 20% and 19% for the MSCI World Index and the Lipper Global Fund Index, respectively. Most importantly, since inception the Fund has returned 9% annualized compared to sizable declines in the above indices.

Another Interesting Year

This has been a very volatile year—has there been any other kind since the Fund's inception? This year saw wild share price swings around the globe: the US market hit lows not seen since 1996, the German and UK markets retreated to mid 1990's levels, and Japan, almost inconceivably, hit even lower lows with the Nikkei²¹ retreating to levels not seen since the early 1980's.

Investor panic reached a crescendo this September, when underlying business performance became completely irrelevant to share price performance. A number of our holdings which were negatively impacted rebounded strongly in the Fourth Quarter, most importantly Ericsson, Vivendi Universal, and Novell.

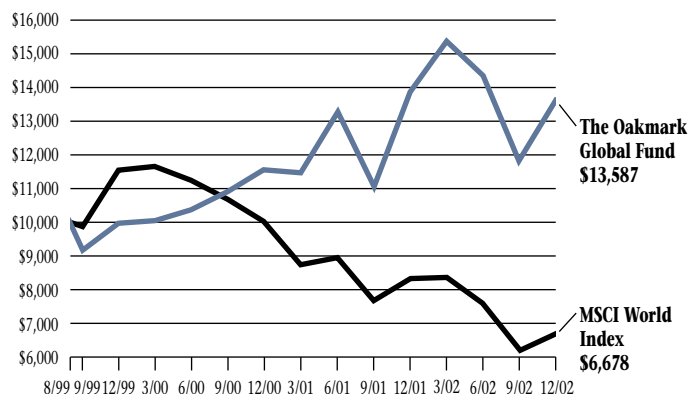
During trying times its often heartening to remember a very positive attribute of volatile markets and wild swings in investor sentiment: opportunity. Greater volatility usually creates greater gaps between share prices and underlying business value. Long-term investors, in short, should welcome short-term volatile markets for the better opportunity they create.

Where are we finding the most interesting opportunities? We have found a group of investments, formerly classified as "growth" stocks, that we think represent tremendous value. Many are blue-chip names we traditionally have not owned because the market values them so highly. These stocks include Vivendi Universal (France), LM Ericsson (Sweden), Grupo Televisa (Mexico), GlaxoSmithKline (UK), Liberty Media, First Data Corporation and Interpublic Group (all US-based). These holdings help illustrate our belief that there are not two separate and distinct buckets of growth stocks and value stocks—any company with a superior growth rate can be a value stock given the right price.

Significant Performers

For the second straight year, ITT Educational was the single biggest positive contributor to the Fund's NAV.²² As a reminder we have owned ITT

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (12/31/02) AS COMPARED TO THE MSCI WORLD INDEX¹⁹



Average Annual Total Returns⁵

(as of 12/31/02)

	Total Return Last 3 Months*	1-year	3-year	Since Inception (8/4/99)
--	-----------------------------	--------	--------	--------------------------

Oakmark Global Fund	14.87%	-2.11%	10.82%	9.40% ⁷
MSCI World	7.64%	-19.89%	-16.66%	-11.13%
Lipper Global Fund Index ²⁰	6.05%	-18.65%	-14.40%	-7.54%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

Educational on three different occasions. We first began buying ITT Educational in the fall of 1999 at an average price of about \$6.50 and sold the majority of the position in the spring of 2001 at an average price of about \$17.50. We repurchased ITT Educational after the September 11th attack in 2001 at an average price of about \$13.50 and sold the position in the spring of 2002 at an average price of roughly \$27.50. Lastly, we again purchased shares in ITT Educational Services in the fall of 2002 at an average price of roughly \$17 and the stock is currently trading for roughly \$24 per share. Luckily, market volatility has continued to provide us opportunities to own this fine company.

The Fund's history with ITT Educational illustrates some key aspects of our philosophy and our process. First, it demonstrates our strict adherence to a buy and sell discipline based solely on our calculation of a firm's intrinsic value. Our holding period for an investment is simply the length of time it takes for price and value to converge. Another important point this stock highlights is our desire to own businesses that are growing value per share. Our target sell prices for ITT Educational have ascended over the past three years, a reflection of the superb job management has done in building business value. Finally, this example underscores that in our research process we try to always remain current on our appraisals of businesses we believe have superior attributes, hoping that at some point price weakness will allow us to own them on our price terms.

Other strong performers for the year included Hite Brewery and Lotte Chilsung Beverage (both located in Korea), Cytoc Corp and First Health Group (both US healthcare companies), Somerfield (UK supermarket chain), Ansell (global medical and consumer products company located in Australia), and Hunter Douglas (Netherlands).

The single largest negative contributor for the calendar year was Swedish telecommunications equipment giant LM Ericsson. Through the first nine-months of the year the market continued to punish the share price for the slow-down in infrastructure spending, ignoring the significant cost reduction programs implemented by management. The stock recovered strongly during the Fourth Quarter as overriding pessimism gave way to recognition of tremendous undervaluation. While we can't predict when the turn in order flow will happen, we do believe that with their tremendous mobile infrastructure franchise, Ericsson is well positioned to benefit from the increase in capital spending that will occur.

Other significant negative contributors were Gemstar-TV Guide and Efund, both US companies. Regarding Gemstar, we clearly overestimated the quality of the business and the prior management team. The former management team has been replaced, and a new team lead by CEO Jeff Shell, formerly of News Corporation (which owns 43% of Gemstar), is now in place. Going forward, we view Jeff's job as restoring the core TV Guide franchise and expanding the Interactive Program Guide and other interactive assets such as TV Games Network. Gemstar remains a cheap company, trading for less than 8 times our estimate 2002 cashflow.

Highlights

- Greater volatility creates greater gaps between prices and underlying value, creating long-term opportunity.
- We have found value in former "growth" stocks—blue-chip names we traditionally haven't owned.
- This year saw wild price swings around the globe with many countries hitting recent lows, including the U.S., Germany, the U.K. and Japan.

Efund is currently the fund's largest position. While the stock price performed poorly in 2002 due to some management missteps, we believe Efund now has a strong management team led by Paul Walsh and a solid business outlook. Efund participates in many fast growing areas of the economy including debit card processing and security screening brought about by the new Patriot Act. We believe Efund remains undervalued, trading at about half of our appraised value for the company. With a strong new management team and exciting secular growth prospects, we believe Efund has a bright future.

Looking Ahead

Given the attractive prices and the quality level of the businesses currently held in the portfolio, we remain quite excited about the future prospects for The Oakmark Global Fund. Thank you for your continued confidence and support.



Gregory L. Jackson
Portfolio Manager
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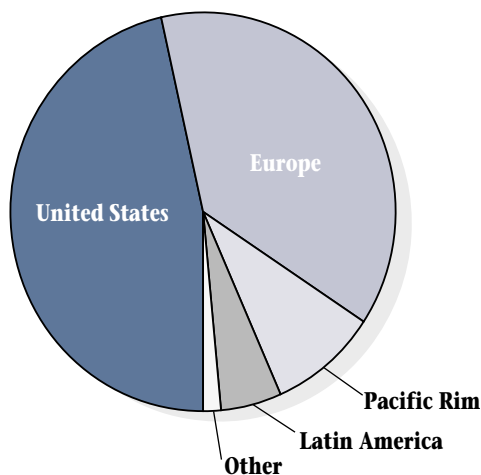


Michael J. Welsh, CFA, CPA
Portfolio Manager
mwelsh@oakmark.com

January 6, 2003



THE OAKMARK GLOBAL FUND




Global Diversification—December 31, 2002 (Unaudited)



**% of Fund Equity
Market Value**

**% of Fund Equity
Market Value**

	United States	46.5%
	Europe	37.8%
	Great Britain	11.3%
	* Italy	7.0%
	* France	5.6%
	* Netherlands	4.4%
	Switzerland	3.6%
	Sweden	3.2%
	* Germany	2.7%

	Pacific Rim	9.1%
	Japan	6.1%
	Australia	1.9%
	Korea	1.1%
	Latin America	5.1%
	Mexico	5.1%
	Other	1.5%
	Israel	1.5%

* Euro currency countries comprise 19.7% of the Fund.

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—90.7%			
Food & Beverage—3.4%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	518,900	\$ 5,637,745
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	4,800	<u>2,266,346</u>
			7,904,091
Household Products—2.5%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	104,700	\$ 5,737,266
Automobiles—1.6%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	1,933,500	\$ 3,639,826
Broadcasting & Programming—6.2%			
Liberty Media Corporation, Class A (United States) (a)	Broadcast Services & Programming	950,000	\$ 8,493,000
Grupo Televisa S.A. (Mexico) (a)(b)	Television Production & Broadcasting	207,600	<u>5,798,268</u>
			14,291,268
Broadcasting & Publishing—1.0%			
Gemstar-TV Guide International Inc. (United States) (a)	Electronic Program Guide Services	700,000	\$ 2,275,000
Educational Services—3.4%			
ITT Educational Services, Inc. (United States) (a)(c)	Postsecondary Degree Programs	333,300	\$ 7,849,215
Home Furnishings—4.0%			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	309,800	\$ 9,275,973
Human Resources—3.7%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	4,786,500	\$ 8,436,264

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—90.7% (cont.)			
Information Services—9.8%			
eFunds Corporation (United States) (a)	Electronic Debit Payment Services	1,550,000	\$ 14,120,500
Ceridian Corporation (United States) (a)	Data Management Services	600,000	<u>8,652,000</u>
			22,772,500
Marketing Services—5.0%			
The Interpublic Group of Companies, Inc. (United States)	Advertising & Marketing Services	825,000	\$ 11,616,000
Retail—3.7%			
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	1,394,000	\$ 6,608,048
Somerfield plc (Great Britain)	Food Retailer	1,403,000	<u>1,930,820</u>
			8,538,868
Bank & Thrifts—5.8%			
U.S. Bancorp (United States) (c)	Commercial Bank	265,000	\$ 5,623,300
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Bank	387,200	4,316,588
Washington Mutual, Inc. (United States) (c)	Thrift	100,000	<u>3,453,000</u>
			13,392,888
Financial Services—1.5%			
Credit Suisse Group (Switzerland) (a)	Investment Services & Insurance	158,100	\$ 3,428,509
Other Financial—2.9%			
Daiwa Securities Group Inc. (Japan)	Stock Broker	1,512,000	\$ 6,709,532
Managed Care Services—4.2%			
First Health Group Corp. (United States) (a)	Health Benefits Company	400,000	\$ 9,740,000
Medical Products—1.7%			
Ansell Limited (Australia) (a)	Protective Rubber & Plastics Products	934,000	\$ 3,940,663

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—90.7% (cont.)			
Pharmaceuticals—3.4%			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	404,800	\$ 7,747,121
Telecommunications Equipment—2.9%			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	9,400,000	\$ 6,594,595
Computer Services—5.3%			
First Data Corporation (United States)	Data Processing & Management	175,000	\$ 6,196,750
Meitec Corporation (Japan)	Software Engineering Services	246,800	<u>6,026,608</u>
			12,223,358
Computer Software—8.3%			
Novell, Inc. (United States) (a)	Network & Internet Integration Software	3,150,000	\$ 10,521,000
Synopsys, Inc. (United States) (a)	Electronic Design Automation	185,000	<u>8,537,750</u>
			19,058,750
Airport Maintenance—2.1%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	419,000	\$ 4,923,250
Diversified Conglomerates—5.1%			
Vivendi Universal SA (France)	Multimedia	729,500	11,774,321
Instruments—1.5%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	225,000	\$ 3,095,775
Waters Corporation (United States) (a)	Chromatography Equipment	25,000	<u>544,500</u>
			3,640,275
Chemicals—1.7%			
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	8,970	\$ 4,020,095
Total Common Stocks (Cost: \$210,142,669)			209,529,628

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Par Value	Market Value
Short Term Investments—9.7%			
U.S. Government Bills—5.2%			
	United States Treasury Bills, 1.08% - 1.09% due 1/2/2003 - 1/16/2003	\$12,000,000	\$ 11,997,748
	Total U.S. Government Bills (Cost: \$11,997,748)		11,997,748
Repurchase Agreements—4.5%			
	IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$8,000,444 collateralized by a U.S. Government Agency Security	8,000,000	\$ 8,000,000
	IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$2,347,176 collateralized by a U.S. Government Agency Security	2,347,046	<u>2,347,046</u>
	Total Repurchase Agreement (Cost: \$10,347,046)		10,347,046
	Total Short Term Investments (Cost: \$22,344,794)		22,344,794
	Total Investments (Cost \$232,487,463)—100.4%		\$ 231,874,422

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Subject to Call/ Shares Subject to Put	Market Value
Call Options Written—0.0%			
Educational Services—0.0%			
ITT Educational Services, Inc., January 25 Calls (United States)	Postsecondary Degree Programs	\$ (7,300)	\$ (2,008)
ITT Educational Services, Inc., April 25 Calls (United States)	Postsecondary Degree Programs	(80,000)	(110,000) (112,008)
Total Call Options Written (Premiums Received: \$(128,606))—0.0%			\$ (112,008)
Put Options Written—(0.1%)			
Computer Software—(0.1%)			
Synopsys, Inc., January 45 Puts (United States)	Electronic Design Automation	(97,500)	\$ (121,875)
Total Put Options Written (Premiums Received: \$(264,790))—(0.1%)			\$ (121,875)
Other Liabilities In Excess Of Other Assets—(0.3%)			(700,364)
Total Net Assets—100%			<u>\$230,940,175</u>

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

(c) A portion of this security has been segregated to cover written option contracts.

THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

Fellow Shareholders,

Your funds have ended the year on a positive note. Though they both generated negative returns for the calendar year, the 4th calendar quarter showed a nice turnaround generating gains for The Oakmark International and Oakmark International Small Cap Funds of 9% and 8%, respectively. This compares favorably to the lesser gains in the various indices, as noted in each Funds' respective letter. More importantly, our medium and long-term performance has been outstanding. The Oakmark International Fund is up 10% per annum since its inception in 1992. Oakmark International Small Cap is up 7% per annum since its inception in 1995. Both compare very favorably to the relative indices and peer groups.

It's been a very unique time....

Please consider for a moment what has happened over the last few years:

- a massive implosion of equity market values around the world, with most major markets touching multi-year lows in the Third Quarter 2002, and with the Japanese market hitting the level of the early 1980's;
- a terrorist attack that has cost the economy and the global insurance industry billions of dollars;
- the persistent threat of war;
- an extremely contentious presidential election in The United States;
- a number of corporate chieftains around the globe fired or forced to resign because of poor corporate performance; and,
- corporate governance and fraud scandals that were instrumental in the bankruptcies of major US firms in the tech, telecom and energy sectors.

.... And yet...

The Global economy actually grew in 2002 and at an acceptable rate. The United States ended the year growing at 3-4%, and Asia is growing 5% plus. Though Germany and Japan are still sick, the rest of Europe is doing better. While we all feared the outcome of the Brazilian election, Luiz Inacio Lula da Silva ("Lula"), Brazil's newly elected leader, seems at this point to be very pragmatic and in a good position to solve some of Brazil's problems. Brazil is Latin America's largest and most important economy. A possibility of a turnaround could spur growth for the entire region.

The point is that the economic resilience we are seeing is setting the stage for corporate earnings and share prices to

Highlights

- The global economy actually grew in 2002 at an acceptable rate: the U.S. at 3 – 4% and Asia at 5% plus. And while Germany and Japan are still sick, the rest of Europe is doing better.
- Large increases in productivity spurred on by new technology, low interest rates, and sound monetary policy are partly behind economic resilience.
- With global share prices at attractive valuations, we are enthusiastic about international equity prospects in the coming years.

recover around the globe. The world has sustained some major shocks and has handled them exceptionally well. We believe that the large increases in productivity spurred on by new technology, low interest rates and sound monetary policy as well as the continued development of the world's largest country, China, are partly behind this resilience. With share prices at attractive valuations all over the globe we cannot help being anything but enthusiastic about international equity prospects in the next few years.

Our stocks....

As we do every December, we will discuss the individual stocks that had the greatest impact on each of the Funds' NAVs²² during the past twelve months. Please see the specific fund write-up for details.

Going forward

We remain focused on identifying strong absolute return opportunities currently being created by short-term volatility in the markets. We continue to find lots of companies, across countries and industries, that meet our strict investment criteria.

Finally, we thank our loyal shareholders who continue to place their trust and hard earned savings with us. We will continue to work hard to deliver strong results.



David G. Herro, CFA
Portfolio Manager
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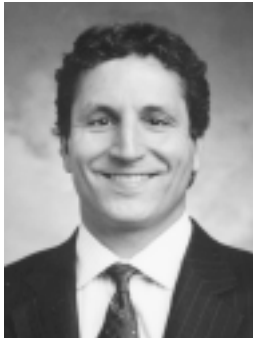
January 6, 2003



Michael J. Welsh, CFA, CPA
Portfolio Manager
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THE OAKMARK INTERNATIONAL FUND

Report from David G. Herro and Michael J. Welsh, Portfolio Managers



The Oakmark International Fund was up 9% for the quarter, compared with 7% gains in the MSCI World ex-US and the Lipper International Fund indices.

Over the past twelve month's your Fund has generated a loss of 8%, relative to the larger declines of 16% in the MSCI World ex-US index and 14% in the Lipper International Fund Index.

Impact Players for 2002

Givaudan, the Swiss flavors and fragrances company, generated the largest positive impact on the Fund's NAV²² during 2002. Givaudan was spun-off from Roche Holdings in 2000, and remained somewhat neglected by investors. That changed this year as management's strong record in both operations and capital allocation was rewarded in the market with a higher share price.

Once again our Korean holdings were among the top performers for the year. Lotte Chilsung Beverage and Kumkang Korea Chemical were near the top in positive contribution to NAV. We have owned both of these companies for over five years and they continue to deliver solid price appreciation. And in our view, they are still cheap.

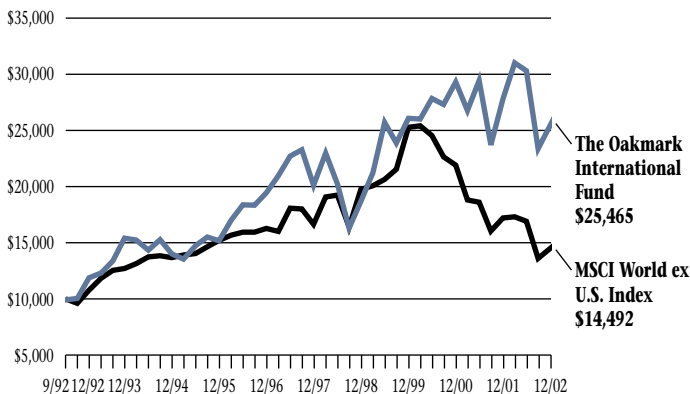
Somerfield plc, the UK supermarket operator, continued to make slow but sure progress in restructuring their troubled Kwik Save chain. Another solid contributor for the year was Banco Popolare di Verona. High quality management is exceeding expectations in integrating their recent Novara acquisition.

By far the single biggest negative impact on NAV for the year came from Ericsson. As discussed in the Oakmark Global letter, the market continued to punish the stock in 2002 for the slow-down in telecommunication infrastructure spending, ignoring the company's strong market position and the significant headway management has made on cost reductions. The stock has rallied strongly from its low in the third quarter, contributing significantly to fourth quarter performance, and we continue to believe Ericsson is very well positioned to benefit from any return in telecommunications capital spending.

Another negative contributor was Unibanco, the Brazilian retail bank. The share price remains under pressure due to concerns about the new Brazilian government. We have sold our entire position as we found better risk-reward opportunities in a number of other financial services companies, all of which had significant share price declines. While still cheap, we felt companies such as Credit Suisse Group, BNP-Paribas, Daiwa Securities and San Paolo IMI are all more attractive at current prices than Unibanco.

Orbotech, the Israeli optical inspection specialist, was another negative contributor as a slump in electronics and technology spending hurt short-term results. We remain confident about the

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/02) COMPARED TO THE MSCI WORLD EX U.S. INDEX²³



Average Annual Total Returns⁵

Total Return Last 3 Months*	(as of 12/31/02)				Since Inception (9/30/92)
	1-year	5-year	10-year		

Oakmark International

Fund	8.99%	-8.46%	4.85%	9.75%	9.54%
MSCI World ex. U.S.	6.54%	-15.80%	-2.72%	4.17%	3.68%
MSCI EAFE ³	6.45%	-15.94%	-2.89%	4.00%	3.50%
Lipper International Fund Index ²⁴	6.64%	-13.83%	-1.64%	5.55%	5.28%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

company's long-term prospects and the large gap between business value and the current market price.

Finally, another loser for the Fund was Cordiant Communications. As long-term shareholders will remember, we made significant profits on our first go-round with this company but, unfortunately, not this time. Though Cordiant remains statistically cheap, we believe increasing our ownership in Publicis Groupe, a much stronger French advertising holding company, and Aegis, the UK-based global media buyer, provides superior risk-reward opportunities in this sector.

Looking Forward

We remain optimistic based on the large number of attractive absolute return opportunities in the portfolio. We thank you for your continued confidence.



David G. Herro, CFA
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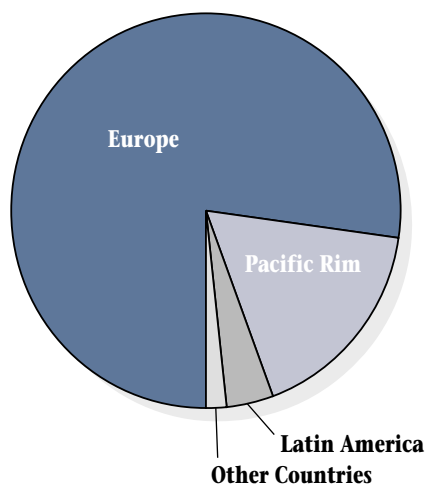


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January 6, 2003

THE OAKMARK INTERNATIONAL FUND

Global Diversification—December 31, 2002 (Unaudited)



% of Fund Equity Market Value

	% of Fund Equity Market Value
Europe	77.2%
Great Britain	22.7%
* France	16.9%
* Netherlands	10.2%
Sweden	8.4%
Switzerland	6.2%
* Italy	4.1%
* Germany	3.9%
* Finland	2.5%
* Greece	2.3%

% of Fund Equity Market Value

	% of Fund Equity Market Value
Pacific Rim	17.2%
Japan	7.3%
Korea	4.6%
Australia	3.0%
Hong Kong	1.7%
Singapore	0.6%
Latin America	3.9%
Mexico	3.7%
Brazil	0.1%
Panama	0.1%
Other	1.7%
Israel	1.7%

* Euro currency countries comprise 39.9% of the Fund.

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—96.1%			
Food & Beverage—8.0%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	4,491,700	\$ 48,801,422
Pernod-Ricard SA (France)	Manufactures Wines, Spirits, & Fruit Juices	323,300	31,295,319
Fomento Economico Mexicano S.A. de C.V. (Mexico) (b)	Soft Drink & Beer Manufacturer	706,800	25,741,656
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	49,700	23,466,127
Cadbury Schweppes plc (Great Britain)	Beverage & Confectionary Manufacturer	1,468,000	9,168,024
			<u>138,472,548</u>
Household Products—2.4%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	755,000	\$ 41,371,877
Other Consumer Goods & Services—1.0%			
Swatch Group AG (Switzerland)	Watch Manufacturer	202,300	\$ 16,816,900
Apparel—0.2%			
Fila Holding S.p.A (Italy) (a)(b)	Athletic Footwear & Apparel	2,947,380	\$ 3,890,542
Automobiles—1.4%			
Bayerische Motoren Werke (BMW) AG (Germany)	Luxury Automobile Manufacturer	787,200	\$ 23,875,658
Automotive—3.0%			
Compagnie Generale des Etablissements Michelin (France)	Tire Manufacturer	770,600	\$ 26,556,359
Autoliv Inc (Sweden) (c)	Automotive Safety Systems Manufacturer	1,248,000	25,620,241
			<u>52,176,600</u>

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—96.1% (cont.)			
Broadcasting & Programming—2.0%			
Grupo Televisa S.A. (Mexico) (a)(b)	Television Production & Broadcasting	1,145,600	\$ 31,996,608
Tokyo Broadcasting System, Inc. (Japan)	Television & Radio Broadcasting	157,000	<u>1,972,415</u>
			33,969,023
Building Materials & Construction—0.9%			
Kumkang Korea Chemical Co., Ltd. (Korea)	Building Materials	162,140	\$ 15,994,587
Home Furnishings—3.0%			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	1,718,584	\$ 51,457,520
Human Resources—2.5%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	24,736,600	\$ 43,598,554
Marketing Services—4.7%			
Aegis Group plc (Great Britain)	Media Services	39,066,900	\$ 49,205,229
Publicis Groupe (France)	Advertising & Media Services	1,461,700	<u>30,965,749</u>
			80,170,978
Publishing—3.0%			
John Fairfax Holdings Limited (Australia)	Newspaper Publisher	27,580,400	\$ 49,959,440
Wolters Kluwer NV (Netherlands)	Reference Material Publisher	59,552	<u>1,036,756</u>
			50,996,196
Retail—5.5%			
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	73,240,300	\$ 28,644,161
Somerfield plc (Great Britain)	Food Retailer	17,297,000	23,804,270
Koninklijke Ahold NV (Netherlands)	Food Retailer	1,769,000	22,448,389

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—96.1% (cont.)			
Retail—5.5% (cont.)			
Signet Group plc (Great Britain)	Jewelry Retailer	18,220,500	<u>19,502,932</u> 94,399,752
Bank & Thrifts—8.4%			
BNP Paribas SA (France)	Commercial Banking	1,055,000	\$ 42,962,725
Sanpaolo IMI S.p.A. (Italy)	Banking Services	5,189,500	33,743,426
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Banking	2,742,200	30,570,628
Svenska Handelsbanken AB (Sweden)	Commercial Banking	1,194,000	15,929,155
United Overseas Bank Limited, Foreign Shares (Singapore)	Commercial Banking	1,426,968	9,706,986
Kookmin Bank (Korea)	Commercial Banking	231,168	8,186,043
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama) (a)(b)	Latin American Trade Bank	515,400	<u>2,345,070</u> 143,444,033
Financial Services—1.7%			
Credit Suisse Group (Switzerland) (a)	Investment Services & Insurance	1,353,500	\$ 29,351,598
Other Financial—5.4%			
Euronext (Netherlands)	Stock Exchange	2,125,200	\$ 46,158,520
Daiwa Securities Group Inc. (Japan)	Stock Broker	10,310,000	<u>45,750,842</u> 91,909,362
Medical Products—2.1%			
Gambro AB, Class A (Sweden)	Manufacturer of Dialysis Products	6,626,500	\$ 36,962,076

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—96.1% (cont.)			
Pharmaceuticals—9.3%			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	3,418,800	\$ 65,429,487
Aventis S.A. (France)	Pharmaceuticals	887,700	48,224,524
Takeda Chemical Industries, Ltd. (Japan)	Pharmaceuticals & Food Supplements	739,000	30,864,264
Novartis AG (Switzerland)	Pharmaceuticals	408,300	<u>14,889,934</u>
			159,408,209
Telecommunications—3.9%			
Panafon Hellenic Telecom S.A. (Greece)	Mobile Telecommunications	6,717,900	\$ 38,326,963
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	144,460	27,892,028
Telemig Celular Participacoes S.A. (Brazil)	Mobile Telecommunications	1,806,000,000	<u>1,943,744</u>
			68,162,735
Telecommunications Equipment—3.5%			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	84,803,300	\$ 59,493,977
Computer Services—2.4%			
Meitec Corporation (Japan)	Software Engineering Services	1,711,300	\$ 41,788,228
Aerospace—1.3%			
Rolls-Royce plc (Great Britain)	Aviation & Marine Power	13,102,195	\$ 22,723,713
Airport Maintenance—0.2%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	242,000	\$ 2,843,500

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Par Value	Market Value
Common Stocks—96.1% (cont.)			
Diversified Conglomerates—4.2%			
Vivendi Universal SA (France)	Multimedia	4,464,900	\$ 72,064,658
Haw Par Corporation Limited (Singapore)	Healthcare & Leisure Products	58,338	<u>109,637</u>
			72,174,295
Instruments—1.6%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	2,041,200	\$ 28,084,871
Machinery & Industrial Processing—2.4%			
Metso Corporation (Finland)	Paper & Pulp Machinery	3,863,000	\$ 41,728,609
Other Industrial Goods & Services—4.8%			
FKI plc (Great Britain)	Industrial Manufacturing	21,083,000	\$ 29,438,783
Chargeurs SA (France)	Wool, Textile Production & Trading	1,050,201	28,085,657
Enodis plc (Great Britain) (a)	Food Processing Equipment	33,585,320	<u>26,488,876</u>
			84,013,316
Transportation Services—2.1%			
Associated British Ports Holdings Plc (Great Britain)	Port Operator	5,698,099	\$ 36,526,137
Chemicals—5.2%			
Akzo Nobel N.V. (Netherlands)	Chemical Producer	1,518,300	\$ 48,135,747
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	91,000	<u>40,783,577</u>
			88,919,324
Total Common Stocks (Cost: \$1,786,828,661)			1,654,724,718

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Description	Par Value	Market Value
Short Term Investments—3.8%			
U.S. Government Bills—1.2%			
	United States Treasury Bills, 1.08% - 1.20% due 1/2/2003 - 1/9/2003	\$20,000,000	\$ 19,997,267
	Total U.S. Government Bills (Cost: \$19,997,267)		19,997,267
Repurchase Agreements—2.6%			
	IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$42,002,333 collateralized by U.S. Government Agency Securities	\$42,000,000	\$ 42,000,000
	IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$2,449,915 collateralized by a U.S. Government Agency Security	2,449,779	<u>2,449,779</u>
	Total Repurchase Agreement (Cost: \$44,449,779)		44,449,779
	Total Short Term Investments (Cost: \$64,447,046)		64,447,046
	Total Investments (Cost \$1,851,275,707)—99.9%		\$1,719,171,764
	Other Assets In Excess Of Other Liabilities—0.1%		<u>1,915,255</u>
	Total Net Assets—100%		<u>\$1,721,087,019</u>

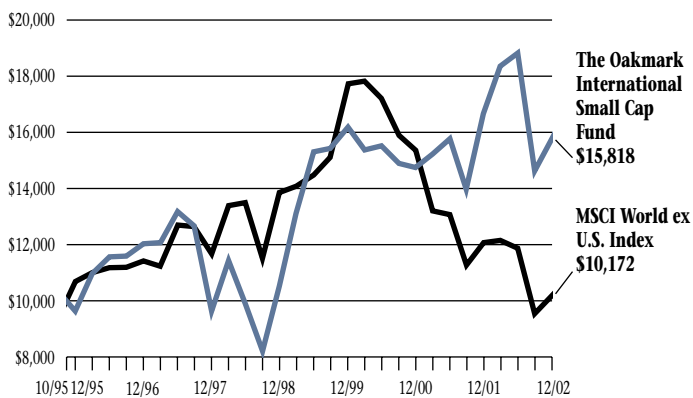
- (a) Non-income producing security.
- (b) Represents an American Depository Receipt.
- (c) Represents a Swedish Depository Receipt.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Report from David G. Herro and Michael J. Welsh, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/02) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX²³



Average Annual Total Returns⁵

(as of 12/31/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
Oakmark International Small Cap Fund	8.04%	-5.12%	10.40%	6.60%
MSCI World ex. U.S.	6.54%	-15.80%	-2.72%	0.24%
Lipper International Small Cap Average ²⁵	2.92%	-12.13%	2.61%	6.27%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

The Oakmark International Small Cap Fund was up 8% for the quarter, compared with gains in the MSCI World ex-US Index and the Lipper International Small Cap Average, of 7%, and 3%, respectively.

Over the past twelve month's your Fund generated a loss of 5%, relative to the larger declines of 16% in the MSCI World ex-US Index and 12% in the Lipper International Small Cap Average.

Impact Players for 2002

Restructuring stories were some of the strongest performers for the Fund in 2002. Australiasia was home to the Fund's two biggest positive contributors to performance. Ansell, the legacy company of restructured conglomerate Pacific Dunlop, provided the biggest single positive contribution to the Fund's NAV.²² The process of transforming Pacific Dunlop into Ansell was misunderstood and/or ignored by the market, and our analyst Rob Taylor deserves a lot of credit for bringing clarity to a convoluted situation to the Fund's benefit. Fletcher Building of New Zealand was also a very strong performer, as the fruits of a restructuring program instituted by new management became apparent to the market.

Other significant positive contributors were Jarvis Hotels (UK), where management unlocked value hidden in the company's real estate, and Schindler Holding (Switzerland) as the market welcomed moves by the new management including a return of capital.

The stock with the largest single negative impact on Fund performance this year was Bladex, the leader in Latin American trade financing. The share price was devastated by a number of issues including Brazilian worries, the debt crisis in Argentina and a subsequent rights offering needed to preserve the company's credit rating. In short, we underestimated credit risk and overestimated the company's flexibility.

Solvus, the Belgium temporary services provider, was also a very poor performer. A tough competitive environment confirmed that we had overestimated the quality of their business franchise and we have subsequently sold all our shares.

Three European manufacturers had significant, though we believe temporary, negative impacts on the Fund: Gurit-Heberlien, Pfeiffer Vacuum Technology, and Natuzzi. Swiss-based Gurit-Heberlien is in the midst of a restructuring that should eventually highlight the share's undervaluation. Pfeiffer is suffering from the malaise that infects German manufacturing at present, though, unlike most of their peers, the company remains extremely profitable. The share price of Natuzzi, the Italian furniture manufacturer, is suffering

from worries about the overall economy and consumer confidence.

Looking Forward

Given the quality of the holdings and the attractive valuation of the portfolio, we remain quite optimistic regarding long-term appreciation potential. We want to thank you for your continued confidence.



David G. Herro, CFA

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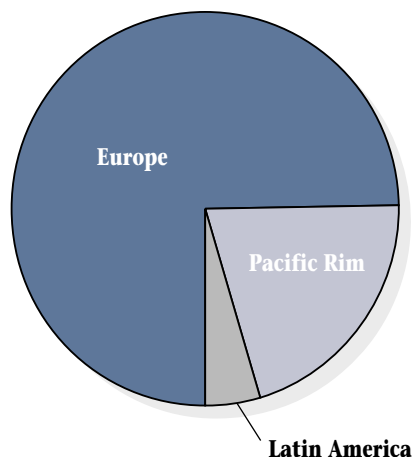
Michael J. Welsh, CFA, CPA

Portfolio Manager
mwelsh@oakmark.com


January 6, 2003

THE OAKMARK INTERNATIONAL SMALL CAP FUND



Global Diversification—December 31, 2002 (Unaudited)



% of Fund Equity Market Value

	Europe	74.7%
	Switzerland	19.6%
	* Italy	14.5%
	* France	10.5%
	Great Britain	9.2%
	Denmark	6.9%
	* Germany	4.4%
	* Netherlands	2.9%
	Sweden	2.9%
	* Spain	2.2%
	* Finland	1.6%

% of Fund Equity Market Value

	Pacific Rim	20.7%
	Australia	6.8%
	New Zealand	3.9%
	Japan	3.2%
	Hong Kong	2.1%
	Singapore	1.5%
	Korea	1.3%
	Philippines	1.1%
	Thailand	0.8%
	Latin America	4.6%
	Mexico	4.6%

* Euro currency countries comprise 36.1% of the Fund.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—98.7%			
Food & Beverage—5.3%			
Campari Group (Italy) (a)	Soft Drinks, Wines, & Spirits Producer	216,800	\$ 6,768,775
Baron De Ley, S.A. (Spain) (a)	Wines & Spirits Manufacturer	150,985	4,338,667
Grupo Continental, S.A. (Mexico)	Soft Drink Manufacturer	2,144,500	3,498,704
Hite Brewery Co., Ltd. (Korea)	Brewer	57,700	2,388,660
Alaska Milk Corporation (Philippines)	Milk Producer	49,394,000	<u>2,035,531</u>
			19,030,337
Other Consumer Goods & Services—0.4%			
Royal Doulton plc (Great Britain) (a)	Tableware & Giftware	22,373,000	\$ 1,530,492
Apparel—0.3%			
Kingmaker Footwear Holdings Limited (Hong Kong)	Athletic Footwear Manufacturer	4,395,000	\$ 1,155,311
Automobiles—2.6%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	5,177,200	\$ 9,746,111
Broadcasting & Programming—0.5%			
ABS-CBN Broadcasting Corporation (Philippines) (a)	Television & Broadcasting Operator	6,569,300	\$ 1,999,647
Broadcasting & Publishing—2.6%			
Tamedia AG (Switzerland)	TV Broadcasting & Publishing	176,836	\$ 9,459,205
Building Materials & Construction—2.6%			
Fletcher Building Limited (New Zealand)	Building Materials Manufacturer	5,483,200	\$ 9,627,046

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—98.7% (cont.)			
Home Furnishings—2.9%			
Natuzzi S.p.A. (Italy) (b)	Home Furnishings	1,037,100	\$ 10,536,936
Human Resources—1.0%			
DIS Deutscher Industrie Service AG (Germany)	Recruitment Consultancy Services	239,900	\$ 3,849,405
Information Services—3.5%			
Baycorp Advantage Limited (Australia)	Credit Reference Services	12,242,300	\$ 12,947,383
Marketing Services—1.9%			
Asatsu-DK, Inc. (Japan)	Advertising Services Provider	397,700	\$ 7,049,162
Publishing—3.5%			
Edipresse S.A. (Switzerland)	Newspaper & Magazine Publisher	14,274	\$ 4,746,306
Recoletos Grupo de Comunicacion, S.A. (Spain)	Publisher	880,000	3,783,890
Matichon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	2,039,500	2,859,554
VLT AB, Class B (Sweden)	Newspaper Publisher	178,450	<u>1,498,200</u>
			12,887,950
Recreation & Entertainment—0.1%			
Konami Sports Corporation (Japan)	Fitness Centers	21,500	\$ 425,438
Retail—10.0%			
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	3,305,000	\$ 15,666,857
Carpetright plc (Great Britain)	Carpet Retailer	1,289,100	12,169,496
D.F.S. Furniture Company plc (Great Britain)	Furniture Retailer & Manufacturer	1,534,200	<u>8,741,847</u>
			36,578,200

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—98.7% (cont.)			
Bank & Thrifts—6.0%			
Vontobel Holding AG (Switzerland)	Commercial Banking	723,686	\$ 11,404,044
Jyske Bank A/S (Denmark) (a)	Commercial Banking	398,500	10,799,611
			<u>22,203,655</u>
Financial Services—5.3%			
Van der Moolen Holding N.V. (Netherlands)	International Trading Firm	496,100	\$ 10,665,840
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	39,900	8,652,595
			<u>19,318,435</u>
Other Financial—2.8%			
JCG Holdings Limited (Hong Kong)	Consumer Finance	12,851,000	\$ 6,303,104
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	2,480,000	4,176,491
			<u>10,479,595</u>
Medical Products—3.2%			
Ansell Limited (Australia) (a)	Protective Rubber & Plastics Products	2,832,925	\$ 11,952,465
Computer Services—3.5%			
Morse Plc (Great Britain)	Business & Technology Solutions	5,310,900	\$ 10,899,241
Sopra Group (France)	Computer Engineering	69,127	1,211,424
Alten (France) (a)	Systems Consulting & Engineering	92,341	677,898
			<u>12,788,563</u>
Computer Systems—2.1%			
Lectra (France) (a)	Manufacturing Process Systems	1,668,500	\$ 7,909,274
Office Equipment—4.0%			
Neopost SA (France) (a)	Mailroom Equipment Supplier	460,400	\$ 14,823,326

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—98.7% (cont.)			
Airport Maintenance—7.5%			
Kobenhavns Lufthavne A/S (Copenhagen Airports A/S) (Denmark)	Airport Management & Operations	200,600	\$ 14,440,414
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	1,129,000	13,265,749
			<u>27,706,163</u>
Diversified Conglomerates—4.5%			
Pargesa Holding AG (Switzerland)	Diversified Operations	5,374	\$ 9,711,580
Financiere Marc de Lacharriere SA (Fimalac) (France)	Diversified Operations	176,200	4,680,724
Tae Young Corp. (Korea)	Heavy Construction	73,000	2,338,856
			<u>16,731,160</u>
Instruments—1.6%			
Vaisala Oyj, Class A (Finland)	Atmospheric Observation Equipment	241,000	\$ 5,808,166
Machinery & Industrial Processing—6.6%			
Pfeiffer Vacuum Technology AG (Germany)	Vacuum Pump Manufacturer	599,240	\$ 12,016,021
Alfa Laval (Sweden) (a)	Filtration & Separation Equipment	1,133,100	9,122,139
Carbone Lorraine SA (France)	Electrical Systems Manufacturer	119,682	2,793,997
			<u>23,932,157</u>
Other Industrial Goods & Services—4.6%			
Schindler Holding AG (Switzerland)	Elevator & Escalator Manufacturer	63,200	\$ 11,877,982
GFI Industries SA (France) (c)	Industrial Fastener Manufacturer	241,813	5,021,308
			<u>16,899,290</u>

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2002 (Unaudited) cont.

Name	Description	Shares Held/ Par Value	Market Value
Common Stocks—98.7% (cont.)			
Production Equipment—3.0%			
Interpump Group S.p.A. (Italy)	Pump & Piston Manufacturer	2,330,200	\$ 9,897,379
NSC Groupe (France)	Textile Equipment Manufacturer	12,316	<u>1,059,791</u>
			10,957,170
Transportation Services—2.7%			
DelGro Corporation Limited (Singapore)	Bus, Taxi, & Car Leasing	4,380,700	\$ 5,429,629
Mainfreight Limited (New Zealand)	Logistics Services	7,765,726	<u>4,477,019</u>
			9,906,648
Chemicals—4.1%			
Gurit-Heberlein AG (Switzerland)	Chemical Producer	32,734	\$ 15,261,985
Total Common Stocks (Cost: \$403,174,494)			363,500,675
Short Term Investments—1.1%			
Repurchase Agreements—1.1%			
IBT Repurchase Agreement, 1.00% due 1/2/2003, repurchase price \$4,151,514 collateralized by a U.S. Government Agency Security		\$4,151,283	\$ 4,151,283
Total Repurchase Agreement (Cost: \$4,151,283)			4,151,283
Total Short Term Investments (Cost: \$4,151,283)			4,151,283
Total Investments (Cost \$407,325,777)—99.8%			\$367,651,958
Other Assets In Excess Of Other Liabilities—0.2%			<u>820,601</u>
Total Net Assets—100%			<u>\$368,472,559</u>

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

(c) Effective January 2, 2003, GFI Industries SA changed its name to LISI.

This material must be preceded or accompanied by a prospectus. To order a prospectus, which explains management fees and expenses and the special risks of investing in the funds, visit www.oakmark.com or call 1-800-OAKMARK. Please read the prospectus carefully before investing.

The discussion of investments and investment strategy of the funds represents the investments of the funds and the views of fund managers and Harris Associates L.P., the funds' investment adviser, at the time of this article, and are subject to change without notice.

Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than original cost.

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

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 return more volatile than a more diversified fund.

Investing in foreign securities represents risks which in some way may be greater than in U.S. investments. Those risks include: currency fluctuation; different regulation, accounting standards, trading practices and levels of available information; generally higher transaction costs; and political risks.

The stocks of smaller companies often involve more risk than the stocks of larger companies. Stocks of small companies tend to be more volatile and have a smaller public market than stocks of larger companies. Small companies may have a shorter history of operations than larger companies, may not have as great an ability to raise additional capital and may have a less diversified product line, making them more susceptible to market pressure.

The Oakmark Equity and Income Fund invests in medium and lower-quality debt securities which have higher yield potential but present greater investment and credit risk than higher-quality securities.

1. The Dow Jones Industrial Average is an unmanaged index that includes only 30 big companies. This index is unmanaged and investors cannot actually make investments in this index.
2. The S&P 500 Index is a broad market-weighted average of U.S. blue-chip companies. This index is unmanaged and investors cannot actually make investments in this index.
3. Morgan Stanley Capital International Europe, Australasia and Far East Index ("EAFE") is an unmanaged index of companies throughout the world in proportion to world stock market capitalizations, excluding the U.S. and Canada. This index is unmanaged and investors cannot actually make investments in this index.
4. The NASDAQ Composite Index is a market value weighted index of all common stocks listed on NASDAQ. This index is unmanaged and investors cannot actually make investments in this index.
5. Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.

The performance information for The Oakmark Select Fund, The Oakmark Small Cap Fund, The Oakmark Global Fund, The Oakmark International Fund and The Oakmark International Small Cap Fund does not reflect the imposition of a 2% redemption fee on shares held by an investor less than 90 days. The purpose of this redemption fee is to deter market timers.

6. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.
7. During the period since inception (8/4/99 - 12/31/02), IPOs contributed an annualized 2.51% to the performance of The Oakmark Global Fund. As the IPO environment changes and the total net assets of the Fund grow, the impact of IPOs on performance is expected to diminish. "IPO" stands for Initial Public Offering, which is the first sale of stock by a company to the public.
8. EPS refers to Earnings Per Share and is calculated by dividing total earnings by the number of shares outstanding.

9. The Lipper Large Cap Value Fund Index measures the performance of the thirty largest U.S. large-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
10. Morningstar is an independent monitor of mutual fund performance. The Oakmark Fund ranked #105 out of 827, #134 out of 482 and #9 out of 162 funds in the Large Cap Value Funds category for one, five and ten years, respectively, as of 12/31/02.
11. After tax returns are presented as supplemental information to comments in the report from the portfolio managers. The Fund's "Return after taxes on distributions" shows the effect of taxable distributions, but assumes that you still hold the Fund shares at the end of the period. The Fund's "Return after taxes on distributions and sale of Fund shares" shows the effect of both taxable distributions and any taxable gain or loss that would be realized if the Fund shares were purchased at the beginning and sold at the end of the specified period. After-tax returns are calculated using the historical individual federal marginal income tax rates in effect at the time of each distribution and assumed sale, but do not reflect the impact of local and state taxes. Actual after-tax returns depend on the investor's tax situation and may differ from those shown, and the after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred accounts such as 401(k) plans or individual retirement accounts. **Past performance, before and after taxes, cannot predict future investment results.**
12. The S&P MidCap 400 is an unmanaged broad market-weighted index of 400 stocks that are in the next tier down from the S&P 500 and that are chosen for market size, liquidity, and industry group representation. This index is unmanaged and investors cannot actually make investments in this index.
13. The Lipper Mid Cap Value Fund Index measures the performance of the thirty largest U.S. mid-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
14. The Russell 2000 Index is an unmanaged, market-weighted index, with dividends reinvested, of 2,000 small companies, formed by taking the largest 3,000 small companies and eliminating the largest 1,000 of those companies. This index is unmanaged and investors cannot actually make investments in this index.
15. The S&P Small Cap 600 Index measures the performance of selected U.S. stocks with small market capitalizations. This index is unmanaged and investors cannot actually make investments in this index.
16. The Lipper Small Cap Value Fund Index measures the performance of the thirty largest U.S. small-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
17. The Lipper Balanced Fund Index measures the performance of the thirty largest U.S. balanced funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
18. The Lehman Govt./Corp. Bond Index is an unmanaged index that includes the Lehman Government and Lehman Corporate indices. This index is unmanaged and investors cannot actually make investments in this index.
19. The MSCI World Index is made up of 20 country sub-indexes, including the stock exchanges of the U.S., Europe, Canada, Australia and New Zealand, and the Far East. This index is unmanaged and investors cannot actually make investments in this index.
20. The Lipper Global Fund Index measures the performance of the 30 largest mutual funds that invest in securities throughout the world. This index is unmanaged and investors cannot actually make investments in this index.
21. The Nikkei Index is an Index of 225 leading stocks traded on the Tokyo Stock Exchange. This index is unmanaged and investors cannot actually make investments in this index.
22. NAV stands for Net Asset Value. NAV is the dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities divided by the number of shares outstanding.
23. The Morgan Stanley World Ex U.S. Index is made up of 19 country sub-indexes, excluding the U.S. This index is unmanaged and investors cannot actually make investments in this index.
24. The Lipper International Funds Index reflects the net asset value weighted total return of the 30 largest international equity funds. This index is unmanaged and investors cannot actually make investments in this index.
25. The Lipper International Small Cap Average includes 100 mutual funds that invest in securities whose primary markets are outside of the U.S. This index is unmanaged and investors cannot actually make investments in this index.

THE OAKMARK FAMILY OF FUNDS

Trustees and Officers

The board of trustees has overall responsibility for the conduct of the affairs of Harris Associates Investment Trust (“Trust”), and its seven series, The Oakmark Family of Funds. Each trustee serves until the next annual meeting of shareholders and until the election and qualification of his or her successor, or until he or she dies, resigns or is removed. Each trustee must retire at the end of the calendar year in which the trustee attains the age of 72. The board of trustees may fill any vacancy on the board provided that after such appointment, at least two-thirds of the trustees have been elected by the shareholders. No person shall be appointed or elected to serve as a trustee after attaining the age of 65. The shareholders may remove a trustee by a vote of two-thirds of the outstanding shares of the Trust at any meeting of shareholders called for the purpose of removing such trustee.

The board of trustees elects or appoints the officers of the Trust. The president, any vice president, treasurer and secretary serves until the election and qualification of his or her successor, or until he or she dies, resigns, or is removed or disqualified. Each other officer shall serve at the pleasure of the board of trustees. The board of trustees may remove any officer at any time, with or without cause, by the vote of a majority of the trustees then in office.

The names and ages of the trustees and officers, the position each holds with the Trust, the date each was first elected to office, their principal business occupations during the last five years and other directorships held are shown below.

Name and Age at September 30, 2002, Positions Held with the Trust, Date First Elected or Appointed to Office, Principal Occupations During Past 5 Years, Other Directorships Held

Trustee who is an “interested person”*

Peter S. Voss, 55, Trustee, 1995

President and Chief Executive Officer, CDC IXIS Asset Management North America, L.P., formerly known as Nvest Companies, L.P. and its predecessor firms (investment management); Director, Harris Associates, Inc. (“HAI”). Chairman of the Board, AEW Real Estate Income Fund (an closed-end investment company); Chairman of the Board and Chief Executive Officer, CDC Nvest Funds (an open-end investment company—14 portfolios).

Trustees who are not “interested persons”

Victor A. Morgenstern, 59, Trustee and Chairman of the Board of Trustees, 1991

Chairman of the Board and Chief Executive Officer, Resolute Advisors (private investment management firm); Principal, Valor Equity Partners, LLC (private equity fund); formerly, Chairman of the Board, HAI, 1996-2000 and President and Chief Executive Officer, prior thereto; Chairman, Harris Partners, L.L.C., 1995-2000, Director, Bio-Sante Pharmaceuticals, Inc.

Michael J. Friduss, 60, Trustee, 1995

Principal, MJ Friduss & Associates, Inc. (telecommunications consultants). None.

Thomas H. Hayden, 51, Trustee, 1995

Executive Vice President, Campbell Mithun (advertising and marketing communication agency). None.

Christine M. Maki, 41, Trustee, 1996

Vice President—Tax, Hyatt Corporation (hotels and resorts). None.

Trustees and Officers cont.

Allan J. Reich, 54, Trustee, 1993

Vice Chairman of the law firm D'Ancona & Pflaum LLC. None.

Marv R. Rotter, 56, Trustee, 1996

Senior Advisor to President and CEO of AXA Advisors, LLC (formerly named Rotter & Associates), since 1999, and General Manager, prior thereto (financial services firm). None.

Burton W. Ruder, 58, Trustee, 1995

President, The Academy Financial Group (venture capital investment and transaction financing firm); Manager, Cedar Green Associates (real estate management firm). None.

Gary N. Wilner, M.D., 62, Trustee, 1993

Senior Attending Physician, Evanston Hospital; Medical Director—CardioPulmonary Wellness Program, Evanston Hospital Corporation. None.

Officers of the Trust

James P. Benson, 45, Vice President and Portfolio Manager (The Oakmark Small Cap Fund), 2000

Portfolio Manager and Analyst, Harris Associates L.P. ("HALP"), since 1997. None.

Henry R. Berghoef, 53, Vice President and Portfolio Manager (The Oakmark Select Fund), 2000

Associate Director of Research, Portfolio Manager and Analyst, HALP. None.

Kevin G. Grant, 38, Vice President and Portfolio Manager (The Oakmark Fund), 2000

Portfolio Manager and Analyst, HALP. None.

David G. Herro, 41, Vice President and Portfolio Manager (The Oakmark International Fund and The Oakmark International Small Cap Fund), 1992

Portfolio Manager and Analyst, HALP. None.

Gregory L. Jackson, 36, Vice President and Portfolio Manager (The Oakmark Global Fund), 2000

Portfolio Manager and Analyst, HALP, since July 1998; Portfolio Manager and Analyst, Yacktman Asset Management Inc., prior thereto. None.

John J. Kane, 31, Assistant Treasurer, 1999

Manager—Mutual Fund and Institutional Services, HALP. None.

Robert Levy, 52, President, 2001

Director, President and Chief Executive Officer, HAI, since 1997; Chief Executive Officer, Harris Associates Securities L.P. ("HASLP"), since 1995; Chairman of the Board and Chief Investment Officer, since 2001, Chief Executive Officer, since 1997 and President, since 1996, HALP. None.

Clyde S. McGregor, 49, Vice President and Portfolio Manager (The Oakmark Small Cap Fund and The Oakmark Equity and Income Fund), 1995

Portfolio Manager and Analyst, HALP. None.

Anita M. Nagler, 46, Vice President, 2001

Managing Director of Alternative & International Investing Group, HAI since 2001; formerly, Chief Operating Officer and Vice President, HAI, General Counsel, HALP, Chief Operating Officer and General Counsel, HASLP, 2000-2001; Chief Legal Officer, HASLP, prior thereto. None.

William C. Nygren, 43, Vice President and Portfolio Manager (The Oakmark Fund and The Oakmark Select Fund), 1996
Portfolio Manager and Analyst, HALP; formerly, Director of Research, HALP, 1990-1998. None.

John R. Raitt, 47, Vice President, 2002
Chief Operating Officer, HALP, since 2001; Director of Research, HALP since 1998; Associate Director of Research and Analyst, HALP, prior thereto. None.

Janet L. Reali, 51, Vice President and Secretary, 2001
Vice President, General Counsel and Secretary, HALP, since 2001; formerly, Senior Executive Vice President, General Counsel and Secretary, Everen Capital Corp. and Everen Securities, Inc. 1995-1999 (broker/dealer). None.

Ann W. Regan, 54, Vice President—Shareholder Operations and Assistant Secretary, 1996
Director of Mutual Fund Operations, HALP. None.

Kristi L. Rowsell, 36, Treasurer, 2000
Director, Chief Financial Officer and Treasurer, HAI; Chief Financial Officer, HALP and HASLP, since 1999; Assistant Treasurer, HALP, prior thereto. None.

Edward A. Studzinski, 53, Vice President and Portfolio Manager (The Oakmark Equity and Income Fund), 2000
Portfolio Manager and Analyst, HALP. None.

Michael J. Welsh, 39, Vice President and Portfolio Manager (The Oakmark Global Fund, The Oakmark International Fund and The Oakmark International Small Cap Fund), 1997
Portfolio Manager and Analyst, HALP. None.

* Mr. Voss is a trustee who is an “interested person” of the Funds as defined in the Investment Company Act of 1940, because he is a director of HAI, the general partner and manager of HALP, the investment adviser to the Funds. Mr. Voss is also the President and Chief Executive Officer of CDC IXIS Asset Management North America, L.P. the parent company of HALP.

The business address of the officers and trustees is Two North LaSalle Street, #500, Chicago, Illinois 60602.

The Statement of Additional Information (SAI) contains further information about the trustees and is available without charge upon your request by calling 1-800-625-6275.

THE OAKMARK FAMILY OF FUNDS

Investment Philosophy

All Oakmark managers follow a consistent investment philosophy—to invest in companies they believe are trading at a substantial discount to underlying business value. Critical to this philosophy is to invest with management teams who are committed to maximizing the company’s business value.

Three key tenets of our investment philosophy:

- 1 Buy businesses trading at a significant discount to our estimate of true business value.
- 2 Invest in companies expected to grow shareholder value over time.
- 3 Invest with management teams who think and act as owners.

Investment Process

We seek to identify undervalued companies through an intensive, in-house research process. This process is not based on macro-economic factors, such as the performance of the economy or the direction of interest rates. Nor is it based on technical factors, such as the performance of the stock market itself. And, while some value managers might use only one summary statistic—such as price-earnings ratio—our investment professionals take a more in-depth approach using a range of valuation measures appropriate for a specific company or industry.

From the universe of thousands of equity securities, our team generates investment ideas through a variety of methods. If a security appears attractive, detailed quantitative and qualitative research follows. This careful process of identifying undervalued stocks results in an “approved list.”

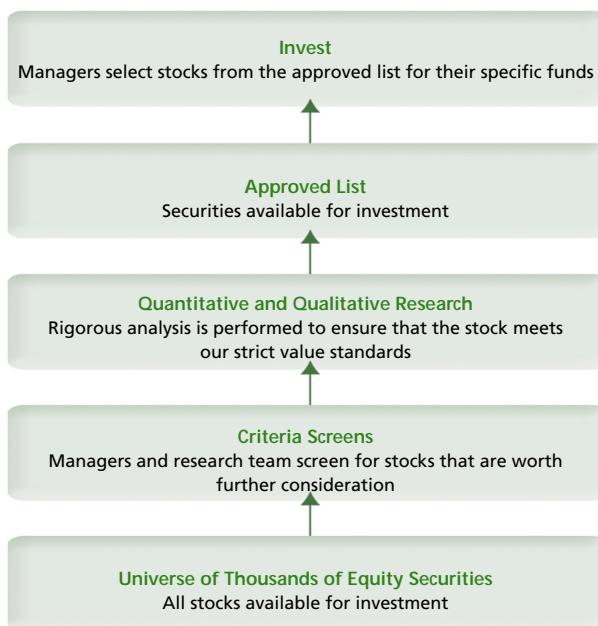
The Result: a unified effort aimed at identifying the best values in the marketplace. From the list of approved stocks, each fund manager constructs a relatively focused portfolio, built on a stock-by-stock basis from the bottom up.

Who Should Invest

Any investor who is seeking a disciplined value manager for the purposes of growing and diversifying a portfolio should consider one of the Oakmark funds, keeping in mind that all equity investments should be considered long-term investments. As value investors, we recognize that patience is a virtue and believe that, over the long term, investors are rewarded for their patience. We generally hold the companies in which we invest for three to five years, a time horizon that we encourage our shareholders to consider as well.

How to Use Value Funds in an Overall Portfolio

Investment styles tend to move in cycles. One style may be in favor for a few years while the other is out of favor, and vice versa. Diversifying the stock portion of your portfolio to include value and momentum/growth investment styles may help reduce overall volatility—and potentially provide more consistent returns over time.



Bottom-Up Investment Process

The Oakmark Glossary

Book value – A company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill. A company's book value often differs substantially from economic value, especially in industries such as media.

Business value/Intrinsic value – The perceived or estimated actual value of a security, as opposed to its current market price or book value. Business value can be evaluated based on what a knowledgeable buyer would pay for a business if the company were sold in its entirety.

Growth investing – Investors who look for companies based on whether the stock of a company is growing earnings and/or revenue faster than the industry as a whole or the overall market. Growth investors generally expect high rates of growth to persist, and the stock, in turn, to deliver returns exceeding the market's. A growth mutual fund is generally one that emphasizes stocks believed to offer above-average growth prospects, with little to no emphasis on the stock's current price.

M & A (Mergers & Acquisitions) – Merger: the combining of two or more entities into one, through a purchase acquisition or a pooling of interests. Acquisition: can also be called a takeover, and is defined as acquiring control of a corporation, called a target, by stock purchase or exchange, either hostile or friendly.

Market capitalization (market cap or cap) – The market price of an entire company on any given day, calculated by multiplying the number of shares outstanding by the price per share.

Momentum investing – Approach to investing based on the belief that stock price trends are likely to continue. Momentum investors tend to buy stocks that have been outperforming the market and to sell those stocks when their relative performance deteriorates. Momentum investors do not consider a company's underlying value or fundamentals in their investment decisions.

Multiple – A ratio used to measure a stock's valuation, usually greater than 1. Sometimes used to mean price/earnings ratio.

P/B or Price-to-Book Ratio – A stock's capitalization divided by its book value. The value is the same whether the calculation is done for the whole company or on a per-share basis.

P/E or Price-to-Earnings Ratio – The most common measure of a stock's valuation. It is equal to a stock's capitalization divided by its after-tax earnings over a 12-month period. The value is the same whether the calculation is done for the whole company or on a per-share basis. Equivalently, the cost an investor in a given stock must pay per dollar of current annual earnings. Also called earnings multiple.

Share repurchase – Program through which a corporation buys back its own shares in the open market, typically an indication that the corporation's management believes the stock price is undervalued.

Value investing – Investors who utilize valuation measures such as business value (including growth rate), price/earnings ratio, price/book ratio, and yield to gauge the attractiveness of a company. Managers who employ a value investment style believe that the true, underlying value of a company is not reflected in its current share price, and, over time, the price has potential to increase as the market recognizes the overall value of the business. Value stocks sell at relatively low prices in relation to their underlying business value, earnings, or book value.

Stocks become undervalued for a variety of reasons, including an overall market decline, or when a specific industry falls into disfavor and investors view all companies in that industry in the same light. Consequently, an individual company's stock price may fall, even though it may be only temporarily affected by the industry's problems and its underlying value has remained unchanged.

"x times earnings" ("12 times earnings") – Another way to express a stock's price-to-earnings (P/E) ratio. A stock with a P/E ratio of 12 sells at 12 times earnings.



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THE OAKMARK FAMILY OF FUNDS

Other Information

Investment Adviser

Harris Associates L.P.
Two North LaSalle Street
Chicago, Illinois 60602-3790

Transfer Agent

CDC IXIS Asset Management Services, Inc.
Attention: The Oakmark Family of Funds
P.O. Box 8510
Boston, Massachusetts 02266-8510

Legal Counsel

Bell, Boyd & Lloyd LLC
Chicago, Illinois

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