

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, 2003

THE OAKMARK FAMILY OF FUNDS

2004 First Quarter Report

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FORWARD-LOOKING STATEMENT DISCLOSURE

One of our most important responsibilities as mutual fund managers is to communicate with shareholders in an open and direct manner. Some of our comments in our letters to shareholders are based on current management expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from our expectations. You can identify forward-looking statements by words such as "estimate", "may", "will", "expect", "believe", "plan" and other similar terms. We cannot promise future returns. Our opinions are a reflection of our best judgment at the time this report is compiled, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise.

Dear Fellow Shareholders,

Stock markets around the world were strong in the fourth quarter, bringing full year returns for most of the broader market indices to 25% or more. Each of our funds produced significant gains in the quarter and the year. Our relative performance was mixed, however. Some of our funds handily beat their benchmarks, while others posted numbers shy of market returns. This isn't a surprising outcome to us, given the surge in the market. Our conservative approach, buying undervalued companies for long-term appreciation, will often lag the market during those times when momentum receives more market focus than price and value.

Economic Recovery and Realistic Expectations

The world economy continues to strengthen, and corporate earnings reached new highs in the second half of 2003. We believe consumer confidence is high and low interest rates should continue to provide fuel for future economic growth. While the macroeconomic trends are strong, our bottom up investment discipline tempers our outlook. Earnings are up, but share prices are also up. Stock valuations reflect assumptions of continued economic recovery far more broadly than they did a year ago. Likewise, our analysts are finding fewer deeply undervalued new investment ideas. Looking through the rear-view mirror at 25%+ returns, the market looks great. However, history and economics suggest that returns will revert to long-term norms—with prospective returns averaging in the mid-to-high single digits.

Watching Out For Our Shareholders' Interests

These are turbulent times for the mutual fund industry. Investor trust has been shaken by the recent disclosures of improprieties at many mutual fund firms. Our thoughts and policies on these issues are discussed in detail on our website (www.oakmark.com). Those of you that are familiar with our funds know that we have always been focused on doing what is best for our shareholders. In this light, we recently announced the following:

Redemption Fees: Since August 1999, five of our seven funds have had a 2% fee on redemptions of Class I shares held for 90 days or less. Last month, we announced that we will impose the same 2% fee in The Oakmark Fund and The Oakmark Equity and Income Fund. These fees, payable to the funds, discourage market timers and offset any costs to the Funds associated with short-term holders of our shares. We do not believe market timing has been a problem in these two Funds, but given recent history, we feel that it is prudent to take extra measures to protect our shareholders from market timers.

Slowing Cash Inflows: Cash inflows into The Oakmark Global Fund and The Oakmark International Fund were substantial in 2003. In December, to prevent inflows from reaching a level that was difficult for us to accommodate in an orderly way, we chose to slow inflows by closing these two funds to new sales through brokers and



intermediaries. We feel confident that we can continue to prudently invest inflows at the new slower pace.

Personal Investments in the Funds: Disclosure of share ownership by mutual fund managers has become a widely discussed industry issue, with many proposals surfacing for increased disclosures. We have always encouraged broad ownership of the Oakmark Funds by our employees, because we believe that significant fund ownership correctly aligns our interests with those of our shareholders. We also believe in direct, honest and open communications with shareholders. **With this in mind, we have chosen to disclose our Fund share ownership ahead of any new rules, and last month announced that as of the beginning of December 2003, the employees of the Funds' adviser, Harris Associates L.P., and the Funds' officers and trustees had over \$145 million invested in The Oakmark Family of Funds.**

As a final note, on January 1, I succeeded Bob Levy as President of The Oakmark Funds. This completes a transition that began early last year, but does not decrease Bob's important involvement with The Oakmark Funds. After several years as President of the Funds, Bob will now be able to allocate more of his time to his duties as Chief Investment Officer of Harris Associates, leading the domestic investment team that has produced such outstanding performance for the Funds.

Thank you for investing with The Oakmark Family of Funds. We welcome your comments and questions; you can reach us via email at ContactOakmark@oakmark.com.

A handwritten signature in black ink, appearing to read "John R. Raitt".

John R. Raitt
President of The Oakmark Funds
President and CEO of Harris Associates L.P.

THE OAKMARK FAMILY OF FUNDS

Summary Information

<i>Performance for Period Ended December 31, 2003¹</i>	The Oakmark Fund (OAKMX)	The Oakmark Select Fund (OAKLX)	The Oakmark Small Cap Fund (OAKSX)
3 Months*	11.35%	11.53%	10.94%
6 Months*	11.71%	11.57%	17.36%
1 Year	25.30%	29.00%	26.81%
<i>Average Annual Total Return for:</i>			
3 Year	8.26%	12.49%	11.66%
5 Year	4.89%	15.43%	6.00%
10 Year	10.91%	N/A	N/A
Since inception	17.14% (8/5/91)	22.23% (11/1/96)	11.07% (11/1/95)
<i>Value of \$10,000 from inception date</i>	\$71,301	\$42,181	\$23,581
<i>Top Five Equity Holdings as of December 31, 2003²</i>	Washington Mutual, Inc. 3.4%	Washington Mutual, Inc. 16.3%	Tupperware Corporation 4.9%
<i>Company and % of Total Net Assets</i>	H&R Block, Inc. 2.8%	H&R Block, Inc. 8.1%	Checkpoint Systems, Inc. 4.8%
	First Data Corporation 2.7%	Yum! Brands, Inc. 5.6%	Ralcorp Holdings, Inc. 4.8%
	Yum! Brands, Inc. 2.3%	First Data Corporation 5.4%	eFunds Corporation 4.4%
	Fannie Mae 2.3%	Burlington Resources Inc. 4.2%	Instituform Technologies Inc. Class A 4.0%
<i>Top Five Industries as of December 31, 2003</i>	Retail 10.6%	Banks & Thrifts 16.3%	Computer Software 8.6%
<i>Industries and % of Total Net Assets</i>	Pharmaceuticals 8.7%	Other Consumer Goods & Services 12.0%	Food & Beverage 8.2%
	Food & Beverage 7.9%	Retail 10.4%	Banks & Thrifts 7.2%
	Banks & Thrifts 6.8%	Information Services 6.9%	Medical Products 7.2%
	Other Consumer Goods & Services 6.4%	Pharmaceuticals 6.7%	Building Materials & Construction 6.3%

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)
9.19%	13.88%	15.75%	17.81%
11.38%	24.76%	24.66%	34.44%
23.21%	48.98%	38.04%	52.41%
12.47%	20.52%	6.23%	17.78%
12.97%	N/A	13.46%	18.01%
N/A	N/A	8.58%	N/A
14.81% (11/1/95)	17.34% ³ (8/4/99)	11.81% (9/30/92)	11.37% (11/1/95)
\$30,908	\$20,242	\$35,152	\$24,109
Burlington Resources Inc. 3.1%	Diageo plc 5.2%	Diageo plc 3.8%	Baycorp Advantage Limited 4.7%
SAFECO Corporation 2.7%	Nestle SA 4.4%	Aventis S.A. 3.7%	Neopost SA 4.2%
Laboratory Corporation of America Holdings 2.4%	Euronext 3.6%	GlaxoSmithKline plc 3.3%	Kobenhavns Lufthavne A/S (Copenhagen Airports A/S) 3.6%
Cardinal Health, Inc. 2.4%	Aventis S.A. 3.4%	Vivendi Universal SA 3.2%	Schindler Holding AG 3.5%
XTO Energy, Inc. 2.3%	Takeda Chemical Industries, Ltd. 3.4%	Nestle SA 3.1%	Gurit-Heberlein AG 3.4%
U.S. Government Notes 25.2%	Food & Beverage 12.9%	Food & Beverage 13.9%	Retail 8.7%
Oil & Natural Gas 6.7%	Pharmaceuticals 9.1%	Banks & Thrifts 11.5%	Machinery & Industrial Processing 7.8%
Retail 6.5%	Banks & Thrifts 6.7%	Pharmaceuticals 11.4%	Airport Maintenance 6.7%
Food & Beverage 5.1%	Other Financial 6.4%	Chemicals 8.1%	Diversified Conglomerates 6.2%
Health Care Services 4.7%	Information Services 6.3%	Other Financial 7.0%	Food & Beverage 5.6%

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.



What a year! When 2003 began, anyone who expected a double-digit return was viewed as a hopeless optimist. Well, even the optimists underestimated the stock market recovery. Equity mutual funds increased in value by well into the double-digits with most showing gains of 25% or more. What a contrast to 2002 when almost all equity mutual funds

showed negative returns! In 2002 we received numerous e-mails from shareholders concerned about our negative returns. They shared a common theme—what were we suddenly doing wrong? After the market began its ascent in March those e-mails stopped coming. A few even congratulated us on whatever steps we had taken to turn things around. Of course the truth is we hadn't changed anything; it was just the market that had changed. I guess you can't blame investors for believing (erroneously) that a change in what they can observe—our results—must have been caused by a change in what they can't observe—our process.

Over the holidays I read an excellent book by former Treasury Secretary and Goldman Sachs Chief Executive Officer, Robert Rubin. In his book, *In an Uncertain World—Tough Choices from Wall Street to Washington*,⁴ Rubin discusses his career-long approach to decision making in a world that lacks certainty and his belief that decision making should be judged by quality of process rather than by results alone. The book includes humorous anecdotes, such as complications in paying cab fare because the President never carries cash and keeping the President on hold while Rubin landed a fish he'd just hooked. The book also gives good advice to investors; of course the advice I liked best was that individuals should purchase value mutual funds! But the most useful content in the book was the material covering Rubin's approach to decision making. Perhaps I liked it because what he describes so closely resembles how we go about selecting stocks for our funds.

Rubin writes about running the Treasury: "Meetings produced the best results if those who disagreed with the accepted view were encouraged to speak out. So if a

Highlights

- Decision-making should be judged by quality of process rather than by results alone.
- Short-term results will be inconsistent despite applying a consistent process.
- The Oakmark Family has relied on the same investment process throughout its history.

meeting seemed to be moving to a consensus... I would encourage someone to play the role of the devils advocate. Just as important as the freedom to disagree, I think was that this group of high-powered intellects in large measure avoided investing their egos in their arguments. It was a common search for the best answer..." This sounds very much like our weekly stock selection meetings. Analysts present new stock recommendations and all the other investment professionals attempt to shoot holes in their rationale. We have always said that our goal is to identify as many of our mistakes as possible before we lose any money on them. A young analyst's attack on a seasoned analyst's recommendation is not just tolerated, but strongly encouraged. At these meetings we also have reviews of existing holdings that we call "devil's advocate reviews." In these reviews an analyst is assigned to present the most negative arguments against our position. Attacking ideas without being perceived as attacking individuals is critical to the success of our process.

Rubin goes on to talk about how he and Larry Summers would mark up pages of budget numbers: "Larry said to me afterward that people react to sheets of figures in two ways. Some people look at them, take them as a given, and go from there. Others look at numbers and start to question them, looking for inconsistencies, asking what they mean and what stories they tell, wondering about the relationship between them. Larry and I shared that kind of disposition, not just toward numbers but toward all sorts of supposed certainties." We're the type of people that take nothing as given. The afternoon before our stock selection meetings, a packet of reports written by our analysts is distributed to all of our investment people. The next day we each arrive at the meeting with scribbles all over the reports challenging in every way the analysts view of a


company's future. Intellectual curiosity combined with a healthy level of skepticism—because things that look too good to be true usually are—has allowed us to take high quality input from our analysts and make it even better.

One of Rubin's more interesting observations concerns investor's shrinking time horizons: "When I left Washington in 1999, I was astonished at how much greater the short-term focus had become during the bull market. Commentators on the business news channels virtually never spoke about the five-year prospects of companies or had serious discussions of valuation. Today, an analyst who forecasts the five-year prospects for Ford Motor Company will probably never make a living. His customers want to know what the next quarter is like." We often say that our greatest competitive advantage is our long-term investment time horizon. We attempt to project how a business will change over the next five years, whereas most of our competitors are more worried about the next five months! Just as mutual fund investors observe a change in short-term results and erroneously assume the quality of work has changed, stock investors often observe changes in quarterly earnings and assume the quality of the business has changed. This tendency to overreact makes stock prices more volatile than underlying business values. By looking at a longer time-horizon we can apply our efforts to assessing business quality and can take advantage of such short-term over-reactions. The shorter the time frame becomes for the average stock market investor, we believe the greater our long-term advantage becomes. Since the inception of The Oakmark Family of Funds, these reports have always stressed our long-term approach. For investors in our funds to be successful, we believe it is vital that they share our long-term horizon.

As I think about the twelve year history of all the Oakmark portfolios, we have seen both economic booms and recessions. We have seen both war and peace. We have seen amazingly powerful bull markets and equally powerful bear markets. We have seen our short-term performance both lead the fund industry and trail the market averages. But throughout the life of The Oakmark Funds, one thing has remained constant—our investment process. We have always tried to identify businesses that have growing values that are managed by people who think like owners. We have purchased those businesses only if they sell at steep discounts to our estimates of value. Then we have patiently waited for the market to recognize that value. Throughout that process, our investment professionals have worked as a team to maximize our chances for making correct decisions.

Most every mutual fund advertisement contains fine print saying, "past performance is no guarantee of future results." In an uncertain world, there are obviously no promises about how future returns on any fund will compare with past returns. The only—and the best—promise we can make is that the investment process we have been using isn't changing.

Best wishes,



William C. Nygren, CFA
Portfolio Manager

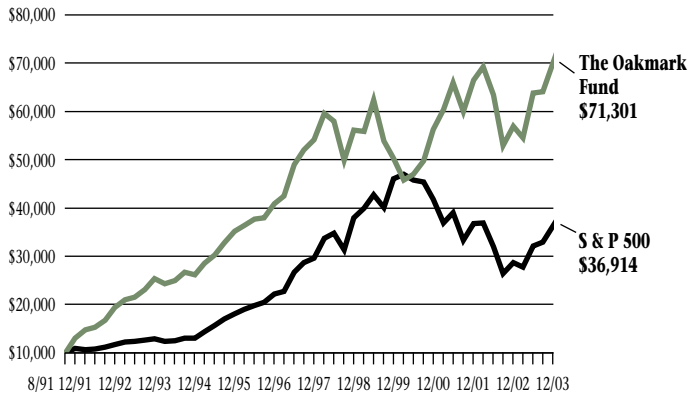
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THE OAKMARK FUND

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 (12/31/03) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX⁵



Annual Average Total Returns¹

	Total Return Last 3 Months*	(as of 12/31/03)				Since Inception (8/5/91)
		1-year	5-year	10-year		
Oakmark Fund	11.35%	25.30%	4.89%	10.91%	17.14%	
S&P 500	12.18%	28.68%	-0.57%	11.06%	11.09%	
Dow Jones Average ⁶	13.32%	28.21%	4.54%	13.06%	12.99%	
Lipper Large Cap Value Index ⁷	13.37%	28.00%	1.20%	10.05%	10.69%	

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 11% last quarter, bringing the calendar year increase to 25%. The fund also ended 2003 at a new all-time high NAV⁸ (adjusted for dividends.) This accomplishment is especially significant when compared to the S&P 500, which remains 23% below its March 2000 peak. Our job satisfaction comes from making money for shareholders, which as our President's letter states, includes not only the two of us, but most of the employees of our company. It feels great to be able to say that each and every investor who has entrusted us with their capital now has a profit!

The magnitude of the fund's price increase in both the quarter and the year was due more to the strong market than to our stock selection. The S&P 500 increased by 12% in the quarter and 29% for the year. Returns of that magnitude are historically unusual, and we caution investors that long-term returns are likely to fall far short of that level. Although we continue to believe equities are likely to provide long-term returns that exceed bond returns, we expect mid-to-high single-digit annual returns rather than a continuation of the unusually strong 2003. As expected in such a broad, strong market, value investors like us found few new opportunities—our only portfolio addition last quarter was Kohl's Corporation.

Kohl's Corp. (KSS—\$45)

Kohl's is a chain of specialty department stores that emphasizes value pricing, selling primarily apparel and housewares. Kohl's became a public company in 1992, and over the next ten years its EPS⁹ grew twelve-fold—a compound annual growth rate of 29%. Kohl's was a natural holding for growth stock portfolios, but the stock always sold at prices we felt fully recognized its great fundamental performance. The stock peaked at \$79 in 2002, a price that equated to over 40 times earnings. Kohl's stumbled somewhat in 2003 and is expected to show little change from prior year earnings. Reasons include industry-wide weakness in women's sportswear and sharper competition from competitors, like Gap and JC Penney (both are also held in The Oakmark Fund). Kohl's stock fell nearly in half, hitting a low during the quarter of \$42. Kohl's is now priced like an average company—about 18 times expected 2004 earnings. We are pleased to add this great company to our portfolio.

Best wishes,

Bill Nygren

Kevin Grant

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THE OAKMARK FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—90.3%		
Food & Beverage—7.9%		
Diageo plc (b)	1,821,000	\$ 96,258,060
Kraft Foods Inc.	2,845,000	91,665,900
Anheuser-Busch Companies, Inc.	1,600,000	84,288,000
H.J. Heinz Company	2,310,000	84,153,300
General Mills, Inc.	1,805,000	<u>81,766,500</u>
		438,131,760
Household Products—1.2%		
The Clorox Company	1,390,200	\$ 67,508,112
Other Consumer Goods & Services—6.4%		
H&R Block, Inc.	2,829,300	\$ 156,658,341
Fortune Brands, Inc.	1,745,600	124,792,944
Mattel, Inc.	3,874,300	<u>74,657,761</u>
		356,109,046
Broadcasting & Programming—2.4%		
Liberty Media Corporation, Class A (a)	8,399,400	\$ 99,868,866
The Walt Disney Company	1,500,000	<u>34,995,000</u>
		134,863,866
Building Materials & Construction—1.7%		
Masco Corporation	3,533,000	\$ 96,839,530
Cable Systems & Satellite TV—5.4%		
Time Warner Inc. (a)	5,727,700	\$ 103,041,323
Hughes Electronics Corporation (a)	5,021,618	83,107,778
EchoStar Communications Corporation (a)	2,075,000	70,550,000
Comcast Corporation, Special Class A (a)	1,300,000	<u>40,664,000</u>
		297,363,101
Hardware—1.7%		
The Black & Decker Corporation	1,922,200	\$ 94,802,904
Motorcycles—1.3%		
Harley-Davidson, Inc.	1,577,500	\$ 74,978,575
Publishing—2.7%		
Gannett Co., Inc.	884,500	\$ 78,862,020
Knight-Ridder, Inc.	916,000	<u>70,870,920</u>
		149,732,940
Recreation & Entertainment—1.2%		
Carnival Corporation (c)	1,678,300	\$ 66,678,859

THE OAKMARK FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—90.3% (cont.)		
Restaurants—4.5%		
Yum! Brands, Inc (a)	3,674,000	\$ 126,385,600
McDonald's Corporation	4,900,000	<u>121,667,000</u>
		248,052,600
Retail—10.6%		
The Home Depot, Inc.	3,281,500	\$ 116,460,435
The Kroger Co. (a)	5,790,000	107,172,900
The Gap, Inc.	4,576,700	106,225,207
J.C. Penney Company, Inc.	3,377,900	88,771,212
Safeway Inc. (a)	3,327,000	72,894,570
Kohl's Corporation (a)	1,250,000	56,175,000
Toys 'Я' Us, Inc. (a)	3,125,000	<u>39,500,000</u>
		587,199,324
Bank & Thrifts—6.8%		
Washington Mutual, Inc.	4,687,300	\$ 188,054,476
U.S. Bancorp	3,700,000	110,186,000
The Bank of New York Company, Inc.	2,300,000	<u>76,176,000</u>
		374,416,476
Insurance—3.2%		
MGIC Investment Corporation	1,840,600	\$ 104,803,764
AFLAC Incorporated	2,067,000	<u>74,784,060</u>
		179,587,824
Other Financial—2.3%		
Fannie Mae	1,670,000	\$ 125,350,200
Health Care Services—1.0%		
AmerisourceBergen Corp	1,000,000	\$ 56,150,000
Medical Products—2.2%		
Baxter International Inc.	2,500,000	\$ 76,300,000
Guidant Corporation	756,700	<u>45,553,340</u>
		121,853,340
Pharmaceuticals—8.7%		
Bristol-Myers Squibb Company	3,950,000	\$ 112,970,000
Merck & Co., Inc.	2,350,000	108,570,000
Abbott Laboratories	2,300,000	107,180,000
Schering-Plough Corporation	5,625,000	97,818,750
Chiron Corporation (a)	929,900	<u>52,995,001</u>
		479,533,751
Telecommunications—1.7%		
Sprint Corporation	5,741,800	\$ 94,280,356

THE OAKMARK FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—90.3% (cont.)		
Computer Services—5.6%		
First Data Corporation	3,615,000	\$ 148,540,350
SunGard Data Systems, Inc. (a)	3,203,700	88,774,527
Automatic Data Processing, Inc.	1,800,000	<u>71,298,000</u>
		308,612,877
Computer Systems—1.4%		
Sun Microsystems, Inc. (a)	17,450,000	\$ 78,350,500
Office Equipment—1.5%		
Xerox Corporation (a)	5,887,400	\$ 81,246,120
Aerospace & Defense—2.8%		
Honeywell International, Inc.	3,250,000	\$ 108,647,500
The Boeing Company	1,152,800	<u>48,578,992</u>
		157,226,492
Other Industrial Goods & Services—0.9%		
Illinois Tool Works Inc.	604,200	\$ 50,698,422
Waste Disposal—1.9%		
Waste Management, Inc.	3,474,300	\$ 102,839,280
Oil & Natural Gas—3.3%		
ConocoPhillips	1,435,335	\$ 94,114,916
Burlington Resources, Inc.	1,571,100	<u>87,007,518</u>
		181,122,434
Total Common Stocks (Cost: \$3,917,874,002)		5,003,528,689
Short Term Investments—9.2%		
U.S. Government Bills—6.3%		
United States Treasury Bills, 0.895% - 0.93% due 1/8/2004 - 5/6/2004	\$350,000,000	\$ 349,495,829
Total U.S. Government Bills (Cost: \$349,471,414)		349,495,829

THE OAKMARK FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

	Par Value	Market Value
Short Term Investments—9.2% (cont.)		
Repurchase Agreements—2.9%		
IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$156,007,367 collateralized by U.S. Government Agency Securities	\$156,000,000	\$ 156,000,000
IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,307,095 collateralized by a U.S. Government Agency Security	2,306,999	<u>2,306,999</u>
Total Repurchase Agreements (Cost: \$158,306,999)		158,306,999
Total Short Term Investments (Cost: \$507,778,413)		507,802,828
Total Investments (Cost \$4,425,652,415)—99.5%		\$5,511,331,517
Other Assets In Excess Of Other Liabilities—0.5%		<u>26,792,641</u>
Total Net Assets—100%		<u><u>\$5,538,124,158</u></u>

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

THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



The Oakmark Select Fund increased by 12% last quarter, bringing the calendar year increase to 29%. Normally, we don't get too excited about just matching the return of the S&P 500, but the past four years have hardly been normal! From March 2000 to March 2003, the S&P 500 lost nearly half of its value; yet, the Fund increased in value due to our continual focus on business valuation. From its low in March of 2003, the S&P 500 then increased by over 40% with the most speculative industries increasing the most. Despite minimal exposure to those stocks, we kept pace with a market that achieved its highest annual return since 1997. That's why we're excited! We're also extremely gratified that the fund ended 2003 at a new all-time high NAV⁸. As fiduciaries, shareholders, and professionals who take pride in our work, we are very pleased that as of today, all shareholders have earned a profit on their investment.

Last quarter, every stock in our fund increased in value. Typically, the absence of losers is sufficient for producing superior results. That we only kept pace with the S&P during that quarter shows how strong the market has been and reinforces our desire to dampen expectations for future market returns. Xerox was our best performer for both the quarter and the year, gaining 35% and 71% respectively. CEO Anne Mulcahy deserves a great deal of credit for leading this turnaround. Today's cost structure and balance sheet at Xerox bear little resemblance to the troubled company we invested in just over two years ago. And early signs indicate that Xerox has a significant new product success with its iGen 3 digital press. We have sold some of our Xerox shares to prevent the position size from growing too much. Despite those sales, Xerox remains an above average weighting in the portfolio. Selling at less than a market P/E¹² multiple on expected 2004 earnings and with expectations for above-average earnings growth beyond 2004, Xerox—in our estimation—continues to represent a very attractive investment opportunity.

We neither added any new companies nor eliminated any existing holdings from the portfolio last quarter. The largest change was an increase in the weighting of First Data Corporation. First Data stock under performed the market despite continuing its streak of above-average earnings increases. We believe First Data is a growth company selling at a value price—our favorite combination.

Thank you for your continued support,

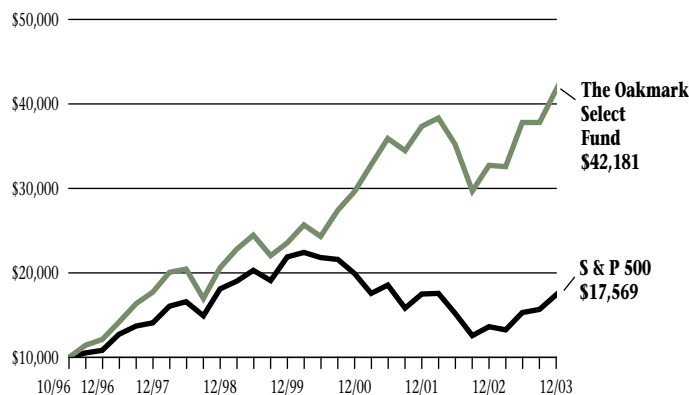
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/03) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX⁵



Annual Average Total Returns¹

	(as of 12/31/03)			
	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/96)
Oakmark Select Fund	11.53%	29.00%	15.43%	22.23%
S&P 500	12.18%	28.68%	-0.57%	8.18%
S&P MidCap 400 ¹⁰	13.19%	35.62%	9.20%	14.18%
Lipper Mid Cap Value Index ¹¹	14.77%	39.08%	9.41%	10.17%

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 SELECT FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—90.9%		
Other Consumer Goods & Services—12.0%		
H&R Block, Inc.	8,359,800	\$ 462,882,126
Mattel, Inc.	11,670,900	<u>224,898,243</u>
		687,780,369
Cable Systems & Satellite TV—4.0%		
Time Warner Inc.(a)	12,710,000	\$ 228,652,900
Hotels & Motels—1.7%		
Starwood Hotels & Resorts Worldwide, Inc.	2,680,000	\$ 96,399,600
Information Services—6.9%		
The Dun & Bradstreet Corporation (a)	4,034,900	\$ 204,609,779
Moody's Corporation	3,123,600	<u>189,133,980</u>
		393,743,759
Publishing—3.5%		
Knight-Ridder, Inc.	2,606,500	\$ 201,664,905
Restaurants—5.6%		
Yum! Brands, Inc (a)	9,307,000	\$ 320,160,800
Retail—10.4%		
The Kroger Co.(a)	12,675,700	\$ 234,627,207
Office Depot, Inc. (a)	11,384,900	190,241,679
Toys 'Я' Us, Inc. (a)	13,697,700	<u>173,138,928</u>
		598,007,814
Bank & Thrifts—16.3%		
Washington Mutual, Inc.	23,351,400	\$ 936,858,168
Investment Management—2.6%		
Janus Capital Group, Inc.	9,169,600	\$ 150,473,136
Health Care Services—3.7%		
IMS Health Incorporated	8,503,441	\$ 211,395,543
Pharmaceuticals—6.7%		
Bristol-Myers Squibb Company	6,990,200	\$ 199,919,720
Chiron Corporation (a)	3,211,100	<u>183,000,589</u>
		382,920,309
Telecommunications—3.8%		
Sprint Corporation	13,334,600	\$ 218,954,132
Computer Services—5.4%		
First Data Corporation	7,508,600	\$ 308,528,374
Office Equipment—4.1%		
Xerox Corporation (a)	16,989,700	\$ 234,457,860

THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—90.9% (cont.)		
Oil & Natural Gas—4.2%		
Burlington Resources, Inc.	4,326,800	\$ 239,618,184
Total Common Stocks (Cost: \$3,448,426,578)		5,209,615,853
Short Term Investments—8.7%		
U.S. Government Bills—4.9%		
United States Treasury Bills, 0.88% - 0.925% due 1/2/2004 - 4/22/2004	\$280,000,000	\$ 279,623,070
Total U.S. Government Bills (Cost: \$279,609,643)		279,623,070
Repurchase Agreements—3.8%		
IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$218,010,294 collateralized by U.S. Government Agency Securities	\$218,000,000	\$ 218,000,000
IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,510,688 collateralized by a U.S. Government Agency Security	2,510,583	<u>2,510,583</u>
Total Repurchase Agreements (Cost: \$220,510,583)		220,510,583
Total Short Term Investments (Cost: \$500,120,226)		500,133,653
Total Investments (Cost \$3,948,546,804)—99.6%		\$ 5,709,749,506
Other Assets In Excess Of Other Liabilities—0.4%		<u>25,145,695</u>
Total Net Assets—100%		<u><u>\$5,734,895,201</u></u>

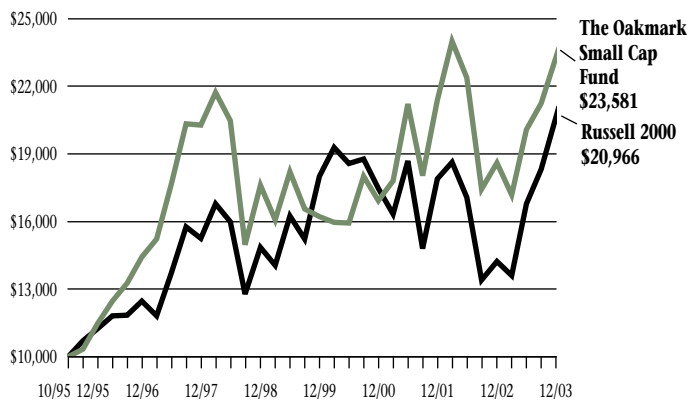
(a) Non-income producing security.

THE OAKMARK SMALL CAP FUND

Report from James P. Benson and Edward A. Studzinski, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/03) AS COMPARED TO THE RUSSELL 2000 INDEX¹³



Annual Average Total Returns¹

(as of 12/31/03)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
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Oakmark Small Cap Fund	10.94%	26.81%	6.00%	11.07%
Russell 2000	14.52%	47.25%	7.13%	9.48%
S&P Small Cap 600 ¹⁴	14.77%	38.79%	9.66%	11.98%
Lipper Small Cap Value Index ¹⁵	16.46%	47.54%	12.67%	13.12%

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

Looking back over 2003, it is hard to believe how rapidly and positively events unfolded. It is easy to forget that until mid-March stock prices were generally under pressure and questions concerning an economic recovery were numerous. As of the close of the year, we suspect most investors were very happy with the gains they achieved during 2003 after the difficult market conditions experienced over the prior couple of years. The double-digit positive returns we achieved during the fourth calendar quarter of 2003 built upon the solid returns of the prior two quarters. Investors appeared to become more confident in the future growth of corporate profitability and this confidence was reflected in higher equity prices. As we stated in our last letter, we believe the fiscal and monetary stimulus in the economy is likely to create a sustained economic recovery. Our primary objective in 2004 is to invest in reasonably valued companies that we expect to do well in an economic recovery, but these companies must also possess the staying power to do reasonably well if the economy unexpectedly fades. During the just concluded quarter the S&P 500 Index⁵ rose by 12% and the Russell 2000 Index climbed by 15%. Your Fund experienced a gain of 11% during the past three months, which places its performance just below the S&P 500 Index and the Russell 2000 Index.

Consistency

As measured by the broad-based S&P 500 Index, 2003 was the first year this Index recorded a positive return since 1999. Over the past four years there have been three years of decline for the broad market as measured by the S&P 500, yet your Fund has achieved positive returns in three of the last four years. The key reasons for our success are: 1) Small cap stocks have generally performed better than their larger cap peers, thus we enjoyed a "tailwind" over the past few years (the Russell 2000 Index has realized positive returns in two of the past four years); 2) Our value-based investment style leads us to be principally invested in companies that we believe should generate solid cash flows over time. This value bias often means we are sometimes not heavily invested in a sector of the stock market that is doing well because our analysts believe the expected future cash flows from these businesses are insufficient to justify owning these stocks. By

Highlights

- Despite higher stock prices, our analysts were able to uncover several attractively priced stocks.
- Three new stocks were added and four stocks were sold from the portfolio this past quarter.
- Our long-term value approach remains consistent regardless of short-term stock price movements.

staying disciplined in our approach, we believe we can avoid many (although clearly not all) valuation mistakes. Despite your Fund's 27% gain in 2003, we trailed the annual return of our benchmark index, the Russell 2000¹³, for the first time since 1999. We prefer to invest in companies where we believe our invested capital can earn above average rates of return over the long-term and we do not change our investment approach based upon the short-term stock price movements of some stock sectors.

Portfolio Additions

Despite generally higher stock prices during the fourth quarter of 2003, our analysts were able to uncover several attractively priced stocks. During the past quarter we purchased shares in Herley Industries, Teledyne Technologies and USI Holdings Corp. Herley is a supplier of microwave components and systems to both military and commercial aerospace customers. Teledyne produces aerospace engines and defense electronics and we believe both Herley and Teledyne should benefit from increased defense spending and a recovering commercial aerospace sector. USI is a growing distributor of insurance and financial products and services to businesses in the U.S. We

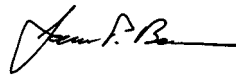
believe USI's product and service offerings are becoming increasingly attractive to businesses as insurance products become both more complex and more expensive. In addition to the three stocks we purchased we will be receiving shares in Levitt Corporation when its spin-off from BankAtlantic is completed in early 2004. Levitt is a growing builder of homes for retirees in Florida and based upon demographic trends we believe Levitt has a bright future.

Portfolio Deletions

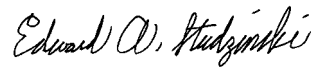
During the third quarter we sold four stocks from your Fund's portfolio. The companies we sold were Berry Petroleum, Department 56, Inc., Prime Hospitality Corp. and Surebeam Corp. We sold Berry after this stock appreciated to the point where we believed it had reached a fair valuation for the underlying business. Department 56 was sold based upon our belief that intensifying international competition would continue to pressure their profit margins. We sold Prime Hospitality after this hotel operator's stock almost doubled from its 2003 low and reached a price that we considered to be its fair value. Surebeam was sold as slower than expected acceptance by consumers of irradiated food products hindered their results.

Summation

We would like to thank our shareholders for your continuing interest in and your support of The Oakmark Small Cap Fund. We look forward to communicating with you in 2004.



James P. Benson, CFA
Portfolio Manager
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Edward A. Studzinski, CFA
Portfolio Manager
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THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—93.2%		
Food & Beverage—8.2%		
Ralcorp Holdings, Inc.(a)	575,000	\$ 18,032,000
Del Monte Foods Company (a)	1,260,000	<u>13,104,000</u>
		31,136,000
Household Products—4.9%		
Tupperware Corporation	1,060,000	\$ 18,380,400
Other Consumer Goods & Services—2.7%		
Callaway Golf Company	475,000	\$ 8,003,750
Central Parking Corporation	137,200	<u>2,048,396</u>
		10,052,146
Security Systems—4.8%		
Checkpoint Systems, Inc. (a)	968,300	\$ 18,310,553
Apparel—3.5%		
Oakley, Inc.	671,200	\$ 9,289,408
R.G. Barry Corporation (a)	900,000	<u>3,951,000</u>
		13,240,408
Automobile Rentals—2.6%		
Dollar Thrifty Automotive Group, Inc. (a)	375,000	\$ 9,727,500
Building Materials & Construction—6.3%		
Insituform Technologies, Inc., Class A (a)	908,600	\$ 14,991,900
Integrated Electrical Services, Inc. (a)	956,600	<u>8,848,550</u>
		23,840,450
Human Resources—1.5%		
Hudson Highland Group, Inc. (a)	245,000	\$ 5,843,250
Information Services—4.4%		
eFunds Corporation (a)	950,000	\$ 16,482,500
Marketing Services—1.8%		
Grey Global Group, Inc.	10,000	\$ 6,830,500
Restaurants—4.0%		
Triarc Companies, Inc., Class B	500,000	\$ 5,390,000
Jack in the Box Inc. (a)	210,000	4,485,600
Triarc Companies, Inc.	250,000	2,955,000
Landry's Restaurants, Inc.	88,700	<u>2,281,364</u>
		15,111,964
Retail—2.1%		
ShopKo Stores, Inc. (a)(b)	517,600	\$ 7,893,400

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—93.2% (cont.)		
Bank & Thrifts—7.2%		
People's Bank of Bridgeport, Connecticut	360,000	\$ 11,736,000
BankAtlantic Bancorp, Inc., Class A	559,000	10,621,000
PennFed Financial Services, Inc.	150,000	<u>5,025,000</u>
		27,382,000
Insurance—3.4%		
The PMI Group, Inc.	300,000	\$ 11,169,000
U.S.I. Holdings Corporation (a)	143,000	<u>1,866,150</u>
		13,035,150
Other Financial—3.2%		
NCO Group, Inc. (a)	530,000	\$ 12,068,100
Real Estate—1.7%		
Trammell Crow Company (a)	495,000	\$ 6,558,750
Medical Products—7.2%		
Hanger Orthopedic Group, Inc. (a)	950,000	\$ 14,791,500
CONMED Corporation (a)	400,000	9,520,000
Advanced Medical Optics, Inc. (a)	150,000	<u>2,947,500</u>
		27,259,000
Computer Services—4.4%		
CIBER, Inc. (a)	1,625,000	\$ 14,072,500
Interland, Inc. (a)	400,000	<u>2,612,000</u>
		16,684,500
Computer Software—8.6%		
MSC Software Corp. (a)	1,350,000	\$ 12,757,500
Sybase, Inc. (a)	495,000	10,187,100
Mentor Graphics Corporation (a)	650,000	<u>9,451,000</u>
		32,395,600
Computer Systems—1.5%		
Optimal Robotics Corp., Class A (a)(c)	723,500	\$ 5,780,765
Data Storage—2.0%		
Imation Corp.	215,000	\$ 7,557,250
Aerospace & Defense—0.9%		
Teledyne Technologies Incorporated (a)	140,000	\$ 2,639,000
Herley Industries, Inc. (a)	28,300	<u>585,810</u>
		3,224,810

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—93.2% (cont.)		
Forestry Products—1.7%		
Schweitzer-Mauduit International, Inc.	222,000	\$ 6,611,160
Oil & Natural Gas—4.6%		
St. Mary Land & Exploration Company	350,000	9,975,000
Cabot Oil & Gas Corporation	250,000	<u>7,337,500</u>
		17,312,500
Total Common Stocks (Cost: \$286,968,330)		352,718,656
Short Term Investments—7.3%		
U.S. Government Bills—5.0%		
United States Treasury Bills, 0.87% - 0.925% due 1/2/2004 - 1/15/2004	\$19,000,000	\$ 18,997,534
Total U.S. Government Bills (Cost: \$18,997,534)		18,997,534
Repurchase Agreements—2.3%		
IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$6,500,307 collateralized by U.S. Government Agency Securities	\$ 6,500,000	\$ 6,500,000
IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,267,229 collateralized by a U.S. Government Agency Security	2,267,135	<u>2,267,135</u>
Total Repurchase Agreements (Cost: \$8,767,135)		8,767,135
Total Short Term Investments (Cost: \$27,764,669)		27,764,669
Total Investments (Cost \$314,732,999)—100.5%		\$380,483,325

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Subject to Call	Market Value
Call Options Written—0.0%		
Retail—0.0%		
ShopKo Stores, Inc., March 17.50 Calls	(45,000)	\$ (19,125)
Total Call Options Written (Premiums Received: \$(58,897))—0.0%		(19,125)
Other Liabilities In Excess Of Other Assets—(0.5%)		<u>(1,903,339)</u>
Total Net Assets—100%		<u>\$378,560,861</u>

(a) Non-income producing security.

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

(c) Represents a foreign domiciled corporation.

THE OAKMARK EQUITY AND INCOME FUND

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



"Virtue has never been as respectable as money."
Mark Twain

Our Results

The Oakmark Equity and Income Fund increased 9% for the quarter ended December 31. For the calendar year 2003, the Fund gained 23% lagging the broad market averages while outperforming our primary benchmark, the Lipper Balanced Fund Index, which gained 20% during the year. We are pleased with this result, as we have consistently said that absolute positive returns preserve and grow your capital. We are even more pleased that, looking back over the past three-year and five-year periods, we have grown and compounded the capital of our long-term investors (ourselves included) at a 12% and 13% rate respectively. Please do not think for one moment that those returns are going to make us complacent. We started the year 2003 cautiously pessimistic, and remained that way for most of the year. We have ushered in 2004 feeling pretty much the same way, agreeing with Don Marquis that, "An optimist is a man who has never had much experience." Our experience tells us to be wary of the cheerful consensus. We prefer to keep a weather eye towards the investment horizon and be positioned for a range of potential eventualities, in order that we may continue to preserve and grow your capital.

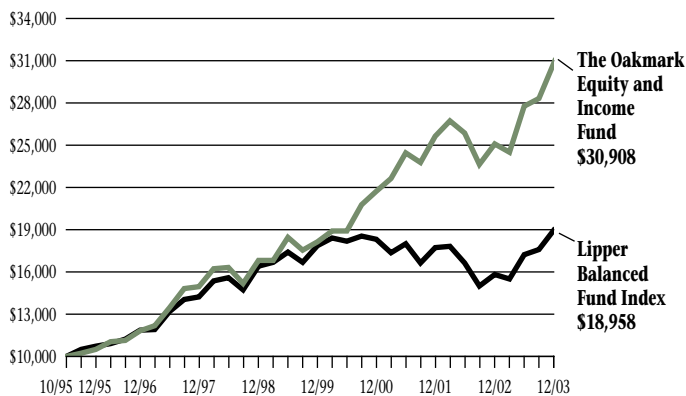
And the Last Shall be First

Particularly strong performers during the quarter were Diageo PLC, Laboratory Corporation of America, Rockwell Automation, Varian, and XTO Energy. Over time, we have noted that many of the strong performers of the past quarter were the worst performers of the quarter before. We mention that as it again says something about the importance of having a long-term focus in investing. Allowing one's self to be swayed by the vagaries of short-term perceptions, these shifts have little, if anything, to do with the long-term business value of a company.

The worst performer during the quarter was First Health Corporation, which saw its share price decline dramatically when it reported Q3 earnings and guided to a lower growth rate (and lower expectations) for calendar year 2004. A substantial amount of market (as opposed to business) value was erased. At the same time, it should be noted that there has been some erosion of FHCC's franchise at the edges, and the nature of its business model will continue to change as the regional managed-care companies become national players. At current prices, though, we feel that FHCC is too cheap to be sold, given both the quality of the management and the cash-generating abilities of the business model.

Only one position, Cooper Industries, was eliminated during the quarter. We initiated four new

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/03) AS COMPARED TO THE LIPPER BALANCED FUND INDEX¹⁶



Annual Average Total Returns¹

(as of 12/31/03)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
Oakmark Equity & Income Fund	9.19%	23.21%	12.97%	14.81%
S&P 500 ⁵	12.18%	28.68%	-0.57%	10.01%
Lehman Govt./Corp. Bond ¹⁷	-0.03%	4.67%	6.65%	7.16%
Lipper Balanced Fund Index	7.95%	19.94%	2.95%	8.14%

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.

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* Not annualized

Highlights

- Our goal is to produce absolute positive returns that preserve and grow your capital.
- Many of the strong performing companies of the past quarter were the worst performers of the quarter before.
- We continue to ignore short-term issues that have little, if anything, to do with long-term business values.

positions in TJX Companies, Dean Foods, First Data, and Imation. We are comfortable with our holdings and the asset-allocation of the fund. The turnover, or lack thereof, reflects that. For the most part, the buoyant market of 2003 has eliminated most of the compelling values that we were seeing (and took advantage of) at the beginning of 2003. By the same token, the securities that we own have not appreciated to the point where a wholesale liquidation is called for based on valuation. We would point out that there IS a reason why we construct portfolios rather than focus on individual stocks. Ours is a business, to use a baseball analogy, of hitting singles and doubles. If every now and then, there is a home run, that's nice, but it is the single and doubles that allow us the consistency of return over time while controlling the risk we are undertaking. We know at some point the market and its participants will present us again with the opportunity to buy a lot of very high quality securities at very reasonable prices. In the interim, all we are looking for is one or two really good ideas a year.

A Word about Bonds

Probably one of the most frustrating things for us over the last twelve months has been the dearth of what we considered to be good opportunities to invest in fixed income. After all, as many of you have pointed out, the fund has an income component and the bonds have not been providing much of one recently. For most of this year, we have kept the duration on the fund short—around two years. This has been because we thought the risk of substantial capital loss from lengthening both duration and maturity outweighed the potential returns. We still feel that way. And while we would have liked to be able to put lots of money to work in high-yield securities, we were unable to do so in issues that meet our stringent criteria. To date, many of the concerns about the return of inflation, the problems of the U.S. currency, and ballooning budget deficits, have been just that, concerns. So overall, the potential rewards for lengthening maturity and duration, as well as lowering credit quality, remain at best illusory while the potential for a “Perfect Storm” environment in the bond market remains.

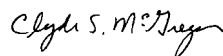
The Return of Hype

We have often spoken about our criteria for stock selection. Ideally we would like to buy a stock at 60% of our

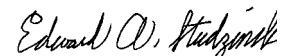
assessment of intrinsic value, where the business value is growing and the management actually thinks and acts like shareholders and stewards of capital. During the last six months of the year, we were surprised (although we shouldn't have been) to see technology stocks vaulting to the top of both the performance and recommended lists of both Wall Street and cable television commentators. Many of these issues are showing little but the hints of improved prospects. It would appear that turnarounds are also in the eye of the beholder. We wonder about the willingness of the investing public to accept the pabulum which they are routinely spoon-fed, especially from cable television, rather than be somewhat more discerning as to the sources of their investment information and advice. This is especially puzzling after the huge capital displacements many of them have suffered over the last three years. For ourselves, we have come to the conclusion that much of what passed for entertainment as reality television today is anything but, and that most cable television business reporting is of the same ilk. As David Frost once said, “Television is an invention that permits you to be entertained in your living room by people you wouldn't have in your home.”

Predictions

We don't make predictions, so this heading is something of a misnomer. We have no crystal balls, nor the modern equivalent, a string of supercomputers wired together to spit out real-time analysis of various asset classes and the markets they are trading in, with a view to identifying short-term anomalies (or arbitrage opportunities, before that strategy became viewed somewhat differently than in the past). Rather, we are just plodding along, looking to see whether we can unearth the occasional diamond in the rough as an investment opportunity. One thing in our favor is the rather wholesale bloodletting that has taken place at most Wall Street firms, putting into place a new class of analysts who have yet to make their mistakes of both omission and commission, which may lead to opportunities of displacement in the marketplace. A second thing in our favor is the continued and even intensified focus on short-term events that drives much of investment analysis and portfolio management decisions today. Sometimes (actually more than sometimes), doing nothing is the correct decision if you have confidence in the correctness of your original assessment. In any event, we are not going to do anything different this coming year than what we have done in the past. We will continue to search for business values in the market place at that margin of safety discount to intrinsic value that we like. We remain grateful to you, our shareholders and partners, for your patience and confidence in entrusting us with your capital.



Clyde S. McGregor, CFA
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THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Shares Held	Market Value
Equity and Equivalents—58.3%		
Common Stocks—58.3%		
Food & Beverage—5.1%		
Diageo plc (b)	2,300,000	\$ 121,578,000
Nestle SA (b)	1,600,000	99,854,400
Kraft Foods Inc.	1,000,000	32,220,000
Dean Foods Company (a)	750,000	24,652,500
		<u>278,304,900</u>
Cable Systems & Satellite TV—1.5%		
Hughes Electronics Corporation (a)	5,026,722	\$ 83,192,249
Hardware—0.7%		
The Stanley Works	962,100	\$ 36,434,727
Information Services—1.8%		
Ceridian Corporation (a)	4,800,000	\$ 100,512,000
Marketing Services—1.6%		
The Interpublic Group of Companies, Inc. (a)	5,750,000	\$ 89,700,000
Restaurants—0.7%		
Darden Restaurants, Inc.	1,750,000	\$ 36,820,000
Retail—6.1%		
Costco Wholesale Corporation (a)	2,960,000	\$ 110,052,800
The TJX Companies, Inc.	4,960,000	109,368,000
J.C. Penney Company, Inc.	2,950,000	77,526,000
Office Depot, Inc. (a)	2,230,000	37,263,300
		<u>334,210,100</u>
Insurance—3.2%		
SAFECO Corporation	3,750,000	\$ 145,987,500
RenaissanceRe Holdings Ltd. (c)	600,000	29,430,000
		<u>175,417,500</u>
Real Estate—0.4%		
Hospitality Properties Trust	488,500	\$ 20,165,280
Health Care Services—4.3%		
Cardinal Health, Inc.	2,109,700	\$ 129,029,252
Caremark Rx, Inc. (a)	4,250,000	107,652,500
		<u>236,681,752</u>
Managed Care Services—1.4%		
First Health Group Corp. (a)	3,950,000	\$ 76,867,000
Medical Centers—2.4%		
Laboratory Corporation of America Holdings (a)	3,500,000	\$ 129,325,000

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held	Market Value
Equity and Equivalents—58.3% (cont.)		
Medical Products—1.5%		
Apogent Technologies, Inc. (a)	2,264,400	\$ 52,171,776
Techne Corporation (a)	750,000	28,335,000
Edwards Lifesciences Corporation (a)	100,000	<u>3,008,000</u>
		83,514,776
Pharmaceuticals—3.1%		
Watson Pharmaceuticals, Inc. (a)	2,750,000	\$ 126,500,000
Abbott Laboratories	1,000,000	<u>46,600,000</u>
		173,100,000
Computer Services—3.1%		
First Data Corporation	2,500,000	\$ 102,725,000
Concord EFS, Inc. (a)	4,500,000	<u>66,780,000</u>
		169,505,000
Computer Software—2.8%		
Synopsys, Inc. (a)	3,690,000	\$ 124,574,400
Novell, Inc. (a)	1,500,000	15,780,000
Mentor Graphics Corporation (a)	800,000	<u>11,632,000</u>
		151,986,400
Computer Systems—0.7%		
The Reynolds and Reynolds Company, Class A	1,355,100	\$ 39,365,655
Data Storage—0.6%		
Imation Corp.	1,000,000	\$ 35,150,000
Aerospace & Defense—4.6%		
General Dynamics Corporation	1,050,000	\$ 94,909,500
Rockwell Collins, Inc.	3,107,900	93,330,237
Honeywell International, Inc.	1,889,500	<u>63,165,985</u>
		251,405,722
Agricultural Equipment—0.0%		
Alamo Group, Inc.	141,900	\$ 2,165,394
Diversified Conglomerates—0.4%		
Textron, Inc.	404,000	\$ 23,052,240
Instruments—1.2%		
Varian, Inc. (a)	1,649,400	\$ 68,829,462
Machinery & Industrial Processing—1.1%		
Rockwell Automation, Inc.	1,781,000	\$ 63,403,600
Agricultural Operations—1.8%		
Monsanto Company	3,500,000	\$ 100,730,000
Forestry Products—1.5%		
Plum Creek Timber Company, Inc.	2,657,044	\$ 80,906,990

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Equity and Equivalents—58.3% (cont.)		
Oil & Natural Gas—6.7%		
Burlington Resources, Inc.	3,075,000	\$ 170,293,500
XTO Energy, Inc.	4,499,933	127,348,104
St. Mary Land & Exploration Company	1,200,000	34,200,000
Cabot Oil & Gas Corporation	1,125,000	33,018,750
Cross Timbers Royalty Trust	33,295	949,573
		<u>365,809,927</u>
Total Common Stocks (Cost: \$2,480,576,897)		3,206,555,674
Total Equity and Equivalents (Cost: \$2,480,576,897)		3,206,555,674
Fixed Income—31.6%		
Preferred Stocks—0.0%		
Bank & Thrifts—0.0%		
Fidelity Capital Trust I, Preferred, 8.375%	\$ 43,500	\$ 441,525
Total Preferred Stocks (Cost: \$435,000)		441,525
Corporate Bonds—1.7%		
Broadcasting & Programming—0.3%		
Liberty Media Corporation, 8.25% due 2/1/2030, Debenture	\$12,900,000	\$ 15,435,121
Building Materials & Construction—0.0%		
Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note	\$ 750,000	\$ 817,500
Cable Systems & Satellite TV—0.1%		
CSC Holdings Inc., 7.875% due 12/15/2007	\$ 3,000,000	\$ 3,165,000
Hotels & Motels—0.0%		
Park Place Entertainment, 7.00% due 7/15/2004, Senior Notes	\$ 2,750,000	\$ 2,818,750
Retail—0.4%		
The Gap, Inc., 6.90% due 9/15/2007	\$ 9,187,000	\$ 10,140,151
Toys 'Я' Us, Inc., 7.875% due 4/15/2013	5,000,000	5,378,750
Rite Aid Corporation, 7.625% due 4/15/2005, Senior Notes	4,900,000	4,973,500
		<u>20,492,401</u>
Health Care Services—0.4%		
Omnicare, Inc., 6.125% due 6/1/2013	\$20,000,000	\$ 20,050,000
Medical Products—0.0%		
Apogent Technologies Inc., 6.50% due 5/15/2013	\$ 1,000,000	\$ 1,042,500

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Par Value	Market Value
Fixed Income—31.6% (cont.)		
Office Equipment—0.3%		
Xerox Corporation, 7.125% due 6/15/2010	\$ 15,000,000	\$ 16,050,000
Machinery & Industrial Processing—0.0%		
Columbus McKinnon Corporation New York, 8.50% due 4/1/2008	\$ 3,000,000	\$ 2,805,000
Other Industrial Goods & Services—0.2%		
Sealed Air Corporation, 144A, 5.625% due 7/15/2013	\$ 8,300,000	\$ 8,493,315
Electric Utilities—0.0%		
Midland Funding Corporation, 11.75% due 7/23/2005	\$ 458,221	\$ 494,879
Total Corporate Bonds (Cost: \$83,954,155)		91,664,466
Government and Agency Securities—29.9%		
Canadian Government Bonds—2.8%		
Canada Government, 3.50% due 6/1/2004	\$100,000,000	\$ 77,672,187
Canada Government, 3.00% due 12/1/2005	100,000,000	77,429,964
		155,102,151
Danish Government Bonds—0.3%		
Kingdom of Denmark, 4.00% due 11/15/2004	\$100,000,000	\$ 17,142,004
New Zealand Government Bonds—0.1%		
New Zealand Government, 6.50% due 2/15/2005	\$ 10,000,000	\$ 6,630,500
United Kingdom Government Bonds—0.7%		
United Kingdom of Great Britain and Northern Ireland, 5.00% due 6/7/2004	\$ 20,000,000	\$ 35,883,178
U.S. Government Notes—25.2%		
United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed	\$248,722,230	\$ 269,436,066
United States Treasury Notes, 1.50% due 7/31/2005	225,000,000	224,824,275
United States Treasury Notes, 5.75% due 11/15/2005	200,000,000	214,734,400
United States Treasury Notes, 1.625% due 1/31/2005	200,000,000	200,773,400
United States Treasury Notes, 1.50% due 2/28/2005	150,000,000	150,345,750
United States Treasury Notes, 1.25% due 5/31/2005	150,000,000	149,601,600
United States Treasury Notes, 1.625% due 4/30/2005	100,000,000	100,300,800
United States Treasury Notes, 1.875% due 9/30/2004	75,000,000	75,424,800
		1,385,441,091

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Par Value	Market Value
Fixed Income—31.6% (cont.)		
U.S. Government Agencies—0.8%		
Federal Home Loan Mortgage Corporation, 3.00% due 11/17/2006	\$ 10,000,000	\$ 10,098,520
Federal Home Loan Bank, 2.65% due 4/24/2006	8,850,000	8,850,328
Federal Home Loan Mortgage Corporation, 2.35% due 5/5/2008	7,100,000	7,131,574
Fannie Mae, 2.25% due 12/30/2008	6,975,000	6,819,674
Federal Home Loan Bank, 3.00% due 12/30/2009	5,000,000	5,067,050
Federal Home Loan Bank, 3.125% due 7/10/2009	4,000,000	3,858,492
Federal Home Loan Bank, 3.875% due 12/15/2004	1,000,000	1,024,059
		42,849,697
Total Government and Agency Securities (Cost: \$1,603,367,277)		1,643,048,621
Total Fixed Income (Cost: \$1,687,756,432)		1,735,154,612
Short Term Investments—9.4%		
U.S. Government Bills—6.9%		
United States Treasury Bills, 0.89% - 0.94% due 1/2/2004 - 4/15/2004	\$380,000,000	\$ 379,577,212
Total U.S. Government Bills (Cost: \$379,541,480)		379,577,212
Repurchase Agreements—2.5%		
IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$133,006,281 collateralized by U.S. Government Agency Securities	\$133,000,000	\$ 133,000,000
IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,705,879 collateralized by a U.S. Government Agency Security	2,705,766	2,705,766
Total Repurchase Agreements (Cost: \$135,705,766)		135,705,766
Total Short Term Investments (Cost: \$515,247,246)		515,282,978
Total Investments (Cost \$4,683,580,575)—99.3%		\$5,456,993,264

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

	Contracts Held	Market Value
Call Options Purchased—0.0%		
Managed Care Services—0.0%		
First Health Group Corp., January 30 Calls	42,000	\$ 2,100
Total Call Options Purchased (Cost: \$55,010)—0.0%		\$ 2,100
Other Assets In Excess Of Other Liabilities—0.7%		<u>36,016,938</u>
Total Net Assets—100%		<u>\$5,493,012,302</u>

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

THE OAKMARK GLOBAL FUND

Report from Clyde S. McGregor and Michael J. Welsh, Portfolio Managers



Fellow Shareholders,

The Oakmark Global Fund gained 14% for the three-month period ending December 31, 2003, compared with the 14% increases for the MSCI World Index and the Lipper Global Fund Index.

For the twelve months calendar year 2003, The Oakmark Global Fund has returned 49%, compared to the smaller gains of 33% and 32% for the MSCI World Index and the Lipper Global Fund Index, respectively. Most importantly, since inception, the Fund has returned 17% annualized compared to a 3% decline in the MSCI World Index and 0% return in the Lipper Global Fund Index.

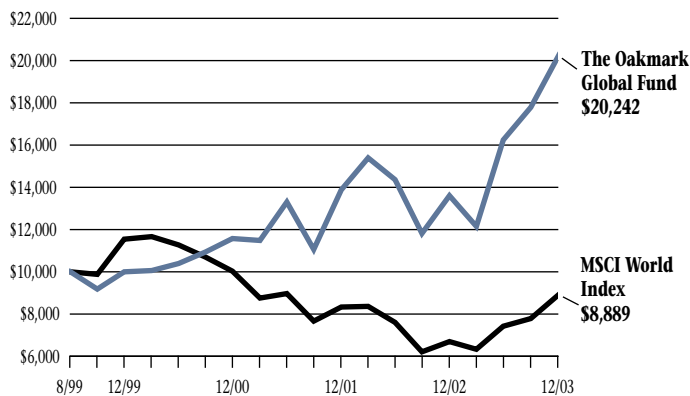
Change in Co-Portfolio Manager

On October 29, 2003 Clyde McGregor was named co-portfolio manager of The Oakmark Global Fund, replacing Greg Jackson. Greg left Harris Associates L.P., the Funds' adviser, primarily to move back to Utah to be closer to family. We wish to extend our heartfelt thanks to Greg for his tremendous contribution to the success of The Oakmark Global Fund. We will miss him as a colleague, and wish him and his family the best success in all future endeavors.

All of us here at Harris Associates are very excited to have Clyde aboard. Clyde has one of the longest tenures of any professional in the Firm, joining Harris Associates in 1981, and has built a tremendous investment record over the eight-year life of The Oakmark Equity and Income Fund. Clyde has a M.B.A. in Finance from the University of Wisconsin-Madison (1977) and a B.A. in Economics and Religion from Oberlin College (1974). He has over twenty-five years of investment experience and is a CFA charterholder.

Oakmark Global will continue to be managed using the same value approach employed since its inception. The Fund invests in companies around the world that are trading at a significant discount to estimated intrinsic value, that demonstrate the potential to grow per-share business value over time, and possess company management whose interests are aligned with shareholders.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (12/31/03) AS COMPARED TO THE MSCI WORLD INDEX¹⁸



Annual Average Total Returns¹

	(as of 12/31/03)			Since Inception (8/4/99)
Total Return Last 3 Months*	1-year	3-year		

Oakmark Global Fund	13.88%	48.98%	20.52%	17.34% ³
MSCI World	14.26%	33.11%	-3.92%	-2.63%
Lipper Global Fund Index ¹⁹	14.14%	31.96%	-3.30%	0.21%

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

Highlights

- Clyde McGregor joined the Fund as co-manager in October 2003.
- The Fund continues to be managed using the same value approach employed since its inception.
- The strong recovery in global stocks that began in March 2003 continued through year-end.

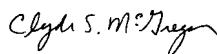
A Few New Additions

We have added a few new names in the past quarter. Burlington Resources is the second largest independent energy producer in North America. 80% of Burlington's reserves are natural gas, the fuel of choice in the US. Over the last seven years Burlington has experienced favorable finding costs for its energy reserves, a critical variable in generating good returns and growing per-share value in this business. We calculate a current liquidation value for Burlington of \$68/share, using conservative estimates of market prices for gas and oil in the future. In fact, there is significant upside potential in our medium term

estimates of gas prices. Management seems to agree with our analysis as the company has been repurchasing stock at a meaningful rate.

Bank of Ireland is a leading financial institution in Ireland - the 2nd largest mortgage lender, one of the largest life insurance underwriters and one of the top retail lenders. Loans and book value per share have grown at a rate of 10% over the past 5+ years and returns have been excellent, greater than 20%, during that time. Despite these attractive qualities we are able to buy this business for 11x March 2005 earnings, by our calculations roughly 65% of fair value.

Despite the Fund's strong performance this year we remain excited about the values in the portfolio. We thank you for your support.



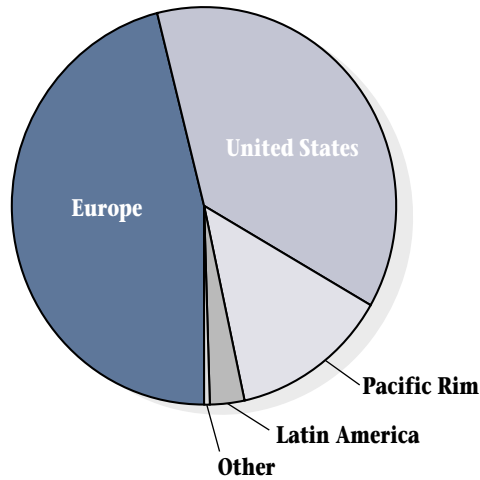
Clyde S. McGregor, CFA
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





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THE OAKMARK GLOBAL FUND

Global Diversification—December 31, 2003 (Unaudited)



<u>% of Fund Equity Market Value</u>	
	Europe 46.1%
	Great Britain 12.7%
	* France 9.0%
	* Netherlands 6.9%
	Switzerland 6.9%
	* Italy 3.8%
	* Germany 3.1%
	* Ireland 3.1%
	Sweden 0.6%
	United States 37.2%

<u>% of Fund Equity Market Value</u>	
	Pacific Rim 13.3%
	Japan 6.6%
	Australia 3.8%
	Korea 2.9%
	Latin America 2.9%
	Mexico 2.9%
	Other 0.5%
	Israel 0.5%

* Euro currency countries comprise 25.9% of the Fund.

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—91.3%			
Food & Beverage—12.9%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	4,691,700	\$ 61,501,719
Nestle SA (Switzerland)	Food & Beverage Manufacturer	207,900	51,899,418
Cadbury Schweppes plc (Great Britain)	Beverage & Confectionary Manufacturer	4,383,000	32,130,262
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	13,430	<u>6,695,275</u>
			152,226,674
Household Products—2.8%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	456,800	\$ 33,539,208
Broadcasting & Programming—2.5%			
Grupo Televisa S.A. (Mexico) (b)	Television Production & Broadcasting	566,500	\$ 22,580,690
Liberty Media Corporation, Class A (United States) (a)	Broadcast Services & Programming	650,000	<u>7,728,500</u>
			30,309,190
Cable Systems & Satellite TV—1.0%			
Time Warner Inc. (United States) (a)	Motion Picture Production, Distribution, & Other Services	675,000	\$ 12,143,250
Human Resources—1.4%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	4,815,400	\$ 16,092,348
Information Services—6.3%			
eFunds Corporation (United States) (a)	Electronic Debit Payment Services	1,745,000	\$ 30,275,750
Ceridian Corporation (United States) (a)	Data Management Services	1,348,000	28,227,120
Equifax Inc. (United States)	Credit Reporting & Collection	610,900	<u>14,967,050</u>
			73,469,920

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—91.3% (cont.)			
Marketing Services—2.7%			
The Interpublic Group of Companies, Inc. (United States) (a)	Advertising & Marketing Services	2,045,000	\$ 31,902,000
Motorcycles—0.4%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	2,628,923	\$ 4,549,852
Retail—5.1%			
The TJX Companies, Inc. (United States)	Discount Apparel & Home Fashion Retailer	1,501,000	\$ 33,097,050
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	2,890,100	26,753,079
			<u>59,850,129</u>
Bank & Thrifts—6.7%			
Bank of Ireland (Ireland) Australia and New Zealand Banking Group Limited (Australia)	Commercial Bank	2,421,000	\$ 32,995,499
Washington Mutual, Inc. (United States)	Commercial Bank	1,481,000	19,717,921
Banco Popolare di Verona e Novara Scrl (Italy)	Thrift	415,000	16,649,800
	Commercial Bank	586,100	9,909,551
			<u>79,272,771</u>
Financial Services—1.9%			
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	45,200	\$ 15,227,339
Credit Suisse Group (Switzerland)	Investment Services & Insurance	190,700	6,971,381
			<u>22,198,720</u>
Other Financial—6.4%			
Euronext (Netherlands)	Stock Exchange	1,664,000	\$ 42,066,206
Fannie Mae (United States)	Mortgage Provider	250,000	18,765,000
Daiwa Securities Group Inc. (Japan)	Stock Broker	2,062,000	14,032,842
			<u>74,864,048</u>
Health Care Services—1.9%			
Cardinal Health, Inc. (United States)	Wholesale Drug Distributor	360,000	\$ 22,017,600

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—91.3% (cont.)			
Managed Care Services—1.9%			
First Health Group Corp. (United States) (a)	Health Benefits Company	1,154,000	\$ 22,456,840
Medical Centers—2.5%			
Laboratory Corporation of America Holdings (United States) (a)	Medical Laboratory & Testing Services	798,000	\$ 29,486,100
Medical Products—1.8%			
Ansell Limited (Australia)	Protective Rubber & Plastics Products	4,468,100	\$ 21,702,332
Pharmaceuticals—9.1%			
Aventis S.A. (France)	Pharmaceuticals	614,800	\$ 40,578,669
Takeda Chemical Industries, Ltd. (Japan)	Pharmaceuticals & Food Supplements	999,000	39,635,456
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	1,174,500	<u>26,872,388</u>
			107,086,513
Telecommunications—2.1%			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	147,000	\$ 24,551,406
Telecommunications Equipment—0.5%			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	3,470,000	\$ 6,220,885
Computer Services—5.9%			
First Data Corporation (United States)	Data Processing & Management	743,000	\$ 30,529,870
Concord EFS, Inc. (United States) (a)	Electronic Processing Services	1,550,000	23,002,000
Meitec Corporation (Japan)	Software Engineering Services	439,200	<u>16,892,308</u>
			70,424,178

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—91.3% (cont.)			
Computer Software—3.9%			
Synopsys, Inc. (United States) (a)	Electronic Design Automation	1,018,000	\$ 34,367,680
Novell, Inc. (United States) (a)	Network & Internet Integration Software	1,081,000	<u>11,372,120</u>
			45,739,800
Office Equipment—1.9%			
Neopost SA (France)	Mailroom Equipment Supplier	438,350	\$ 22,085,826
Airport Maintenance—0.7%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	463,000	\$ 8,148,800
Diversified Conglomerates—2.9%			
Vivendi Universal SA (France) (a)	Multimedia	1,430,500	\$ 34,721,800
Instruments—0.5%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	228,700	\$ 5,470,504
Waste Disposal—1.4%			
Waste Management, Inc. (United States)	Waste Management Services	550,000	\$ 16,280,000
Chemicals—2.8%			
Akzo Nobel N.V. (Netherlands)	Chemical Producer	850,000	\$ 32,762,196
Oil & Natural Gas—1.4%			
Burlington Resources, Inc. (United States)	Oil & Natural Gas Exploration & Production	304,000	\$ 16,835,520
Total Common Stocks (Cost: \$884,075,594)			1,076,408,410

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Par Value	Market Value
Short Term Investments—9.1%			
U.S. Government Bills—7.6%			
	United States Treasury Bills, 0.83% - 0.915% due 1/2/2004 - 1/22/2004	\$90,000,000	\$ 89,979,509
	Total U.S. Government Bills (Cost: \$89,979,328)		89,979,509
Repurchase Agreements—1.5%			
	IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$15,000,708 collateralized by U.S. Government Agency Securities	\$15,000,000	\$ 15,000,000
	IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,406,219 collateralized by a U.S. Government Agency Security	2,406,119	2,406,119
	Total Repurchase Agreements (Cost: \$17,406,119)		17,406,119
	Total Short Term Investments (Cost: \$107,385,447)		107,385,628
	Total Investments (Cost \$991,461,041)—100.4%		\$ 1,183,794,038
	Other Liabilities In Excess Of Other Assets—(0.4%)		(4,339,567)
	Total Net Assets—100%		<u>\$1,179,454,471</u>

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

THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

Fellow Shareholders,

The Oakmark International and International Small Cap Funds returned 16% and 18% respectively for the quarter ending December 31st while the MSCI World ex U.S. Index²⁰ returned 17% for the same period. The strong recovery in global stocks that began in March continued through the rest of 2003 with the Funds gaining 38% and 52% for the calendar year respectively versus the MSCI World ex U.S. Index which returned 39%. Given the availability of value in overseas markets, we continue to remain enthused about prospects in global equity markets.

This quarter we'll discuss the specific winners and losers for calendar year 2003 in the separate letters for Oakmark International and Oakmark International Small Cap.

Who would have thought...?

The year ended very differently than it started. Recall the thoughts occupying investors in early 2003: the continuation of the equity bear market, the raging bull market in bonds ("why be in stocks?!"), fears of war, fears of deflation, etc.

Though investors' emotions were encouraging equity market avoidance ("sell!"), fundamentals suggested the opposite: prices and valuations were attractive. Inflation was/is low, interest rates were/are low, conventional valuations like price to cash flow and dividend yield were/are (still) attractive. These two situations were not unrelated: equity market attractiveness was a manifestation of the fears listed above.

Disciplined, long termed investors won. The lesson: Don't let short-term fears cloud your vision to long-term prospects.

The China Syndrome

Recently, we have been getting lots of calls and letters asking why neither of the two Oakmark International Funds have any direct stock investments in Chinese companies. The questioners believe that because China is rapidly growing and is extremely vibrant economically, there must be stocks worth buying.

The truth is, at this point in time, we cannot find any Chinese stocks that meet our strict value criteria. First, we are not yet satisfied by corporate governance structures. Nearly all the listed companies in China are at least partially owned by the state and in nearly all cases, controlled by the state. This creates a giant conflict: what is good for the government may not be good for the other owners, especially foreign minority owners. For example, a listed

Highlights

- A strong recovery in global stocks, which began in March, continued through year-end.
- Weighing risk/return prospects in emerging markets is critical to success, especially given the degree of optimism about growth prospects.
- We continue to monitor China and other emerging markets for investments that meet our criteria of price and quality.

company may buy another non-listed company at an inflated price. This would benefit the governmental entity that's selling to the detriment of the listed entity owned, at least partially, by outsiders.

Additionally, companies are primarily viewed as political instruments. The corporation is viewed as handy tool to accomplish various goals, and building shareholder value is typically absent from the checklist. As an example, employment, whether or not its actually economically productive, is oftentimes an important goal for these companies.

Even setting aside the presence of corporate governance conflicts, prices of the larger, more liquid Chinese companies (listed in Hong Kong) do not look attractive. The current trendiness of portfolio investment has really pushed valuations upward. So, when you consider price and quality, which is how we define value, we have yet to find opportunity.

In our view properly weighing risk and return in emerging markets is critical to success. Emerging markets in general have performed strongly over the past several years, especially relative to the developed markets of Europe. Many of these markets are now pricing in a lot of optimism, with little discount for the political and economic instability that comes along with the exciting growth prospects.

In fact, these calls for "Why aren't you in China?" sound similar to the query that we heard in late 1999 and early 2000, "Why aren't you in tech stocks?" It is easy to confuse the presence of growth with the presence of value. We will happily invest in Chinese companies when we find stocks that fit our investment criteria. Until then, we own and will continue to look for stocks in companies listed elsewhere that are benefiting from China's rapid growth and that are run for the benefit of shareholders. Currently,

Giordano, a HK based pan-Asian retailer, has hundreds of stores in China and a operational plan to make solid profits over time. We could continue: BMW sells cars in China, Swatch sells watches there, et.al.

Remember it was only five years ago that most foreigners threw up their hands and fled emerging markets—creating what we thought was a tremendous buying opportunity. We will continue to monitor China as well as other emerging markets for investments that meet our investment criteria—price and quality.

Thank you for your continued confidence and support.



David G. Herro, CFA

Michael J. Welsh, CFA, CPA

Portfolio Manager

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 gained 16% for the quarter, compared to the MSCI World ex U.S. Index which gained 17%. For the twelve months ended December 31, 2003 the Fund gained 38%, similar to the 39% and 36% returns of the MSCI World ex U.S. Index and the Lipper International Fund Index, respectively.

Big Contributors 2003

As we do at the end of every year we like to mention those stocks which had the most significant impact on your Fund's NAV⁸. Happily this year, nearly all were positive.

L.M. Ericsson, the Swedish telecom equipment manufacturer, had by far the most significant positive contribution, rebounding from a tough 2002. The stock more than tripled from its March, 2003 lows. The share price responded positively to the appointment and initial actions of new CEO Carl-Henric Swanberg, as well as to better than expected cash flow generation.

A number of our financials in the Fund also did extremely well. Sanpaolo IMI (Italy), BNP Paribas (France), Credit Suisse Group (Switzerland), and Daiwa Securities (Japan) all made substantial positive contributions to The Oakmark International Fund's return. In general, the market gave us a very good buying opportunity in March when share prices weakened to top up our positions in these names and others, as well as to add Credit Suisse to the portfolio.

The share price of Vivendi Universal (France) rose over the past twelve months in reflection of the excellent work done by the new management team, led by Chairman Jean-Rene Fourtou. Since taking over the company in the summer of 2002, this team has restored credibility and liquidity to a very tarnished enterprise, and has done so under very difficult market conditions.

Other significant winners for us in calendar 2003 included blue-chip recruitment company Michael Page plc (UK), German automaker BMW, global advertising and services giant Publicis Group (France), and media powerhouse Grupo Televisa (Mexico). The negative contributors to a lesser degree included Gambro AB A, FKI plc and Rolls-Royce Group plc.

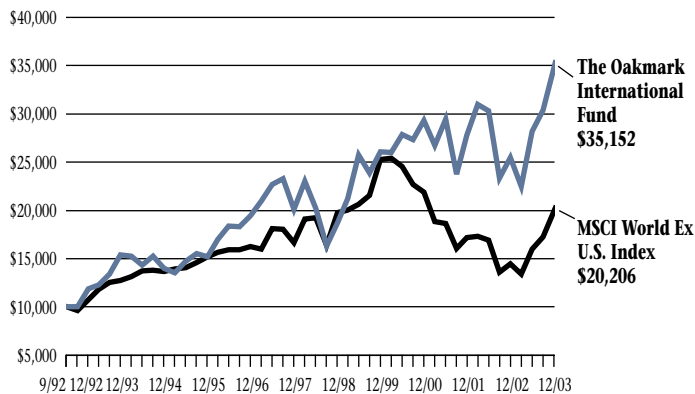
Looking Forward

Given the quality of the holdings and the attractive valuation of the portfolio, we remain optimistic about potential price appreciation. Thank you for your continued confidence.

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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/03) COMPARED TO THE MSCI WORLD EX U.S. INDEX²⁰



Annual Average Total Returns¹

(as of 12/31/03)

	Total Return Last 3 Months*	1-year	5-year	10-year	Since Inception (9/30/92)
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Oakmark

International Fund	15.75%	38.04%	13.46%	8.58%	11.81%
MSCI World ex. U.S.	17.00%	39.42%	0.46%	4.73%	6.45%
MSCI EAFE ²¹	17.08%	38.59%	-0.05%	4.47%	6.22%
Lipper International Fund Index ²²	15.45%	36.00%	2.13%	5.31%	7.71%

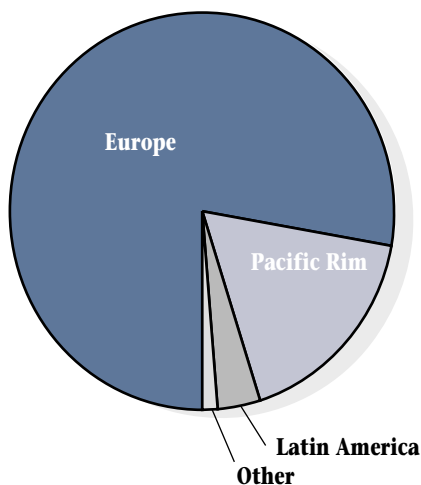
The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

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 FUND

International Diversification—December 31, 2003 (Unaudited)



	% of Fund Equity Market Value
Europe	77.8%
Great Britain	23.7%
* France	16.7%
Switzerland	13.8%
* Germany	7.6%
* Netherlands	6.2%
* Italy	3.8%
* Ireland	2.9%
Sweden	1.7%
* Finland	1.4%

	% of Fund Equity Market Value
Pacific Rim	17.3%
Japan	7.3%
Korea	4.0%
Australia	3.5%
Singapore	1.4%
Hong Kong	1.1%
Latin America	3.6%
Mexico	3.6%
Other	1.3%
Israel	1.3%

* Euro currency countries comprise 38.6% of the Fund.

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—94.7%			
Food & Beverage—13.9%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	10,717,900	\$ 140,496,894
Nestle SA (Switzerland)	Food & Beverage Manufacturer	454,800	113,534,658
Cadbury Schweppes plc (Great Britain)	Beverage & Confectionary Manufacturer	15,103,800	110,720,751
Pernod-Ricard SA (France)	Manufactures Wines, Spirits, & Fruit Juices	615,425	68,332,939
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	83,400	41,577,507
Fomento Economico Mexicano S.A. de C.V. (Mexico) (b)	Soft Drink & Beer Manufacturer	1,073,000	<u>39,572,240</u>
			514,234,989
Household Products—2.8%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	1,386,950	\$ 101,832,759
Other Consumer Goods & Services—1.5%			
Swatch Group AG, Bearer Shares (Switzerland)	Watch Manufacturer	457,900	\$ 54,934,682
Swatch Group AG, Registered Shares (Switzerland)	Watch Manufacturer	24,700	<u>588,665</u>
			55,523,347
Automobiles—2.3%			
Bayerische Motoren Werke (BMW) AG (Germany)	Luxury Automobile Manufacturer	1,871,700	\$ 86,641,554
Automotive—1.8%			
Compagnie Generale des Etablissements Michelin (France)	Tire Manufacturer	1,454,500	\$ 66,651,369
Broadcasting & Programming—2.2%			
Grupo Televisa S.A. (Mexico) (b)	Television Production & Broadcasting	2,056,000	\$ 81,952,160

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—94.7% (cont.)			
Human Resources—2.1%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	22,748,600	\$ 76,022,426
Marketing Services—3.6%			
Publicis Groupe (France)	Advertising & Media Services	2,355,100	\$ 76,238,638
Aegis Group plc (Great Britain)	Media Services	30,524,200	53,795,583
			<u>130,034,221</u>
Publishing—4.9%			
Reed Elsevier plc (Great Britain)	Publisher	10,918,300	\$ 90,950,392
John Fairfax Holdings Limited (Australia)	Newspaper Publisher	32,814,100	86,981,516
			<u>177,931,908</u>
Recreation & Entertainment—0.7%			
Nintendo Company, Ltd. (Japan)	Video Game Manufacturer	284,800	\$ 26,587,005
Retail—4.1%			
Signet Group plc (Great Britain)	Jewelry Retailer	31,585,100	\$ 58,061,026
J Sainsbury plc (Great Britain)	Food Stores	9,902,000	55,269,491
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	82,924,300	38,451,455
			<u>151,781,972</u>
Bank & Thrifts—11.5%			
Bank of Ireland (Ireland)	Commercial Bank	7,347,000	\$ 100,131,323
Sanpaolo IMI S.p.A. (Italy)	Banking Services	6,335,800	82,519,132
BNP Paribas SA (France)	Commercial Banking	1,156,000	72,688,392
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Banking	2,938,400	49,681,324
United Overseas Bank Limited, Foreign Shares (Singapore)	Commercial Banking	6,178,368	48,021,232

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—94.7% (cont.)			
Bank & Thrifts (cont.)			
Australia and New Zealand Banking Group Limited (Australia)	Commercial Bank	2,757,700	\$ 36,715,808
Svenska Handelsbanken AB (Sweden)	Commercial Banking	1,498,800	30,619,212
Kookmin Bank (Korea)	Commercial Banking	231,168	8,662,737
			<u>429,039,160</u>
Financial Services—1.5%			
Credit Suisse Group (Switzerland)	Investment Services & Insurance	1,552,900	\$ 56,769,046
Other Financial—7.0%			
Euronext (Netherlands)	Stock Exchange	4,230,800	106,955,352
Deutsche Boerse AG (Germany)	Electronic Trading Systems	1,415,400	77,286,020
Daiwa Securities Group Inc. (Japan)	Stock Broker	10,870,000	73,975,261
			<u>258,216,633</u>
Pharmaceuticals—11.4%			
Aventis S.A. (France)	Pharmaceuticals	2,061,200	\$ 136,045,466
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	5,271,200	120,604,286
Takeda Chemical Industries, Ltd. (Japan)	Pharmaceuticals & Food Supplements	2,371,000	94,069,735
Novartis AG (Switzerland)	Pharmaceuticals	1,534,500	69,609,125
			<u>420,328,612</u>
Telecommunications—2.5%			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	542,000	\$ 90,522,870
Telecommunications Equipment—0.8%			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	16,290,000	\$ 29,204,097
Computer Services—1.7%			
Meitec Corporation (Japan)	Software Engineering Services	1,613,200	\$ 62,046,154

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—94.7% (cont.)			
Airport Maintenance—0.1%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	242,000	\$ 4,259,200
Diversified Conglomerates—3.5%			
Vivendi Universal SA (France) (a)	Multimedia	4,813,700	\$ 116,840,495
LVMH Moët Hennessy Louis Vuitton SA (France)	Diversified Luxury Goods	159,600	11,599,556
Haw Par Corporation Limited (Singapore)	Healthcare & Leisure Products	58,338	153,205
			<u>128,593,256</u>
Instruments—1.2%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	1,834,200	\$ 43,874,064
Machinery & Industrial Processing—1.3%			
Metso Corporation (Finland)	Paper & Pulp Machinery	3,863,000	\$ 47,247,256
Other Industrial Goods & Services—2.2%			
Enodis plc (Great Britain) (a)	Food Processing Equipment	33,585,320	49,000,722
Chargeurs SA (France)	Wool, Textile Production & Trading	1,050,201	34,393,663
			<u>83,394,385</u>
Transportation Services—2.0%			
Associated British Ports Holdings plc (Great Britain)	Port Operator	9,341,299	\$ 74,896,338
Chemicals—8.1%			
Akzo Nobel N.V. (Netherlands)	Chemical Producer	2,848,000	109,772,628
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	198,300	102,850,703
Lonza Group AG, Registered Shares (Switzerland)	Industrial Organic Chemicals	1,459,300	83,823,097
			<u>296,446,428</u>
Total Common Stocks (Cost: \$2,685,649,811)			3,494,031,209

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Par Value	Market Value
Short Term Investments—5.0%			
U.S. Government Bills—2.1%			
	United States Treasury Bills, 0.84% - 0.925% due 1/2/2004 - 1/22/2004	\$ 80,000,000	\$ 79,979,449
	Total U.S. Government Bills (Cost: \$79,979,449)		79,979,449
Repurchase Agreements—2.9%			
	IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$105,004,958 collateralized by U.S. Government Agency Securities	\$105,000,000	\$ 105,000,000
	IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$170,629 collateralized by a U.S. Government Agency Security	170,622	170,622
	Total Repurchase Agreements (Cost: \$105,170,622)		105,170,622
	Total Short Term Investments (Cost: \$185,150,071)		185,150,071
	Total Investments (Cost \$2,870,799,882)—99.7%		\$ 3,679,181,280
	Other Assets In Excess Of Other Liabilities—0.3%		11,525,883
	Total Net Assets—100%		<u>\$3,690,707,163</u>

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

THE OAKMARK INTERNATIONAL SMALL CAP FUND

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



The Oakmark International Small Cap Fund gained 18% for the quarter, in-line with the relevant benchmark indices. For calendar year 2003 the Fund returned 52%. It was a terrific year for share prices of smaller companies overseas.

Big Contributors 2003

As we do at the end of every year we like to mention those stocks which had the most significant impact on your Fund's NAV⁵. We had a number of outsized winners and very few that had a negative impact on the Fund's NAV.

Down under, credit services provider Baycorp Advantage Ltd. (Australia) had the single most significant impact this year. In our view the shares were unfairly beaten up over short-term worries regarding integration of their large New Zealand acquisition, ignoring a very strong underlying franchise.

Another very strong performer was Bulgari S.p.A., the Italian luxury goods company. Various market fears—terrorism, SARS, et.al.—drove the share price to extremely attractive levels, and allowed us to build a meaningful position for The Oakmark International Small Cap Fund. The shares have more than doubled over the past twelve months.

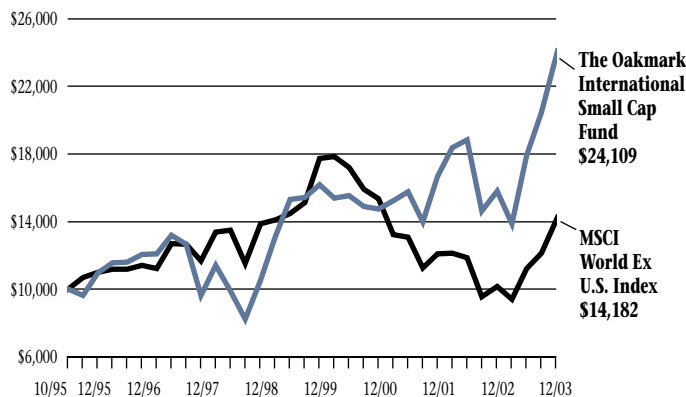
One of the Fund's worst performers in 2002 came back strongly this year: Pfeiffer Vacuum Technology (Germany). Despite sluggish markets for their products, especially in the semiconductor industry, the superb management team at Pfeiffer continued to generate enviable profitability and initiated a significant share buyback program.

Other companies with significant positive contributions in calendar 2003 included: industrials Alfa Laval (Sweden) and Gurit-Heberlein (Switzerland); French mailing equipment and services company Neopost; a couple of financials, Danish commercial bank Jyske Bank A/S, and Swiss private bank Julius Baer Holding; and, Grupo Aeroportuario del Sureste ("ASUR"), the Mexican airport operator which holds the concessions for, among others, the Cancun and Cozumel airports. Companies with negative contributions included Van der Moolen Holding N.V., Natuzzi S.p.A, and Ducati Motor Holding S.p.A., however their performance had less impact.

Looking Forward

Despite the strong performance of the Fund this year, we still feel fairly optimistic about potential price appreciation for our holdings over the medium and long-term. Thank you for your continued confidence.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/03) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX²⁰



Annual Average Total Returns¹

Total Return Last 3 Months*	(as of 12/31/03)		Since Inception (11/1/95)
	1-year	5-year	
	17.81%	52.41%	11.37%
	17.00%	39.42%	4.37%
	15.05%	55.14%	10.99%

Oakmark International

Small Cap Fund	17.81%	52.41%	18.01%	11.37%
MSCI World ex. U.S.	17.00%	39.42%	0.46%	4.37%
Lipper International Small Cap Average ²³	15.05%	55.14%	9.52%	10.99%

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.

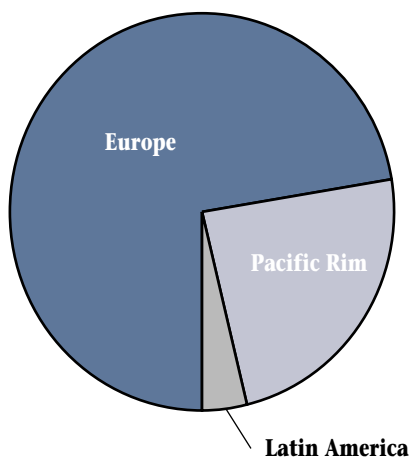
Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

* Not annualized

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THE OAKMARK INTERNATIONAL SMALL CAP FUND

International Diversification—December 31, 2003 (Unaudited)



	% of Fund Equity Market Value
Europe	72.4%
Switzerland	16.4%
* France	15.5%
Great Britain	10.4%
* Italy	9.9%
Denmark	7.0%
* Germany	5.2%
Sweden	3.2%
* Spain	2.3%
* Finland	1.9%
* Austria	0.6%

	% of Fund Equity Market Value
Pacific Rim	23.8%
Japan	8.2%
Australia	8.1%
Korea	3.0%
New Zealand	2.3%
Thailand	0.9%
Hong Kong	0.8%
Philippines	0.5%
Latin America	3.8%
Mexico	3.8%

* Euro currency countries comprise 35.4% of the Fund.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—95.1%			
Food & Beverage—5.6%			
Campari Group (Italy)	Soft Drinks, Wines, & Spirits Producer	263,900	\$ 12,784,429
Baron de Ley, S.A. (Spain) (a)	Wines & Spirits Manufacturer	150,985	7,226,867
Hite Brewery Co., Ltd. (Korea)	Brewer	68,000	4,987,998
Grupo Continental, S.A. (Mexico)	Soft Drink Manufacturer	1,654,100	2,796,823
Alaska Milk Corporation (Philippines)	Milk Producer	49,394,000	2,757,950
Kook Soon Dang Brewery Co., Ltd. (Korea)	Wine & Spirits Manufacturer	122,676	<u>2,738,717</u>
			\$ 33,292,784
Household Products—0.8%			
Societe BIC SA (France)	Consumer & Office Supplies	101,800	\$ 4,698,248
Other Consumer Goods & Services—1.3%			
Vitec Group plc (Great Britain)	Photo Equipment & Supplies	678,400	\$ 4,189,162
Royal Doulton plc (Great Britain) (a)	Tableware & Giftware	22,373,000	<u>3,294,150</u>
			7,483,312
Broadcasting & Publishing—2.7%			
Tamedia AG (Switzerland)	TV Broadcasting & Publishing	184,151	\$ 16,365,011
Building Materials & Construction—0.7%			
Fletcher Building Limited (New Zealand)	Building Materials Manufacturer	1,489,800	\$ 4,143,158
Human Resources—2.2%			
DIS Deutscher Industrie Service AG (Germany)	Recruitment Consultancy Services	552,142	\$ 12,873,299
Information Services—4.7%			
Baycorp Advantage Limited (Australia) (a)	Credit Reference Services	13,342,500	\$ 28,133,195
Marketing Services—2.1%			
Asatsu-DK, Inc. (Japan)	Advertising Services Provider	459,700	\$ 11,844,399
LG Ad Inc. (Korea)	Advertising & Marketing Services	43,000	<u>754,259</u>
			12,598,658

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.1% (cont.)			
Motorcycles—1.5%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	5,190,000	\$ 8,982,283
Publishing—1.9%			
Recoletos Grupo de Comunicacion, S.A. (Spain)	Publisher	820,000	\$ 6,083,616
Matichon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	2,039,500	<u>5,198,801</u> 11,282,417
Recreation & Entertainment—2.0%			
Square Enix Co., Ltd. (Japan)	Entertainment Software	382,100	\$ 9,006,745
Konami Sports Corporation (Japan)	Fitness Centers	183,000	<u>2,972,554</u> 11,979,299
Retail—8.7%			
D.F.S. Furniture Company plc (Great Britain)	Furniture Retailer & Manufacturer	2,680,000	\$ 18,247,130
Carpentryright plc (Great Britain)	Carpet Retailer	1,174,500	17,439,803
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	1,833,000	<u>16,967,715</u> 52,654,648
Bank & Thrifts—2.8%			
Jyske Bank A/S (Denmark) (a)	Commercial Banking	222,400	\$ 11,736,644
Vontobel Holding AG (Switzerland)	Commercial Banking	203,700	<u>4,648,994</u> 16,385,638
Financial Services—2.8%			
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	49,090	\$ 16,537,833
Other Financial—1.9%			
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	2,443,000	\$ 11,243,456

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.1% (cont.)			
Medical Products—4.1%			
Ansell Limited (Australia)	Protective Rubber & Plastics Products	3,704,750	\$ 17,994,610
Coloplast A/S, Class B (Denmark)	Healthcare Products & Services Provider	73,800	<u>6,303,798</u>
			24,298,408
Pharmaceuticals—1.9%			
Santen Pharmaceutical Co., Ltd. (Japan)	Pharmaceuticals	863,200	\$ 11,499,126
Telecommunications—0.8%			
Asia Satellite Telecommunications Holdings Limited (Hong Kong)	Satellite Operator	2,531,000	\$ 4,808,533
Computer Services—4.2%			
Morse plc (Great Britain)	Business & Technology Solutions	6,318,300	\$ 16,068,685
Sopra Group (France)	Computer Engineering	111,930	4,755,492
Alten (France) (a)	Systems Consulting & Engineering	298,141	<u>4,273,627</u>
			25,097,804
Computer Systems—2.3%			
Lectra (France) (a)	Manufacturing Process Systems	1,718,500	\$ 13,528,891
Office Equipment—4.2%			
Neopost SA (France)	Mailroom Equipment Supplier	501,900	\$ 25,287,730
Airport Maintenance—6.7%			
Kobenhavns Lufthavne A/S (Copenhagen Airports A/S - CPH) (Denmark)	Airport Management & Operations	184,100	\$ 21,548,371
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	1,064,000	<u>18,726,400</u>
			40,274,771
Diversified Conglomerates—6.2%			
Pargesa Holding AG (Switzerland)	Diversified Operations	5,374	\$ 14,327,193
Financiere Marc de Lacharriere SA (Fimalac) (France)	Diversified Operations	386,364	14,152,192

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.1% (cont.)			
Diversified Conglomerates (cont.)			
Tae Young Corp. (Korea)	Heavy Construction	245,610	\$ 8,451,540
Financiere Marc de Lacharriere SA (Fimalac), Warrants (France) (a)	Diversified Operations	31,866	105,965
			<u>37,036,890</u>
Environmental Products & Services—0.3%			
Munters AB (Sweden)	Cooling & Moisture Control Systems	77,400	\$ 1,871,644
Instruments—1.6%			
Vaisala Oyj, Class A (Finland)	Atmospheric Observation Equipment	321,900	\$ 9,491,941
Machinery & Industrial Processing—7.8%			
Pfeiffer Vacuum Technology AG (Germany)	Vacuum Pump Manufacturer	471,140	\$ 16,616,542
Alfa Laval (Sweden)	Filtration & Separation Equipment	1,061,100	16,147,430
Carbone Lorraine SA (France)	Electrical Systems Manufacturer	300,382	11,029,228
Andritz AG (Austria)	General Industrial Machinery	68,000	3,250,524
			<u>47,043,724</u>
Other Industrial Goods & Services—5.3%			
Schindler Holding AG (Switzerland) (a)	Elevator & Escalator Manufacturer	76,150	\$ 21,101,511
LISI (France)	Industrial Fastener Manufacturer	241,813	9,366,070
Kone Oyj, Class B (Finland)	Elevators	24,500	\$ 1,399,510
			<u>31,867,091</u>
Production Equipment—3.1%			
Interpump Group S.p.A. (Italy)	Pump & Piston Manufacturer	3,933,500	\$ 17,549,323
NSC Groupe (France)	Textile Equipment Manufacturer	12,316	1,165,044
			<u>18,714,367</u>
Transportation Services—1.5%			
Mainfreight Limited (New Zealand)	Logistics Services	8,935,381	\$ 9,142,718
Chemicals—3.4%			
Gurit-Heberlein AG (Switzerland)	Chemical Producer	29,134	\$ 20,218,215
Total Common Stocks (Cost: \$408,726,274)			568,835,092

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2003 (Unaudited) cont.

Name	Description	Par Value	Market Value
Short Term Investments—4.7%			
U.S. Government Bills—1.6%			
	United States Treasury Bills, 0.83% - 0.925% due 1/2/2004 - 1/8/2004	\$10,000,000	\$ 9,999,065
	Total U.S. Government Bills (Cost: \$9,999,065)		9,999,065
Repurchase Agreements—3.1%			
	IBT Repurchase Agreement, 0.85% due 1/2/2004, repurchase price \$16,000,756 collateralized by U.S. Government Agency Securities	\$16,000,000	\$ 16,000,000
	IBT Repurchase Agreement, 0.75% due 1/2/2004, repurchase price \$2,405,970 collateralized by a U.S. Government Agency Security	2,405,870	2,405,870
	Total Repurchase Agreements (Cost: \$18,405,870)		18,405,870
	Total Short Term Investments (Cost: \$28,404,935)		28,404,935
	Total Investments (Cost \$437,131,209)—99.8%		\$ 597,240,027
	Foreign Currencies (Cost \$669,347)—0.1%		674,234
	Other Assets In Excess Of Other Liabilities—0.1%		403,279
	Total Net Assets—100%		\$598,317,540

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

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.

The Oakmark Select Fund closed to new investors as of 5/4/01.

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.

The Oakmark International Small Cap Fund closed to new investors as of 5/10/02.

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. 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.

2. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.
3. During the period since inception (8/4/99 - 12/31/03), IPO's contributed an annualized 1.93% 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.
4. The quoted passages are taken from "In an Uncertain World- Tough Choices from Wall Street to Washington" written by Robert Rubin and published in 2003 by Random House.
5. 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.
6. 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.
7. The Lipper Large Cap Value Fund Index measures the performance of the 30 largest U.S. large-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.

8. 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.
9. EPS refers to Earnings Per Share and is calculated by dividing total earnings by the number of shares outstanding.
10. 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.
11. The Lipper Mid Cap Value Fund Index measures the performance of the 30 largest U.S. mid-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
12. The Price-Earnings Ratio ("P/E") is the most common measure of how expensive a stock is.
13. 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.
14. 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.
15. The Lipper Small Cap Value Fund Index measures the performance of the 30 largest U.S. small-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
16. The Lipper Balanced Fund Index measures the performance of the 30 largest U.S. balanced funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
17. 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.
18. 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.
19. 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.
20. 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.
21. 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.
22. The Lipper International Fund 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.
23. The Lipper International Small Cap Average includes 109 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

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.”

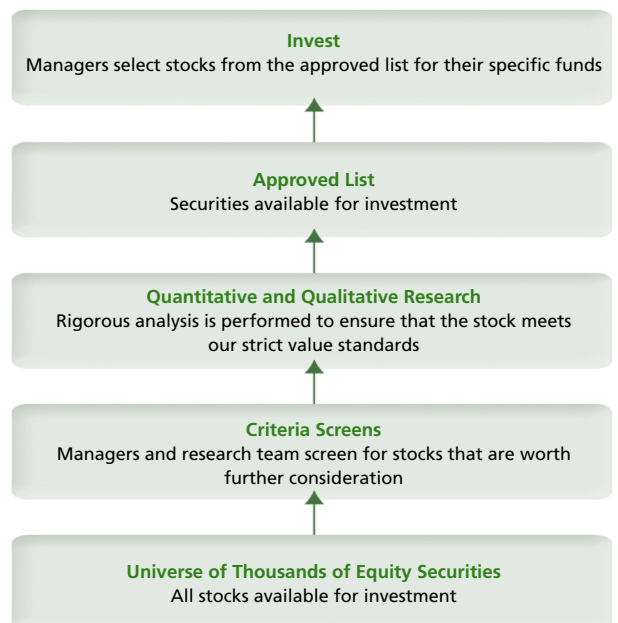
The Result: a unified effort aimed at identifying the best values in the marketplace. From the list of approved stocks, each fund manager constructs a relatively focused portfolio, built on a stock-by-stock basis from the bottom up.

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 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

Trustees and Officers

Trustees

Victor A. Morgenstern—*Chairman*
Michael J. Friduss
Thomas H. Hayden
Christine M. Maki
John R. Raitt
Allan J. Reich
Marv Rotter
Burrton W. Ruder
Peter S. Voss
Gary Wilner, M.D.

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Robert M. Levy—*President*
John R. Raitt(a)—*Executive Vice President*
James P. Benson—*Vice President*
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Kevin G. Grant—*Vice President*
David G. Herro—*Vice President*
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William C. Nygren—*Vice President*
Vineeta Raketich—*Vice President*
Janet L. Reali—*Vice President and Secretary*
Ann W. Regan—*Vice President—*
Shareholder Operations and Assistant Secretary
Edward A. Studzinski—*Vice President*
Michael J. Welsh—*Vice President*
Kristi L. Rowsell—*Treasurer*
John J. Kane—*Assistant Treasurer*

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Website

www.oakmark.com

(a) John R. Raitt succeeded Robert M. Levy as President of The Oakmark Funds on January 1, 2004.

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

This report is submitted for the general information of the shareholders of the Funds. The report is not authorized for distribution to prospective investors in the Funds unless it is accompanied or preceded by a currently effective prospectus of the Funds.

No sales charge to the shareholder or to the new investor is made in offering the shares of the Funds, however, a shareholder may incur a 2% redemption fee on an exchange or redemption of shares held 90 days or less from any Fund except The Oakmark Fund or The Oakmark Equity and Income Fund.

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