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

1ST QUARTER REPORT

DECEMBER 31, 1999

Managed by Harris Associates L.P.

OAKMARK
FAMILY of FUNDS

THE OAKMARK FAMILY OF FUNDS

2000 First Quarter Report

For More Information

Access our web site at www.oakmark.com to obtain a profile, prospectus, an application or periodic reports, or call 1-800-OAKMARK (1-800-625-6275) or (617) 578-1329.

Web Site and 24-Hour Net Asset Value Hotline

Access our web site at www.oakmark.com to obtain the current net asset value of a fund, or call 1-800-GROWOAK (1-800-476-9625).

To Comment on Shareholder Services

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Dear Fellow Shareholders:

We are pleased to present the First Quarter Report for The Oakmark Family of Funds. Our frustration continues to build as we reconcile our enthusiasm for our current portfolios with the reality of a quarter of disappointing relative returns. We remain convinced that we are near a turning point in the domestic market and appreciate the continued patience of our fellow shareholders.

The returns over the last 12 months have been very strong for both of our international funds. They have performed very well — absolutely and relatively. The results for our domestic funds present a less consistent picture: some portfolios performed below expectations and others exceeded their benchmarks. A great deal of our near-term underperformance can be attributed to a lack of direct investment in technology stocks. Since the inception of our fund family, it is clear that many of our investments have benefited from the productivity gains and general efficiencies created by technology. Unfortunately, in the current market, this indirect benefit has not been sufficient to generate better returns in our stocks. Direct investment in the large technology stocks is winning for now.

As value investors, we are not precluded from technology investments. In fact, a number of our funds own some technology companies. The problem has been identifying technology companies that are selling at a discount to rational current values. Buying stocks at significant discounts to their business value is the cornerstone of our long-term investment success. To change our focus now would add substantial portfolio risk. Taking higher risk now is unjustified and unfair to our shareholders who have to bear the risk. When we can buy technology stocks at rational valuations we do — and we will in the future. Invariably, individual technology-based companies will suffer short-term disappointments in earnings or growth rates and their share valuations will fall to levels we view as attractive long-term investments. It will be a period when these stocks "have experienced a substantial price decline based on reasons which we believe are both transitory and irrelevant to the fundamental intrinsic value of the business." (Clyde McGregor 7/6/99 report).

This has been a difficult period for some of our funds, but we are confident that improvement is near. Not only are we convinced that our philosophy and process will provide attractive returns long-term, but our confidence is reinforced by the motivated group of professionals at our firm. Our professional group is very competent, loves the business, and believes strongly in our philosophy. In addition, we are large owners of our funds and appropriately have seen our own net worth penalized by our recent performance. These factors, in combination with the attractive valuation of our portfolios, are why we are confident about the coming year.

Our firm is entering its 25th year. We have had other periods of underperformance. Fortunately, they have been few in number and short in duration. We strongly believe this time will be no different!

Victor Morgenstern
Chairman

Robert M. Levy
President

THE OAKMARK FAMILY OF FUNDS

Summary Information

Performance for Period Ended December 31, 1999	The Oakmark Fund	The Oakmark Select Fund	The Oakmark Small Cap Fund
3 Months	−6.7%	6.9%	−2.0%
6 Months	−19.3%	−3.8%	−10.9%
1 Year	−10.5%	14.5%	−7.9%
Average Annual Total Return for:			
3 Year	7.2%	27.3%	4.0%
5 Year	14.0%	N/A	N/A
Since inception	21.2%	31.1%	12.3%
Value of $10,000 from inception date	$50,277 (8/5/91)	$23,557 (11/1/96)	$16,224 (11/1/95)
Top Five Holdings as of December 31, 1999 *Company and % of Total Net Assets*	The Black & Decker Corporation 6.4% The Dun & Bradstreet Corporation 6.4% H&R Block, Inc. 6.0% Philip Morris Companies Inc. 5.8% Nike, Inc., Class B 5.5%	USG Corporation 10.4% Washington Mutual, Inc. 10.3% U.S Industries, Inc. 7.7% The Dun & Bradstreet Corporation 6.8% First Data Corporation 6.7%	Catellus Development Corporation 5.2% National Data Corporation 4.8% Symantec Corporation 4.5% Department 56, Inc. 4.4% U.S Industries, Inc. 4.2%
Top Five Industries as of December 31, 1999 *Industries and % of Total Net Assets*	Other Consumer Goods & Services 22.9% Information Services 9.8% Banks & Thrifts 9.5% Machinery & Industrial Processing 9.3% Hardware 9.2%	Computer Services 20.7% Banks & Thrifts 13.0% Building Materials & Construction 10.4% Diversified Conglomerates 7.7% Information Services 6.8%	Banks & Thrifts 10.2% Retail 9.1% Real Estate 9.0% Food & Beverage 7.7% Other Consumer Goods & Services 6.7%

The Oakmark Equity and Income Fund	The Oakmark Global Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
3.4%	8.7%	9.1%	4.9%
– 1.8%	N/A	1.3%	5.7%
7.9%	N/A	39.5%	53.8%
15.4%	N/A	10.3%	10.4%
N/A	N/A	13.2%	N/A
15.3%	N/A	14.1%	12.3%
$18,119 (11/1/95)	$9,981 (8/4/99)	$26,065 (9/30/92)	$16,190 (11/1/95)
Imation Corp. 5.3% The Reynolds and Reynolds Company 4.6% First Data Corporation 4.3% Catellus Development Corporation 3.9% Electronic Data Systems Corporation 3.8%	Department 56, Inc. 7.2% House of Fraser Plc 4.8% Fletcher Challenge Building 4.7% Ceridian Corporation 4.7% Somerfield plc 4.7%	Metso Oyj 5.5% Somerfield plc 4.1% Chargeurs SA 4.0% Citizen Watch Co. 4.0% Canon, Inc. 4.0%	Royal Doulton plc 6.9% Fletcher Challenge Building 6.3% House of Fraser Plc 5.6% Krones AG 5.3% JCG Holdings Ltd. 4.2%
U.S. Government Bonds 24.7% Computer Services 16.2% Real Estate 10.9% Banks & Thrifts 7.1% Data Storage 5.3%	Retail 13.7% Other Consumer Goods & Services 13.7% Information Services 11.7% Banks & Thrifts 11.1% Other Industrial Goods & Services 6.4%	Other Industrial Goods & Services 14.7% Banks & Thrifts 13.4% Telecommunications 8.6% Food & Beverage 8.1% Machinery & Metal Processing 7.1%	Retail 12.7% Mining & Building Materials 12.3% Other Consumer Goods & Services 10.9% Production Equipment 10.7% Diversified Conglomerates 7.8%

THE OAKMARK FUND

Report from Robert J. Sanborn, Portfolio Manager

At the Millennium, A Return to Basics

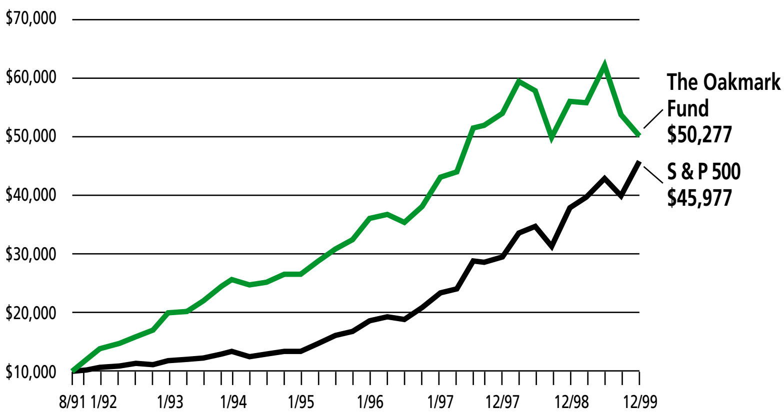
Many of us know the proverbial lesson that teaches us that it is far better to educate someone how to fish for a lifetime rather than to simply give him a fish to eat. As I observe the current investment scene, it seems that this lesson is very timely for today's mutual fund investor. Many, if not most, individual investors throw money at those stocks and funds that are "going up," with little underlying intellectual justification. Many folks have gotten very comfortable chasing the hot stocks and funds because in the last couple of years this approach has "worked." Going forward, I believe these people are going to learn the expensive lesson that this is not the kind of investment approach that will lead to satisfactory LIFETIME investing results, which, after all, is the goal of most of us.

At The Oakmark Funds, we have always wanted to attract investors who understood and agreed with our investment philosophy rather than to attract people solely because of recent returns. Thus, we have produced substantive quarterly letters in the hopes of creating great "fishermen," or people who will grow their wealth optimally over the long term. So, let me take this opportunity at the beginning of a new century (the producers of "Jeopardy" would disagree, but that's another story) to review The Oakmark Fund's philosophy. I also want to discuss a couple other important issues.

In our first quarterly in 1991, I outlined our philosophy and listed the five guidelines we use in investing your hard-earned money. In a nutshell, we frame the investment process as buying an ownership piece of a business for the long term, not a mere piece of paper in the short run, and employ the following guidelines:

1) Invest in companies selling at market prices that represent a significant discount to underlying value, or what a rational businessperson would pay to own the entire enterprise forever;
2) Invest with owner-oriented managements whose interests are aligned with us;
3) Concentrate; put our assets into our best ideas and do not over-diversify;
4) Invest for the long term; trade as infrequently as possible to achieve our goals; and
5) Think independently; do not let "Street" market psychology or business issues interfere with investment decisions.

THE VALUE OF A $10,000 INVESTMENT IN THE OAKMARK FUND FROM ITS INCEPTION (8/5/91) TO PRESENT (12/31/99) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX



12/31/99 NAV $27.20

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 8/5/91
The Oakmark Fund	**–6.7%**	**21.2%**
Standard & Poor's 500 Stock Index w/inc**	14.9%	19.9%
Dow Jones Industrial Average w/inc**	11.7%	20.0%
Value Line Composite Index**	3.2%	7.1%

*Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
**Each of the three indexes or averages is an unmanaged group of stocks whose composition is different from the Fund. The S&P 500 is a broad market-weighted average dominated by blue-chip stocks. The Dow Jones Average includes only 30 big companies. The Value Line Index is an unweighted average of more than 1,000 stocks. Past performance is no guarantee of future results.

We have adhered to these guidelines every day the Fund has been in existence and we will continue to do so. We do so because we believe passionately that following this approach will lead to the best results over the long term, which I would define as anywhere from three to five years to forever. We realize that many if not most mutual fund investors today have far shorter time frames, but we cannot change that.

Some would say this approach is dead and that one must not use "traditional" valuation measures to value the "New Economy" companies that have dominated the market over the past couple of years. Hogwash! Whether a company is deemed "Old" or "New," it must generate at some point in the foreseeable future revenues and profits (and dividends) sufficient enough to justify its valuation. Today's high flyers—be it Yahoo, Red Hat, eToys, Cisco, or a host of others—are very unlikely to do so. Can they continue to "go up?" Yes. Will that bother us? No. Why? Because as we analyze these stocks today, we are hugely skeptical they can achieve these goals, and we know that if we are right, these stocks will eventually find their true underlying level. In fact, many may pierce that level and actually become good values (for a stock like Yahoo, the consensus around here is that it would be at a price 1/20th of today's market price).

Let me reiterate that we are very familiar with these companies and would own them in the Fund if they were priced right. To us, a great growth company can be every bit a value as the most mundane of manufacturers—it all depends on price.

The second topic I want to discuss is expectations. The last decade was the best decade for US stocks ever, both in nominal and real terms. It has caused the average investor to have way-too-high expectations for future returns, and he is probably taking on far too much risk in the hopes of getting juicy returns. With inflation around 2%, an investor should assume US stocks would return 7%, producing real returns before taxes of 5%. Normally, I would hope The Oakmark Fund would outperform by 2% annually, or have annual returns of 9%. However, at the current time, considering the (modest) valuations of our holdings versus the (lofty) valuation of the S&P 500, my hopes are far better than this.

Last, let me briefly discuss taxes. Most of you are aware that The Oakmark Fund has paid abnormally high distributions in the last two years. As I have written here, these are due to the steady and high level of redemptions we (and virtually every other value-oriented fund) have experienced.

However, it is important to look forward. At the current time, The Oakmark Fund has a net unrealized loss. This means that, if redemptions continue, we are unlikely to make future large distributions. So, our tax problems are behind us, whereas the growth funds will experience them—and probably far more onerous!—if investors sour on growth funds, something that is inevitable in my view.

In summary, it remains a privilege to manage your money, and I truly appreciate your support and the trust you show in us. While the last few years have been frustrating, I can honestly say that we have never been tempted to abandon our philosophy. I can also say that, while strong performance is obviously pleasing and redemptions are painful, we do not let emotionalism enter into our decision making. We do not allow euphoria to seep in during the good times, nor do we allow depression to seep in during the bad times. Again, these are impediments to successful long-term results, which are all that matters.

Fortune Brands

I would like to discuss one of our larger holdings, Fortune Brands (FO), which represents about 5% of our total assets at the current time, and is followed by my partner, Kevin Grant. Fortune combines many things I like in a stock: strong, understandable branded businesses, a reinvigorated top management, and, most important, market valuation that does not come near to underlying value.

FO has three business segments: Home and Office (about half the business, including brands such as Moen faucets, Master Lock, Aristokraft cabinets, Day-Timer time management systems, Swingline staplers); Golf (Titleist, FootJoy, and Cobra); and Spirits (Jim Beam, Dekuyper). Fully 80% of sales are from brands that rank either #1 or #2, and have earned these franchises through many years of effective brand management. These are moderate-growth brands, but ones that are very well known within their markets and should enjoy strong persistence.

The Company is headed by Norm Wesley, a fairly young individual who had previously run the Home and Office division. We have met Norm several times and find him to be a very straight shooter whose first big move was relocating corporate headquarters from opulent space in Old Greenwich, CT, to more utilitarian space in suburban Chicago. While a cost-saving measure to the tune of $30 million per year, more important, it sends a message to the operating divisions that top management is not in an ivory tower. We are very comfortable with Norm, who will lead an extensive portfolio review of the Company early this year.

Financially, FO is a steady grower whose steady growth should continue. Also, it is a Company that throws off a lot of cash flow. In the year 2000, Kevin estimates that after capital expenditures, FO will generate free cash flow of about $350 million before dividends. This is almost as much as FO's after-tax net income and is a very high 5% of sales. FO will use this money to pay dividends, make acquisitions (FO is a consolidator in all its divisions), and buy back shares or retire debt.

Of course, with us valuation is most important. At its current price of $31, FO trades at the extremely modest multiple of EPS (plus amortization) of only 11x, far less than half the multiple of the S&P 500, and has a business value (i.e., market value of equity plus net debt)-to-sales ratio around 1, again a huge discount to the market. In our view, FO is worth approximately twice its current stock price.

Some may ask, "Yeah, yeah, yeah, but what's the catalyst?" Will FO be a frequent topic of discussion on CNBC? No. Does it have a cool Internet story to tell? No. Does the stock have any momentum? No, it was flat last year. So why even bother? Well, in a market that is indifferent to valuation, we are always focused on valuation. And, given the quality of the business, and the quality of the management, we are very confident that FO sells at far below what it is worth. Our philosophy is a patient one, and presumes that market price and underlying value come together in the long run. If it takes too long, either FO will buy back stock at prices well below value—the company repurchased nearly 7 percent of its shares in 1999!—or the Company will be bought in its entirety by someone exploiting the value gap. Either way, we will capture the large gap between the current price and value.

FO is the kind of solid, well-run, and cheap stock that is not in the headlines, but is in our Fund. It is the kind of holding that gives me the confidence that our Fund will significantly outperform in the long run.

Robert J. Sanborn

Portfolio Manager
rsanborn@oakmark.com

January 7, 2000

Schedule of Investments—December 31, 1999 (Unaudited)

	Shares Held	Market Value
Common Stocks—93.6%		
Food & Beverage—8.1%		
Philip Morris Companies Inc.	8,460,700	$ 196,182,481
Nabisco Holdings Corporation, Class A	2,372,100	75,017,663
		271,200,144
Apparel—5.5%		
Nike, Inc., Class B	3,747,100	$ 185,715,644
Retail—0.2%		
GC Companies, Inc. (a)	266,200	$ 6,887,925
Hardware—9.2%		
The Black & Decker Corporation	4,138,700	$ 216,247,075
The Stanley Works	3,124,900	94,137,613
		310,384,688
Other Consumer Goods & Services—22.9%		
H&R Block, Inc.	4,615,500	$ 201,928,125
Brunswick Corporation	7,280,800	161,997,800
Fortune Brands, Inc.	4,861,100	160,720,118
Mattel, Inc.	12,164,400	159,657,750
Galileo International, Inc.	2,944,900	88,162,944
		772,466,737
Banks & Thrifts—9.5%		
Washington Mutual, Inc.	6,780,000	$ 176,280,000
Bank One Corporation	4,500,548	144,298,820
		320,578,820
Insurance—2.6%		
Old Republic International Corporation	6,296,330	$ 85,787,496
Information Services—9.8%		
The Dun & Bradstreet Corporation	7,327,500	$ 216,161,250
ACNielsen Corporation (a)	4,664,000	114,851,000
		331,012,250
Publishing—4.4%		
Knight Ridder, Inc.	2,496,100	$ 148,517,950
Medical Products—2.2%		
Sybron International Corporation (a)	2,935,600	$ 72,472,625

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Shares Held/ Par Value	Market Value
Common Stocks—93.6% (cont.)		
Aerospace & Defense—9.0%		
Lockheed Martin Corporation	7,150,000	$ 156,406,250
The Boeing Company	3,524,400	146,482,875
		302,889,125
Machinery & Industrial Processing—9.3%		
Eaton Corporation	2,315,100	$ 168,134,137
Cooper Industries, Inc.	3,558,400	143,892,800
		312,026,937
Other Industrial Goods & Services—0.9%		
The Geon Company	956,600	$ 31,089,500
Total Common Stocks (Cost: $3,324,854,537)		**3,151,029,841**
Short Term Investments—5.2%		
U.S. Government Bills—1.4%		
United States Treasury Bills, 4.91%–5.31% due 4/6/2000–5/25/2000	50,000,000	$ 49,129,583
Total U.S. Government Bills (Cost: $49,137,979)		**49,129,583**
Commercial Paper—1.5%		
American Express Credit Corporation, 6.25%–6.50% due 1/4/2000–1/5/2000	30,000,000	$ 30,000,000
Ford Motor Credit Corp., 6.01% due 1/3/2000	20,000,000	20,000,000
Total Commercial Paper (Cost: $50,000,000)		**50,000,000**
Repurchase Agreements—2.3%		
State Street Repurchase Agreement, 3.25% due 1/3/2000	77,299,000	$ 77,299,000
Total Repurchase Agreements (Cost: $77,299,000)		**77,299,000**
Total Short Term Investments (Cost: $176,436,979)		**176,428,583**
Total Investments (Cost $3,501,291,516)—98.8%		$ 3,327,458,424
Other Assets In Excess Of Other Liabilities—1.2%		40,915,257
Total Net Assets—100%		**$3,368,373,681**

(a) Non-income producing security.

THE OAKMARK SELECT FUND

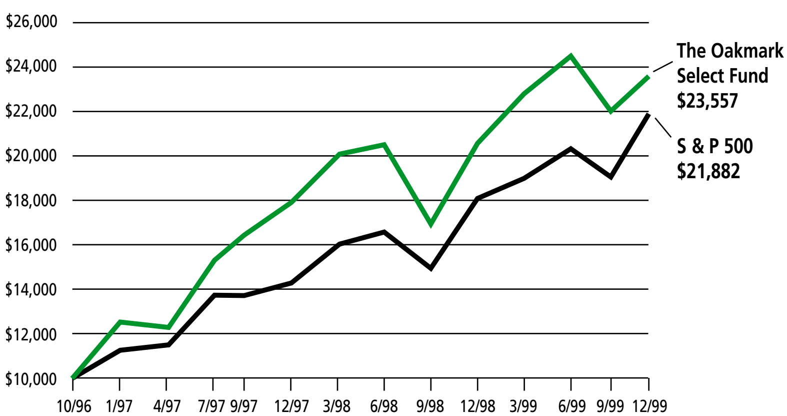
Report from Bill Nygren, Portfolio Manager

The Oakmark Select Fund had a good year in 1999. The fund increased in value by 14.5%, which was not only a good absolute return, but it also placed the fund in the top quartile of Morningstar's Midcap Value Funds for the third consecutive year. For three years, your fund outperformed 98% of competing midcap value funds on both a pre-tax and tax-adjusted basis. But 1999 was a very difficult year for value investors. The top performing stocks were again the technology stocks. They appeared to us to have started 1999 at overvalued levels, and now appear even more overvalued. The performance gap between growth and value was most extreme in the fourth quarter when the Russell Midcap Growth Index outperformed the Russell Midcap Value Index by 35 percentage points, up 39% compared to up 4%. That performance differential was not only a historic high for a quarter, but it also exceeded the largest previous one-year gap. Matching the S&P Midcap's 14.5% return last year was a good accomplishment in an environment so hostile to our investment style.

At year-end, investors were still chasing positive price momentum, selling their value funds and reinvesting in top-performing growth funds. Over the long term, growth and value styles have achieved similar returns, but in the short run have performed quite differently from each other. That's why a portfolio balanced between growth and value funds is less risky than either a pure growth or a pure value portfolio. Due to the incredible recent performance of growth funds, investors who have not altered their fund holdings have seen their weightings in growth increase. This results in a less balanced portfolio and, therefore, higher risk. Even if you've grown tired of comments about the great opportunity our portfolio presents, which I still strongly believe, consider the benefit that value funds provide in terms of risk reduction. The crowd is going the other way, increasing its bet that momentum will continue to rule. Market history has certainly proved that in the long run, the crowd is rarely right.

During the quarter, positions were increased in Washington Mutual and Sterling Commerce—in the prior quarter, shares had been sold to realize tax-losses. The market continued to drive

THE VALUE OF A $10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/99) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX



12/31/99 NAV $18.42

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 11/1/96
The Oakmark Select Fund	**6.9%**	**31.1%**
Standard & Poor's 500 Stock Index w/inc**	14.9%	28.1%
Standard & Poor's MidCap 400 Index w/inc**	17.2%	22.7%
Value Line Composite Index**	3.2%	6.1%

*Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
**Each of the three indexes or averages is an unmanaged group of stocks whose composition is different from the Fund. The S&P 500 is a broad market-weighted average dominated by blue-chip stocks. The S&P 400 consists of 400 domestic stocks chosen for market size, liquidity, and industry group representation. The Value Line Index is an unweighted average of more than 1,000 stocks. Past performance is no guarantee of future results.

up prices of luxury goods companies, so we sold the last of our Gucci holdings. Our long-term holdings in Premark were sold with the remaining shares converted into its acquirer, Illinois Tool Works. The position in Host Marriott was also eliminated due to a weakening outlook for cash flow and declining prices in hotel transactions. While I still view Host Marriott as undervalued, I do not think it is as attractive as the other stocks in our portfolio. Last, an update on progress at Dun & Bradstreet. As you recall, in August we went public with our criticism of DNB management and called for action to increase value. During the past quarter, DNB's board accepted the resignation of their CEO, launched a plan to spin-off their highly successful Moody's division, and announced a search for a new CEO. The stock responded, up 25% from the day we went public, but remains undervalued relative to our estimated business value. We believe that Moody's and Dun & Bradstreet, as two separate companies, will likely trade at a higher combined price than DNB stock currently does. Also, with the two companies trading separately, the possibility of either being acquired increases. We commend the DNB board for taking these steps and anxiously await the naming of a new CEO who can maximize the value of the Dun & Bradstreet franchise.

Taxes

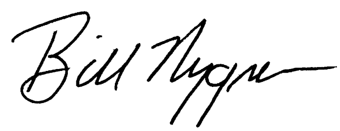
Mutual fund taxes have become such a hot topic that, last quarter, a manager of a newly launched "tax-sensitive" mutual fund said that the primary goal in managing his portfolio was to minimize tax distributions to shareholders. At The Oakmark Select Fund, our goal is to maximize long-term after-tax returns. Notice how this differs from the goal of minimizing taxes. Paying low taxes is easy; achieving a good after-tax return is much more challenging. We don't intentionally initiate transactions that hurt pre-tax returns; after all, many of our shareholders are tax-exempt. However, we take several actions to minimize the cost of taxes.

First, the long holding period associated with value investing is an advantage at tax time. Gains on stocks held longer than a year are generally taxed at just half the taxpayer's marginal tax rate. Over the life of The Oakmark Select Fund, 89% of our distributions have been from long-term gains. Second, when a fund sells some of its position in a stock, it must identify which shares were sold. While some funds use average cost or FIFO methodologies, we go a step further. By identifying the specific purchase lot we minimize the tax consequence of each sale. We also lower tax liability by selling stocks that have declined. Many value managers don't use this technique because they view stocks that have gone down as more attractive investments. We try to increase our position when the stock is most attractive yet still capture the tax loss. So we buy and sell partial positions with a 31-day interval that avoids violating IRS wash sale rules.

A recent example of the powerful effect of tax trading is Sterling Commerce. Your fund started acquiring Sterling in June at a price of $35.55. The stock hit a subsequent low in October of $18. We have bought and sold Sterling often since June, trying to increase the position when the price was low, and decrease the position when the price was high. When we sold, we identified our highest cost shares and thus offset some of the Fund's taxable gain. Sterling closed 1999 at $34, down 4% from our initial purchase. Although we were early, by owning more shares when it was down, Sterling has actually caused an 11¢ per share increase in the fund's NAV. And due to the tax-loss selling, the fund's distributable short-term gain was reduced by 20¢ per share.

Taxes can be a big annoyance to fund investors, especially in a year like 1999 when we had a tax distribution that was slightly larger than our NAV increase (due to selling stocks that increased NAV in prior years). But consider the effect our tax strategies have had on the Fund over a longer and thus more meaningful time period. An investor who put $10,000 into The Oakmark Select Fund at inception on November 1, 1996 had shares worth $23,557 at year-end—a gain of $13,557. Total taxable distributions would have been $5,058, on which a top bracket investor would have been required to pay only $1,119 in federal taxes. The after-tax return would be $12,438—and just 8% of the gain was lost to taxes. Year-round tax management is a little extra work, but because it increases your after tax returns, we believe it is definitely worth doing.

Thank you for your continued support.



William C. Nygren

Portfolio Manager
bnygren@oakmark.com

January 4, 2000

Schedule of Investments—December 31, 1999 (Unaudited)

	Shares Held	Market Value
Common Stocks—92.1%		
Apparel—4.6%		
Liz Claiborne, Inc.	1,948,600	$ 73,316,075
Other Consumer Goods & Services—3.3%		
Ralston Purina Group	1,880,200	$ 52,410,575
Banks & Thrifts—13.0%		
Washington Mutual, Inc.	6,274,800	$ 163,144,800
People's Bank of Bridgeport, Connecticut	1,993,400	42,110,575
		205,255,375
Insurance—4.3%		
PartnerRe Ltd. (b)	2,087,300	$ 67,706,794
Information Services—6.8%		
The Dun & Bradstreet Corporation	3,643,600	$ 107,486,200
Computer Services—20.7%		
First Data Corporation	2,155,000	$ 106,268,437
The Reynolds and Reynolds Company, Class A	4,008,200	90,184,500
Sterling Commerce, Inc. (a)	2,135,000	72,723,438
Electronic Data Systems Corporation	860,900	57,626,494
		326,802,869
Publishing—4.8%		
The Times Mirror Company, Class A	1,145,300	$ 76,735,100
Pharmaceuticals—5.0%		
Chiron Corporation (a)	1,860,000	$ 78,817,500
Machinery & Industrial Processing—5.5%		
Thermo Electron Corporation (a)	4,293,500	$ 64,402,500
Illinois Tool Works Inc.	334,392	22,592,360
		86,994,860
Building Materials & Construction—10.4%		
USG Corporation	3,484,900	$ 164,225,912
Oil Field Services & Equipment—6.0%		
Weatherford International, Inc. (a)	2,380,800	$ 95,083,200

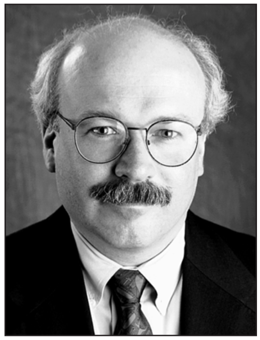
Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Shares Held/ Par Value	Market Value
Common Stocks—92.1% (cont.)		
Diversified Conglomerates—7.7%		
U.S. Industries, Inc.	8,683,300	$ 121,566,200
Total Common Stocks (Cost: $1,384,199,488)		**1,456,400,660**
Short Term Investments—7.3%		
U.S. Government Bills—0.6%		
United States Treasury Bills, 5.31% due 5/25/2000	10,000,000	$ 9,787,089
Total U.S. Government Bills (Cost: $9,786,125)		**9,787,089**
Commercial Paper—2.6%		
American Express Credit Corporation, 6.45% due 1/4/2000–1/5/2000	20,000,000	$ 20,000,000
Ford Motor Credit Corp., 6.01% due 1/3/2000	20,000,000	20,000,000
Total Commercial Paper (Cost: $40,000,000)		**40,000,000**
Repurchase Agreements—4.1%		
State Street Repurchase Agreement, 3.25% due 1/3/2000	64,965,000	$ 64,965,000
Total Repurchase Agreements (Cost: $64,965,000)		**64,965,000**
Total Short Term Investments (Cost: $114,751,125)		**114,752,089**
Total Investments (Cost $ 1,498,950,613)—99.4%		$ 1,571,152,749
Other Assets In Excess Of Other Liabilities—0.6%		9,833,276
Total Net Assets—100%		**$1,580,986,025**

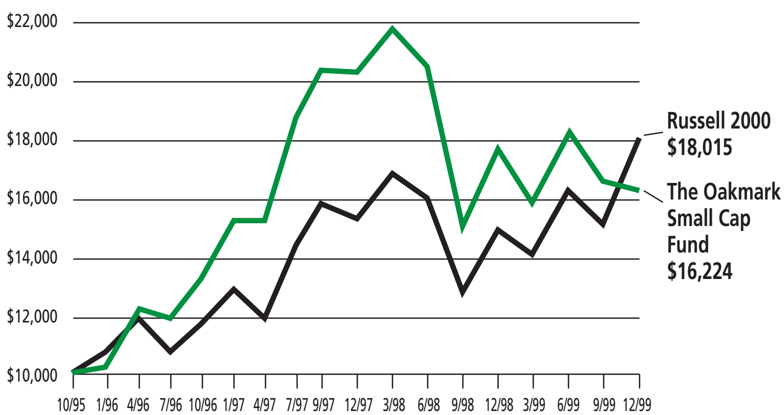
(a) Non-income producing security.
(b) Represents foreign domiciled corporation.

THE OAKMARK SMALL CAP FUND

Report from James P. Benson and Steven J. Reid, Portfolio Managers



The value of a $10,000 investment in The Oakmark Small Cap Fund from its inception (11/1/95) to present (12/31/99) as compared to the Russell 2000 Index



12/31/99 NAV $13.60

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 11/1/95
The Oakmark Small Cap Fund	**−2.0%**	**12.3%**
Lipper Small Cap Fund Index**	32.7%	17.2%
Russell 2000 w/inc**	18.4%	15.2%
S&P Small Cap 600 w/inc**	12.5%	14.9%

* Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
** Each of the three indexes or averages is an unmanaged group of stocks or funds whose composition is different from the Fund. The Lipper Small Cap Fund Index is comprised of 30 Small Cap Funds. The Russell 2000 Index measures the performance of smaller companies, and represents approximately 10% of the total value of publicly traded companies in the U.S. The S&P 600 Index measures the performance of selected U.S. stocks with small market capitalization. Past performance is no guarantee of future results.

The 1999 calendar year is now history and it was a great year for the two "T's"—technology and telecommunications. For most other industry groups it was not much of a bull market. The massive diversion of capital to the two "T's" and away from almost all other stocks caused a significant widening in the valuation discrepancy between growth and value stocks. The Oakmark Small Cap Fund's first fiscal quarter ended on December 31, 1999 and results for this quarter were disappointing, as your Fund declined by 2.0%, which was below the relevant indices. While some people boldly talk about the Internet economy fundamentally changing the economics of valuing companies, we do not believe any company, regardless of its industry, can grow indefinitely while generating negative cash flow. Our focus remains in finding undervalued companies with positive business and cash flow characteristics, regardless of industry.

As we enter 2000, there are numerous reasons to be optimistic. We are now past the Y2K computer issues that could have caused significant economic disruptions and, as we look forward, we can find many undervalued companies in which to invest. Although the share prices of the companies we own do not currently reflect it, we estimate that our holdings continued to grow their underlying value. Our Fund trades at a large discount to our estimate of its underlying value and yet we can continue to upgrade the Fund's holdings, as many other small cap stocks represent even better value than a few of our current holdings. We will pursue upgrading the portfolio with vigor over the forthcoming months given how many bargains exist in the small cap area.

What Is A Share Of Stock?

The foregoing headline may seem self-explanatory, but we would like investors to ponder the following: suppose you had about $135 billion in your bank account and you were presented with the opportunity of either spending the entire amount to buy Yahoo! or you could buy 100% of Ford Motor Company, Washington Mutual, Inc., Safeway, Inc., Electronic Data Systems Corp. and Nike, Inc. If you buy Yahoo! you will be getting a fast growing company with annual revenues approaching $600 million and $140 million in estimated 1999 net profits. If you decide to buy the basket of five leading companies you will assemble a firm with estimated revenues of $230 billion and 1999 net profits of $10.95 billion. Further, assume your basket of five grows net profits at 12% annually while Yahoo! grows at a very rapid 50% compounded annually. Over the next five years your net profits in Yahoo! would be approximately $2.77 billion versus $77.9 billion (or 2,712% more) with the basket of five. We believe that under most scenarios the investment in the basket of five companies is likely to yield superior economic returns vis-a-vis Yahoo! despite Yahoo!'s very rapid growth. We utilize this example to demonstrate the simple principle that a share of stock is a percentage ownership interest in a company. If you are not willing to buy the entire company at its current stock price, then you should not be willing to buy a single share of that same company's stock. This common sense discipline is key to avoiding fads in the stock market.

Portfolio Update

The broad-based decline in small cap companies, particularly those that fit a value-oriented investment philosophy, has created a number of new investment opportunities for the Fund. Fortunately, a few of our investments, such as Symantec Corp. and Duff & Phelps Credit Rating Co., have performed very well and have recently been used as sources of funds to reposition the portfolio into stocks that have higher expected future returns based upon current stock prices.

Companies that we have added to the portfolio over the past quarter include: Hanger Orthopedic Group, the nation's leading company specializing exclusively in practice management for orthotics and prosthetics; NovaMed Eyecare, a company focused on laser vision correction; Superior Consultant Holdings, an integrated healthcare management and information technology consulting firm; and Veterinary Centers of America, the largest U.S. operator of animal hospitals and laboratories. While each of these four companies has unique aspects that make them attractive investments, as a group, we view these companies as a way to invest in growing and dynamic healthcare companies. Strong underlying growth for these firms is aided by the demographic push provided by aging populations of both humans and pets.

Co-Portfolio Managers

In November, 1999 Jim Benson was added to the management team for your Fund. Jim has been an investment analyst for sixteen years, with over four years as the Director of Research for a brokerage firm. Jim brings a variety of skills to the management of your Fund, including an in-depth understanding of technology thanks to an undergraduate degree in Computer Science. We look forward to a successful collaboration.

Once again, we would like to thank everyone involved, especially our shareholders, for your support of The Oakmark Small Cap Fund.

James P. Benson

Portfolio Manager
jbenson@oakmark.com

Steven J. Reid

Portfolio Manager
sreid@oakmark.com

January 4, 2000

Schedule of Investments—December 31, 1999 (Unaudited)

	Shares Held	Market Value
Common Stocks—94.6%		
Food & Beverage—7.7%		
Del Monte Foods Company (a)	1,000,000	$ 12,312,500
Ralcorp Holdings, Inc. (a)	465,000	9,270,937
International Multifoods Corporation	200,000	2,650,000
M & F Worldwide Corp. (a)	300,000	1,518,750
		25,752,187
Apparel—0.5%		
Reebok International Ltd. (a)	220,000	$ 1,801,250
Retail—9.1%		
Ugly Duckling Corporation (a)	1,750,000	$ 12,031,250
The Great Atlantic & Pacific Tea Company, Inc.	380,000	10,592,500
Michaels Stores, Inc. (a)	280,000	7,980,000
		30,603,750
Hardware—1.0%		
Jore Corporation (a)	430,000	$ 3,359,375
Other Consumer Goods & Services—6.7%		
Department 56, Inc. (a)	660,000	$ 14,932,500
Harman International Industries, Incorporated	75,000	4,209,375
Barry (R.G.) Corporation (a)	900,000	3,543,750
		22,685,625
Banks & Thrifts—10.2%		
People's Bank of Bridgeport, Connecticut	480,000	$ 10,140,000
Golden State Bancorp Inc. (a)	500,000	8,625,000
BankAtlantic Bancorp, Inc., Class A	1,150,001	4,743,754
Hudson City Bancorp, Inc. (a)	300,000	4,031,250
PennFed Financial Services, Inc.	260,000	3,932,500
Finger Lakes Financial Corp.	184,500	1,383,750
Northwest Bancorp, Inc.	185,000	1,283,438
		34,139,692
Insurance—6.1%		
The MONY Group Inc. (a)	365,000	$ 10,653,437
The PMI Group, Inc.	200,000	9,762,500
		20,415,937
Other Financial—2.6%		
Duff & Phelps Credit Rating Co.	100,000	$ 8,893,750

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Shares Held		Market Value
Common Stocks—94.6% (cont.)			
Educational Services—3.4%			
ITT Educational Services, Inc. (a)	750,000	$	11,578,125
Information Services—5.4%			
National Data Corporation	475,000	$	16,120,313
Superior Consultant Holdings Corporation(a)	133,000		1,895,250
			18,015,563
Computer Services—4.5%			
Symantec Corporation (a)	260,000	$	15,242,500
Computer Systems—2.5%			
Micron Electronics, Inc. (a)	750,000	$	8,343,750
Medical Centers—1.0%			
Veterinary Centers of America, Inc. (a)	200,000	$	2,575,000
NovaMed Eyecare, Inc. (a)	125,000		843,750
			3,418,750
Managed Care Services—2.5%			
First Health Group Corp. (a)	310,000	$	8,331,250
Medical Products—1.0%			
Hanger Orthopedic Group, Inc. (a)	350,000	$	3,500,000
Automotive—6.1%			
SPX Corporation (a)	130,000	$	10,505,625
Standard Motor Products, Inc.	380,000		6,127,500
Stoneridge, Inc. (a)	250,000		3,859,375
			20,492,500
Transportation Services—2.2%			
Teekay Shipping Corporation (b)	461,200	$	7,350,375
Machinery & Industrial Processing—4.4%			
Columbus McKinnon Corporation	540,000	$	5,467,500
MagneTek, Inc. (a)	510,000		3,920,625
Sames Corporation	245,800		3,748,450
Northwest Pipe Company (a)	110,000	$	1,540,000
			14,676,575

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Shares Held/ Par Value	Market Value
Common Stocks—94.6% (cont.)		
Chemicals—4.5%		
H.B. Fuller Company	145,000	$ 8,110,938
Ferro Corporation	315,000	6,930,000
		15,040,938
Real Estate—9.0%		
Catellus Development Corporation (a)	1,360,000	$ 17,425,000
Prime Hospitality Corp. (a)	800,000	7,050,000
Trammell Crow Company (a)	500,000	5,812,500
		30,287,500
Diversified Conglomerates—4.2%		
U.S. Industries, Inc.	1,000,000	$ 14,000,000
Total Common Stocks (Cost: $333,400,557)		**317,929,392**
Short Term Investments—3.1%		
Commercial Paper—0.6%		
Ford Motor Credit Corp., 6.01% due 1/3/2000	2,000,000	$ 2,000,000
Total Commercial Paper (Cost: $2,000,000)		**2,000,000**
Repurchase Agreements—2.5%		
State Street Repurchase Agreement, 3.25% due 1/3/2000	8,577,000	$ 8,577,000
Total Repurchase Agreements (Cost: $8,577,000)		**8,577,000**
Total Short Term Investments (Cost: $10,577,000)		**10,577,000**
Total Investments (Cost $343,977,557)—97.7%		$ 328,506,392
Other Assets In Excess Of Other Liabilities—2.3%		7,750,937
Total Net Assets—100%		**$ 336,257,329**

(a) Non-income producing security.
(b) Represents foreign domiciled corporation.

THE OAKMARK EQUITY AND INCOME FUND

Report from Clyde S. McGregor, Portfolio Manager

Quarter Review

The Oakmark Equity and Income Fund returned 3.4% in the recently ended quarter. While consistent with the Fund's long term record of returns, this number lagged the Lipper Balanced Fund Index by more than 3% and relative to that benchmark was the worst quarter in the Fund's history. The shortfall in the quarter originated primarily in the portfolio's financial stocks, which returned a negative 11%. It was also a tough period for the Fund's fixed income investments in the high yield sector. Success stories included anything with a technology flavor, especially Sterling Commerce which gained nearly 84% in the quarter. Congratulations to management at Sterling for recognizing the opportunity which the stock market provided in the fall. Sterling used more than half of its substantial cash hoard to repurchase shares at bargain prices.

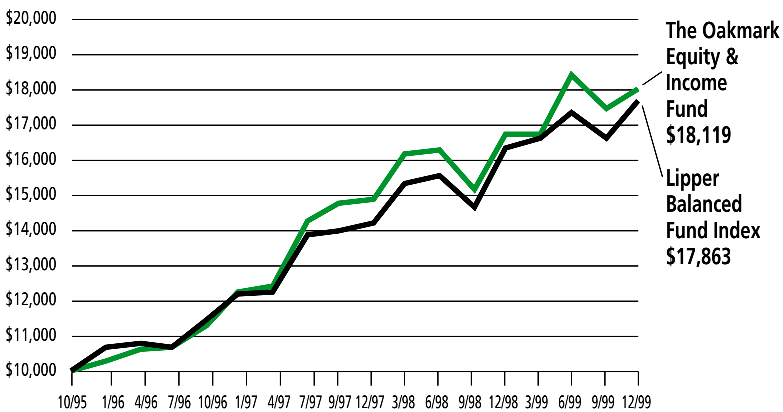
Heller Financial vs. GE

As noted above, financial stocks languished in 1999. My particular interest in this section is the company about which I wrote one year ago, Heller Financial. Last January I rejoiced at the fact that the Heller shares I purchased in the panic of October, 1998, had experienced a price increase of 84% in less than three months. Unfortunately, my celebration proved premature as the share price fell 32% in 1999.

Heller is a diversified financial services firm. The company finances the economic activity of a myriad of enterprises that typically fall just below the radar screen of the conventional banking industry. Activities include equipment leasing, asset based lending, and receivables factoring. The company has a strong presence in Europe. Its balance sheet is in fine shape, and management continues to put away excess reserves for bad loans.

General Electric's largest business unit is GE Capital, its finance operation. GE Capital engages in many of the same activities as Heller Financial, though on a grander scale. Rumors suggest that GE attempted to buy Heller before the company executed its initial public offering two years ago. These rumors, if accurate, speak eloquently to GE's respect for Heller's business model and market position.

THE VALUE OF A $10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/99) AS COMPARED TO THE LIPPER BALANCED FUND INDEX



12/31/99 NAV $14.40

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 11/1/95
The Oakmark Equity & Income Fund	**3.4%**	**15.3%**
Lipper Balanced Fund Index**	7.1%	14.9%
Lehman Govt./Corp. Bond**	–.4%	5.5%
S&P 500 w/inc**	14.9%	27.1%

* Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
** Each of the three indexes or averages is an unmanaged group of stocks or funds whose composition is different from the Fund. The Lipper Balanced Fund Index Composite is comprised of 30 balanced funds. The Lehman Govt./Corp. Bond Index includes the Lehman Government and Lehman Corporate indices. The S&P 500 is a broad market-weighted average dominated by blue-chip stocks. Past performance is no guarantee of future results.

Last quarter, both GE and Heller hosted meetings for investment analysts. At each meeting, the hosting CEO articulated a positive view of his company's future along with a forecast of 15% annual earnings growth. The reaction of investors, however, could hardly have been more divergent. GE's stock enjoyed a significant rally, while Heller's declined roughly 20%. At year-end GE traded for 42 times year 2000 earnings estimates while Heller languished at 7.5 times.

As I considered this conundrum, I looked at GE's other business units. With a few small exceptions I concluded that, on their own, most of these lines of business would not deserve high multiples of earnings. It is also hard to argue that GE's diversification is an advantage in the current investing environment.

To date I have not been able to bridge this valuation chasm. GE is undoubtedly a great company, one that has always commanded a premium valuation. And, Heller is still relatively unseasoned as a public company. But, with Heller priced at one-half its earnings growth rate and a discount to book value versus GE at three times its earnings growth rate and 12 times book value, the choice of which to own is easy.

The Joy (?) of Income

The Oakmark Equity and Income Fund is, as its name suggests, the most income-oriented of our group's mutual funds. In fact, the prospectus states that the first goal of the Fund is "high current income." At any point in time, I target a level of income yield for the Fund based on the prevailing interest rate structure. I do not limit the Fund's equity holdings to issues that produce income, but when presented with two issues with similar total return characteristics, I will select the higher-yielding choice.

At various times, all of us value managers have commented on the many idiosyncrasies of 1999 which made the year so challenging. I wish to close this letter by describing one of the more obscure outcomes of the year that had a retarding effect on the returns of the portfolio.

In most time periods, income is positively correlated with total return. In 1999 this was not the case. To study this, we looked at all companies that were public at the start of the year and had market capitalizations of at least $100 million. We divided them into those that paid a dividend and those that did not. For the year as a whole, the average return for the no-dividends group was a robust 46.8%, for the dividend payers a paltry 3.7%. One of the many amazing facts about this outcome is that it occurred during a period of rising interest rates. Economic theory states that as interest rates rise the value of dollars in the future decreases. This means that income-paying equities, particularly those with growing dividends, should dominate while rates are rising.

Now it has been 22 years since I graduated from business school, and during that time many new theories have been developed. I do not believe, however, that concepts such as net present value and duration have been discarded. Between the Heller/GE story above and this income paradox, I think that we should all write off 1999 as an aberrant experience and look forward to more rational outcomes in 2000. As always, please feel free to e-mail me with your questions or comments.

Clyde S. McGregor

Clyde S. McGregor

Portfolio Manager
mcgregor@oakmark.com

January 7, 2000

Schedule of Investment—December 31, 1999 (Unaudited)

	Shares Held	Market Value
Equity and Equivalents—61.2%		
Banks & Thrifts—3.0%		
Washington Mutual, Inc.	67,000	$ 1,742,000
Insurance—2.6%		
PartnerRe Ltd. (b)	23,000	$ 746,062
IPC Holdings, Ltd. (b)	50,000	743,750
		1,489,812
Other Financial—3.0%		
Heller Financial, Inc.	85,000	$ 1,705,312
Information Services—3.3%		
The Dun & Bradstreet Corporation	63,500	$ 1,873,250
Computer Services—16.2%		
The Reynolds and Reynolds Company	117,500	$ 2,643,750
First Data Corporation	50,000	2,465,625
Electronic Data Systems Corporation	32,500	2,175,469
Sterling Commerce, Inc. (a)	60,000	2,043,750
		9,328,594
Data Storage—5.3%		
Imation Corp. (a)	91,500	$ 3,070,969
Publishing—2.4%		
Lee Enterprises, Incorporated	43,900	$ 1,402,056
Medical Products—2.9%		
Sybron International Corporation (a)	68,000	$ 1,678,750
Automotive—3.1%		
Lear Corporation (a)	55,000	$ 1,760,000
Agricultural Equipment—3.4%		
Alamo Group Inc.	196,350	$ 1,963,500
Building Materials & Construction—1.7%		
Vulcan Materials Company	25,000	$ 998,438

Schedule of Investment—December 31, 1999 (Unaudited) cont.

	Shares Held/ Par Value	Market Value
Equity and Equivalents—61.2% (cont.)		
Real Estate—10.9%		
Catellus Development Corporation (a)	174,728	$ 2,238,703
Amli Residential Properties Trust	100,000	2,018,750
Legacy Hotels Real Estate Investment Trust (b)	350,000	2,000,346
		6,257,799
Total Equity (Cost: $28,323,146)		**33,270,480**
Convertible Preferred Stock—3.4%		
Telecommunications—3.4%		
Metromedia International Group, Inc., Convertible Preferred, 7.25%	65,000	$ 1,950,000
Total Convertible Preferred Stock (Cost: $2,062,037)		**1,950,000**
Total Equity and Equivalents (Cost: $30,385,183)		**35,220,480**
Fixed Income—33.9%		
Preferred Stock—5.0%		
Banks & Thrifts—4.1%		
Pennfed Capital Trust, Preferred, 8.90%	27,500	$ 608,438
PennFirst Capital Trust I, Preferred, 8.625%	70,000	560,000
BBC Capital Trust I, Preferred, 9.50%	28,000	490,000
RBI Capital Trust I, Preferred, 9.10%	42,500	353,281
Fidelity Capital Trust I, Preferred, 8.375%	43,500	337,125
		2,348,844
Telecommunications—0.9%		
MediaOne Finance Trust III, Preferred, 9.04%	20,000	$ 503,750
Total Preferred Stock (Cost: $3,470,738)		**2,852,594**
Corporate Bonds—3.7%		
Retail—0.9%		
Ugly Duckling Corporation, 12.00% due 10/15/2003, Subordinated Debenture	650,000	$ 552,500

Schedule of Investment—December 31, 1999 (Unaudited) cont.

	Par Value	Market Value
Fixed Income—33.9% (cont.)		
Aerospace & Automotive—0.3%		
Coltec Industries, Inc., 9.75% due 4/1/2000	150,000	$ 150,938
Building Materials & Construction—1.5%		
Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note	750,000	$ 690,000
USG Corporation, 9.25% due 9/15/2001, Senior Notes Series B	150,000	157,500
		847,500
Utilities—0.4%		
Midland Funding Corporation, 11.75% due 7/23/2005	200,000	$ 218,250
Other Industrial Goods & Services—0.6%		
UCAR Global Enterprises Inc., 12.00% due 1/15/2005, Senior Subordinated Note	350,000	$ 365,312
Total Corporate Bonds (Cost: $2,153,294)		**2,134,500**
Government and Agency Securities—25.2%		
U.S. Government Bonds—24.7%		
United States Treasury Notes, 6.625% due 5/15/2007	4,500,000	$ 4,516,167
United States Treasury Notes, 6.25% due 6/30/2002	4,000,000	3,997,240
United States Treasury Notes, 4.75% due 2/15/2004	4,000,000	3,771,282
United States Treasury Notes, 6.00% due 8/15/2009	2,000,000	1,937,593
		14,222,282
U.S. Government Agencies—0.5%		
Federal Home Loan Bank, 6.405% due 4/10/2001, Consolidated Bond	300,000	$ 299,836
Total Government and Agency Securities (Cost: $14,916,923)		**14,522,118**
Total Fixed Income (Cost: $20,540,955)		**19,509,212**

Schedule of Investment—December 31, 1999 (Unaudited) cont.

Short Term Investments—4.1%

	Par Value	Market Value
Commercial Paper—0.9%		
American Express Credit Corporation, 5.25% due 1/3/2000	500,000	$ 500,000
Total Commercial Paper (Cost: $500,000)		**500,000**
Repurchase Agreements—3.2%		
State Street Repurchase Agreement, 3.25% due 1/3/2000	1,876,000	$ 1,876,000
Total Repurchase Agreements (Cost: $1,876,000)		**1,876,000**
Total Short Term Investments (Cost: $2,376,000)		**2,376,000**
Total Investments (Cost $ 53,302,138)—99.2%		$ 57,105,692
Other Assets In Excess Of Other Liabilities—0.8%		446,691
Total Net Assets—100%		**$57,552,383**

(a) Non-income producing security.
(b) Represents foreign domiciled corporation.

THE OAKMARK GLOBAL FUND

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

RESULTS FROM FUND INCEPTION 8/4/99 THROUGH 12/31/99

12/31/99 NAV $9.97	Total Return Last 3 Months	Total Return* From Fund Inception 8/4/99
The Oakmark Global Fund	**8.7%**	**–0.2%**
MSCI World Index w/inc.**	16.9%	15.5%
Lipper Global Fund Index**	23.2%	22.0%

*Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
**Each of the three indexes or averages is an unmanaged group of stocks whose composition is different from the Fund. The MSCI World Index includes 22 country sub-indexes. The Lipper Global Fund Index includes 30 mutual funds that invest in securities throughout the world. Past performance is no guarantee of future results.

Fellow Shareholders,

We are pleased to present the quarterly report of The Oakmark Global Fund. For the three-month period ending December 31st, 1999 the Fund increased in value by 8.7%. This compares to a gain of 16.9% for the MSCI World Index and 23.2% for the Lipper Global Fund Index.

Market Sentiment & Psychology

In today's market environment, investors are more fanatical toward some sectors and more hostile toward other sectors than ever before. Stock prices seem to move wildly upward and downward without regard to true underlying business fundamentals. As we said in our previous letter, as long-term value investors, short-term market volatility gives us an assist in implementing our investment philosophy—greater volatility affords us greater opportunities to purchase stocks trading at significant discounts to their perceived true business value. To us, risk is not defined as short-term price volatility, but rather the potential for permanent loss of capital.

Ben Graham described how long-term investors should behave in regard to short-term market conditions in Chapter 8 of *The Intelligent Investor.*

> As long as the earnings power of his holdings remains satisfactory, he [the investor] can give as little attention as he pleases to the vagaries of the stock market. More than that, at times he can use these vagaries to play the master game of buying low and selling high…The investor who permits himself to be stampeded or unduly worried by the unjustified market declines in his holdings is perversely transforming his basic advantage into a basic

disadvantage…Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal.

Our research efforts are geared toward minimizing true risk (permanent loss of capital) while maximizing the gap between true business value and current stock prices. Therefore, when the market's short-term psychology is unduly negative and provides opportunities (large discounts to underlying value), we will look to take advantage of these situations.

The Fund's Largest Positions

We would like to take this opportunity to acquaint you with your Fund's two largest holdings:

Department 56—DFS is a leading designer, importer and distributor of fine quality collectibles and other specialty giftware sold through gift and home accessory retailers. The company is best known for its series of collectible ceramic and porcelain houses, buildings and related accessories in The Original Snow Village Collection and The Heritage Village Collection. The DFS share price performance is a reflection of the market's overly pessimistic attitude toward a short-term problem at the company.

In 1999, DFS implemented a new Y2K-compliant company-wide computer system, which caused major problems in ordering, shipping and documentation for the company. These computer problems will cause DFS to report flat year-over-year earnings per share for 1999. The market reacted to the lack of one-year growth by marking DFS' stock price down 50% over the course of this year. Given the company's many strengths (highly differentiated products, recognized brand name, loyal and devoted customer base, and tremendous profitability and cashflow), we felt the price decline was a gross over-reaction to a short-term, fixable problem and began to buy shares. Despite DFS's many computer-related problems, the company continued to repurchase shares aggressively in 1999 and bought back 2.75 million shares or 15% of shares outstanding. Going into the year 2000, DFS has announced another $75 million share repurchase authorization to be completed within the year. The additional $75 million share repurchase is the equivalent of receiving a $4.75 dividend or a 20% dividend yield. In late December, DFS gave us an update on the new computer system and stated that the company believes the major issues faced in 1999 (ordering, shipping, and documentation) have been resolved and should not impact 2000. At the current stock price ($22.625), we calculate DFS is trading for less than half of its intrinsic value.

House of Fraser—House of Fraser is the third-largest department store chain in the United Kingdom. Until a new management team came aboard in 1997, the Company was a retailing relic without many of the modern inventory, sales and computer-operating systems that are necessary to maximize profits and financial returns. The new management began to implement changes with much success, and it wasn't long before the market was singing songs of restructuring praise, driving House of Fraser's stock price from 150p to 250p in less than a year. Unfortunately, last year's slowdown in the UK economy sent investors fleeing from just about every retailer. House of Fraser's stock plunged to 50p and is currently at 74p. Your fund has been accumulating shares at these levels.

Despite the 80% drop in the stock price, not much has changed for House of Fraser. While sales growth has been difficult to come by in a slow retail environment, the management team continues to make significant progress restructuring the business. Sales mix, gross profit margins, and inventory improve each reporting period. As a result of the improvements, we believe that House of Fraser's profit margins could double over the next few years. But because retail stocks are currently out of favor, this potential remains unrecognized by the market—all of which is fine with us. With virtually no debt, offering a safe 7.5% dividend yield, and trading at a 30% discount to book value, we are very comfortable patiently waiting for the market to rediscover House of Fraser.

Looking Forward

These two companies give you a small taste as to why we are so optimistic about our current positions and future prospects. Further, we have not seen a valuation gap this large between the intrinsic value of our current portfolio of companies and the market since the early 1990's. It may take time for this gap to close but we are as confident as ever in the future outlook of our companies.

Once again, we would like to thank you for your confidence in the newest Fund in the Oakmark Family.

Greg Jackson

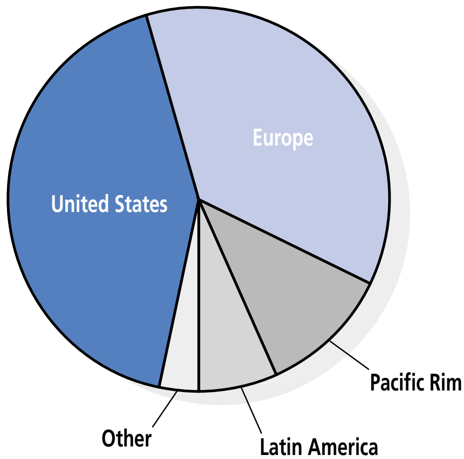
Portfolio Manager
gjackson@oakmark.com

Michael Welsh

Portfolio Manager
102521.2142@compuserve.com

January 4, 2000

Global Diversification—December 31, 1999



	% of Fund Net Assets
United States	***40.8%***
Europe	***35.6%***
Great Britain	18.9%
* Finland	4.2%
* France	3.7%
* Germany	3.5%
* Italy	2.7%
Denmark	2.6%
Pacific Rim	***10.7%***
New Zealand	4.7%
Japan	4.6%
Australia	1.4%

	% of Fund Net Assets
Latin America	***6.4%***
Brazil	4.0%
Panama	2.4%
Other	***3.2%***
Bermuda	3.2%

* Euro currency countries comprise 14.1% of the Fund.

Schedule of Investments—December 31, 1999 (Unaudited)

	Description	Shares Held	Market Value
Common Stocks—96.7%			
Consumer Non-Durables—2.8%			
Citizen Watch Co. (Japan)	Watch & Component Manufacturer	137,000	$ 871,587
Apparel—4.2%			
Fila Holding S.p.A. (Italy), (b)	Athletic Footwear & Apparel	77,700	$ 854,700
Reebok International Ltd. (United States), (a)	Athletic Apparel	56,000	458,500
			1,313,200
Retail—13.7%			
House Of Fraser Plc (Great Britain)	Department Store	1,251,300	$ 1,495,707
Somerfield plc (Great Britain)	Food Retailer	1,011,500	1,462,319
Ugly Duckling Corporation (United States), (a)	Automobile Retailer & Financier	112,000	770,000
Denny's Japan Co., Ltd. (Japan)	Restaurant Chain	28,000	575,511
			4,303,537
Other Consumer Goods & Services—13.7%			
Department 56, Inc. (United States), (a)	Collectibles & Giftware Products	100,000	$ 2,262,500
Royal Doulton plc (Great Britain)	Tableware & Giftware	703,700	1,381,074
Chemed Corporation (United States)	Diversified Home Services	23,000	658,375
			4,301,949
Banks & Thrifts—11.1%			
Washington Mutual, Inc. (United States)	Thrift	37,000	$ 962,000
Uniao de Bancos Brasileiros S.A. (Brazil), (c)	Major Brazilian Bank	31,300	942,913
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama), (b)	Latin American Trade Bank	32,300	759,050
Unidanmark A/S, Class A (Denmark)	Commercial Banking	6,000	422,255
Den Danske Bank Group (Denmark)	Commercial Banking	3,700	$ 405,608
			3,491,826

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—96.7% (cont.)			
Insurance—4.5%			
PartnerRe Ltd. (Bermuda)	Reinsurance Company	30,500	$ 989,344
Reinsurance Australia Corporation Limited (Australia)	Reinsurance Company	1,224,429	426,034
			1,415,378
Temporary Staffing—2.3%			
Robert Half International Inc. (United States), (a)	Temporary Staffing Services	25,000	$ 714,063
Educational Services—2.5%			
ITT Educational Services, Inc. (United States), (a)	Postsecondary Degree Programs	51,000	$ 787,312
Information Services—11.7%			
Ceridian Corporation (United States)	Data Management Services	68,000	$ 1,466,250
NOVA Corporation (United States)	Transaction Processing Services	36,000	1,136,250
The Dun & Bradstreet Corporation (United States)	Financial Information Services	36,000	1,062,000
			3,664,500
Computer Services—6.0%			
The Reynolds and Reynolds Company, Class A (United States)	Information Management Systems	45,000	$ 1,012,500
Sterling Commerce, Inc. (United States), (a)	Electronic Commerce Services	25,000	851,562
			1,864,062
Telecommunications—1.0%			
Telemig Celular Participacoes S.A. (Brazil), (a)	Telecommunications	161,645,000	$ 313,179
Machinery & Metal Processing—6.2%			
Metso Oyj (Finland), (a)	Paper & Pulp Machinery	101,100	$ 1,313,775
Tokheim Corporation (United States), (a)	Petroleum Dispensing Systems Manufacturer	175,000	634,375
			1,948,150

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held/ Par Value	Market Value
Common Stocks—96.7% (cont.)			
Mining & Building Materials—4.7%			
Fletcher Challenge Building (New Zealand)	Building Materials Manufacturer	1,002,186	$ 1,476,671
Other Industrial Goods & Services—6.4%			
Tomkins plc (Great Britain)	Diversified Engineering	256,500	$ 832,792
GFI Industries SA (France)	Industrial Fastener Manufacturer	26,600	608,258
Chargeurs SA (France)	Wool Textile Production & Trading	9,900	557,477
			1,998,527
Production Equipment—3.5%			
Krones AG (Germany)	Manufacturer of Production Machinery	38,700	$ 1,091,564
Diversified Conglomerates—2.4%			
Wassall PLC (Great Britain)	Diversified Consumer Goods	136,700	$ 741,927
Total Common Stocks (Cost: $30,553,509)			**30,297,432**
Short Term Investments—3.0%			
Repurchase Agreements—3.0%			
State Street Repurchase Agreement, 3.25% due 1/3/2000		918,000	$ 918,000
Total Repurchase Agreements (Cost: $918,000)			**918,000**
Total Short Term Investments (Cost: $918,000)			**918,000**
Total Investments (Cost $ 31,471,509)—99.7%			$ 31,215,432
Foreign Currencies (Proceeds $ 45,260)—0.1%			$ 45,382
Other Assets In Excess Of Other Liabilities—0.2%			64,151
Total Net Assets—100%			**$31,324,965**

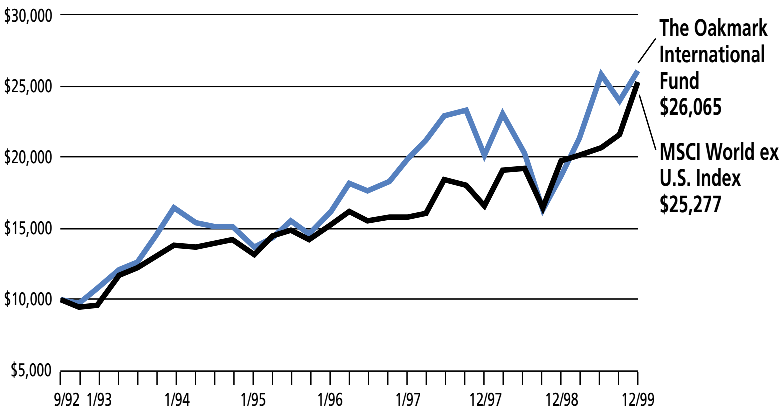
(a) Non-income producing security.
(b) Represents an American Depository Receipt.
(c) Represents a Global Depository Receipt.

PLEASE NOTE: In the Annual Report dated September 30, 1999 there were two errors in the footnotes to the table entitled "Financial Highlights" on page 68. In note (a), the date on which the Fund's shares were first offered for sale to the public should have been August 4, 1999. In note (b), the ratio of net income (loss) to average net assets if the Fund had paid all of its expenses and there had been no expense reimbursement should have been .51% (not 1.45%).

THE OAKMARK INTERNATIONAL FUND

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

THE VALUE OF A $10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/99) COMPARED TO THE MSCI WORLD EX U.S. INDEX



12/31/99 NAV $14.70

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 9/30/92
The Oakmark International Fund	**9.1%**	**14.1%**
MSCI World ex U.S. Index w/inc.**	17.4%	13.6%
MSCI EAFE Index w/inc**	17.0%	13.5%
Lipper International Fund Index**	24.7%	15.6%

* Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
** Each of the three indexes or averages is an unmanaged group of stocks or funds whose composition is different from the Fund. The MSCI World ex U.S. Index includes 21 country sub-indexes. The MSCI EAFE Index refers to Europe, Asia and the Far East and includes 20 country sub-indexes. The Lipper International Fund Index includes 30 mutual funds that invest in securities whose primary markets are outside the United States. Past performance is no guarantee of future results.

Fellow Shareholders,

Performance for calendar 1999 was good for The Oakmark International Fund. For the twelve months ending December 31, 1999, your fund achieved a return of 39.5%. This compares favorably to both the EAFE Index (+27%) and our international peer group exemplified by the Lipper International Index (+37.8%). We remain extremely enthusiastic about prospects for our companies. With the triple positives of low valuations, corporate restructuring and improving economic fundamentals, opportunities remain excellent.

Headline: "Foreign Stocks Outperformed U.S. Equities/ Emerging Markets Post Biggest Gains"

This headline appeared on the front page of The New York Times' business page. Isn't it amazing what a difference one year makes? At the beginning of last year, many pundits were again questioning the rationale of international investing. Additionally, most argued against **any** emerging market exposure. And as usual and documented in this space in previous letters, the pundits were wrong. We have long argued that investment decisions should be based on the merits of the underlying investment itself. These merits include the price of the business, quality of management and prospects for long-term business success. To us, geography, share price momentum, industry sector and company size are not merits. As investors, we think it is pointless to try to micro-manage for short-term results and, therefore, we are not overly frightened about deviating in performance relative to our peers in the short-term if it means we are positioning ourselves for long-term outperformance.

An example of this has been our discipline in investing in Pacific Rim and Latin American companies. One year ago, most international investors had negligible weightings in these areas. We saw extraordinary opportunity and increased the Fund's exposure in 1998, when others were running for the exits. We were able to buy high quality, undervalued businesses for pennies on the dollar. Though this cost us some short-term under-performance in the first three-quarters of 1998, it positioned us for the future. The benefits of this strategy started to flow in the fourth quarter of 1998 and were felt throughout 1999, and we believe they will continue into the future.

1999 Results—The Good and The Bad

Fortunately, 1999 brought us much more "good" than "bad" in terms of company investments. Stock selection in two countries, South Korea and Brazil, provided the Fund with the biggest positive impact on net asset value. Our investments in South Korea added over $1.00 to the Fund highlighted by the performance of SK Telecom, up an astounding 600 percent for the year. If we were the editors of *Time Magazine*, it would have been the face of Korean President Kim Dae Jung on the 1999 "Person of the Year" cover, not Jeff Bezos. He has almost single-handedly, albeit with the wolf at the door, accomplished more in the last year and a half to open up and restructure the Korean economy than the Japanese have in the past decade.

Brazilian investments were also hugely additive to your Fund's performance this year, cumulatively adding over $1.00 to the NAV. Hedging the underlying currency, the Brazilian Real, allowed us to own these very undervalued companies while protecting us from a devaluation, which occurred in January of last year.

Our collection of "Baby Bras", the term coined to refer to the various privatized Telebras' spin-offs, were each up between 60 and 300 percent.

Unibanco of Brazil also added substantially to the Fund's NAV, the doubling of its share price added over $0.50. Panic sellers had driven the share price of this high-quality, financially strong institution to fire-sale levels at the beginning of 1999.

Our two UK media companies, Cordiant Communications and Saatchi & Saatchi, added over $0.95 to NAV in 1999. Both share prices were up around 150 percent, with Saatchi & Saatchi's performance earning it a back-to-back return trip to the annual winner's list. Long-time shareholders of The Oakmark International Fund will notice, for the first time in the Fund's history, they will no longer see that name among the holdings: Saatchi & Saatchi achieved its price target this quarter and was sold.

The single biggest contributor to performance this year was Giordano International, the Hong Kong-based pan-Asian clothing retailer. Its shares were up over 450 percent in 1999, contributing over $0.70 to the Fund's performance. Since the Asian crisis began, we've cited the company in our quarterly letters as an example of a world-class company unfairly punished because of investors' short-term fears. Opportunistically, the sellers' losses in 1997-1998 became our shareholders' gains in 1999.

With one exception, the losers had a much lighter impact on the Fund's performance. The exception was Somerfield plc, the UK grocery chain, which cost the Fund $0.68. Shareholders of The Oakmark International Small Cap Fund might remember the company as one of the Fund's biggest winners in 1998. The Oakmark International Fund invested in Somerfield in the first quarter of 1999.

In February of 1998, Somerfield acquired a similarly sized grocery chain, Kwik Save Group. Somerfield's integration of the Kwik Save acquisition has not gone well. Management underestimated the difficulties in converting the new stores into the very profitable Somerfield format. Unprecedented levels of price competition in UK food retailing, spurred in part by government charges of cartel-like behavior, have added to these difficulties. Furthermore, the entry of Wal-Mart into the UK food business, with its acquisition of Asda in August of this year, has caused pricing and stock market sentiment to go from bad to worse. Somerfield's shares were down nearly 50 percent in 1999.

As noted in last quarter's letter, we think the stock at these prices offers outstanding value, trading at our estimate of 3 to 4 times earnings power. The core Somerfield format continues to outperform in a weak market environment and management has recognized their overreaching in the Kwik Save deal by putting a number of the larger acquired stores on the selling block. The market value of the combined Somerfield-Kwik Save entity is now substantially below that of Somerfield alone just one year ago. We continue to add to our position at these prices.

Looking Forward

Your Fund has had a nice run of performance over the past five quarters, but given the under-valuation of the companies currently in the portfolio we remain very bullish about market prospects. Thank you as always for your continued support and confidence.

David Herro

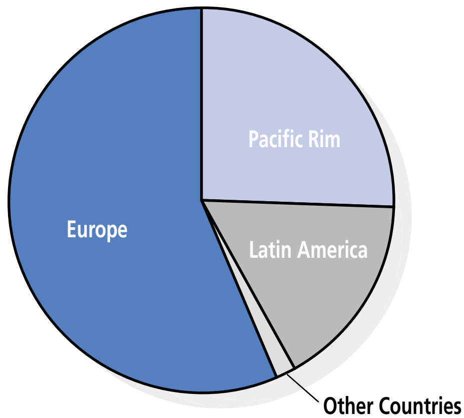
Portfolio Manager
dherro@cs.com

Michael Welsh

Portfolio Manager
102521.2142@compuserve.com

January 7, 2000

International Diversification—December 31, 1999



	% of Fund Net Assets
Europe	***53.9%***
Great Britain	24.6%
* Finland	9.1%
* France	6.5%
Denmark	3.8%
* Italy	3.5%
* Netherlands	3.5%
* Germany	2.0%
Switzerland	0.9%
Latin America	***15.7%***
Brazil	8.5%
Panama	3.6%
Argentina	3.6%

	% of Fund Net Assets
Pacific Rim	***24.6%***
Japan	8.3%
Korea	7.0%
Hong Kong	3.3%
Singapore	3.0%
New Zealand	3.0%
Other	***1.6%***
Canada	0.9%
Bermuda	0.7%

* Euro currency countries comprise 24.6% of the Fund.

Schedule of Investments—December 31, 1999 (Unaudited)

	Description	Shares Held	Market Value
Common Stocks—95.8%			
Consumer Non-Durables—4.0%			
Citizen Watch Co. (Japan)	Watch & Component Manufacturer	5,242,000	$ 33,349,320
Food & Beverage—8.1%			
Quilmes Industrial SA (Argentina), (b)	Brewer	2,483,000	$ 29,640,812
Diageo plc (Great Britain)	Manufacturer of Beverages, Wines, & Spirits	3,322,000	26,481,343
Lotte Chilsung Beverage Company (Korea)	Manufacturer of Soft Drinks, Juices, & Sport Drinks	73,000	4,500,220
Lotte Confectionery Company (Korea) Confection	Manufacturer	37,270	4,431,044
Asahi Breweries, Ltd. (Japan)	Brewery	190,000	2,079,084
			67,132,503
Apparel—3.6%			
Fila Holding S.p.A. (Italy), (b)	Athletic Footwear & Apparel	2,672,800	$ 29,400,800
Household Products—5.7%			
Hunter Douglas N.V. (Netherlands)	Manufacturer of Window Coverings	1,067,700	$ 29,039,774
Reckitt & Colman plc (Great Britain)	Household Cleaners & Air Fresheners	1,935,000	18,253,538
			47,293,312
Retail—5.9%			
Somerfield plc (Great Britain)	Food Retailer	23,234,995	$ 33,590,684
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	14,406,000	14,825,754
			48,416,438

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—95.8% (cont.)			
Other Consumer Goods & Services—6.3%			
Canon, Inc. (Japan)	Office & Video Equipment	829,000	$ 32,942,547
Mandarin Oriental International Limited (Singapore)	Hotel Management	27,612,000	19,328,400
			52,270,947
Banks & Thrifts—13.4%			
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama), (b)	Latin American Trade Bank	1,272,800	$ 29,910,800
Uniao de Bancos Brasileiros S.A. (Brazil), (c)	Major Brazilian Bank	959,400	28,901,925
Den Danske Bank Group (Denmark)	Commercial Banking	183,000	20,061,173
Unidanmark A/S, Class A (Denmark)	Commercial Banking	162,000	11,400,885
Banque Nationale de Paris (France)	Commercial Banking	90,000	8,304,590
Canadian Imperial Bank of Commerce (Canada)	Commercial Banking	300,000	7,170,073
United Overseas Bank Ltd., Foreign Shares (Singapore)	Commercial Banking	583,968	5,154,206
			110,903,652
Insurance—0.7%			
IPC Holdings, Ltd. (Bermuda)		404,500	$ 6,016,938
Marketing Services—2.7%			
Cordiant Communications Group plc (Great Britain)	Advertising & Media Services	4,748,877	$ 22,475,624

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—95.8% (cont.)			
Telecommunications—8.6%			
SK Telecom Co. Ltd. (Korea)	Telecommunications	8,362	$ 29,972,118
Telesp Celular Participacoes S.A. (Brazil)	Telecommunications	1,726,700,000	16,344,628
Telesp Participacoes S.A. (Brazil)	Telecommunications	531,100,000	7,352,788
Tele Centro Sul Participacoes S.A. (Brazil), (a)	Telecommunications	469,200,000	5,038,738
Tele Sudeste Celular Participacoes S.A. (Brazil)	Telecommunications	1,151,100,000	4,587,833
Telemig Celular Participacoes S.A. (Brazil), (a)	Telecommunications	2,297,800,000	4,451,868
Embratel Participacoes S.A. (Brazil), (a)	Telecommunications	216,100,000	3,612,632
			71,360,605
Medical Products—0.0%			
Getinge Industrier AB, Class B (Sweden)	Medical Instruments Manufacturer	200	$ 2,256
Aerospace—2.2%			
Rolls-Royce plc (Great Britain)	Aviation & Marine Power	5,188,552	$ 17,893,582
Components—3.6%			
IMI plc (Great Britain)	Components Manufacturer	3,530,000	$ 15,994,137
Morgan Crucible Company plc (Great Britain)	Crucible & Components Manufacturer	2,725,000	12,786,918
Varitronix International Limited (Hong Kong)	Liquid Crystal Displays	583,000	1,334,971
			30,116,026

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—95.8% (cont.)			
Chemicals—2.8%			
Fernz Corporation Limited (New Zealand)	Agricultural & Industrial Chemical Producer	10,182,554	$ 23,143,668
Oil & Natural Gas—1.5%			
ISIS (France)	Oil Services	208,250	$ 12,460,965
Machinery & Metal Processing—7.1%			
Metso Oyj (Finland), (a)	Paper & Pulp Machinery	3,487,977	$ 45,325,599
Outokumpu Oyj (Finland)	Metal Producer	945,000	13,374,833
			58,700,432
Mining & Building Materials—1.7%			
Keumkang Ltd. (Korea)	Building Materials	312,460	$ 14,446,631
Other Industrial Goods & Services—14.7%			
Chargeurs SA (France)	Wool Textile Production & Trading	594,635	$ 33,484,398
Tomkins plc (Great Britain)	Diversified Engineering	8,931,465	28,998,263
Kone Corporation, Class B (Finland)	Elevators	338,790	16,688,591
Buderus AG (Germany)	Industrial Manufacturing	970,320	16,421,185
Charter plc (Great Britain)	Welding Products Manufacturer	3,221,014	13,865,740
Sika Finanz AG (Switzerland)	Corrosion Protection Products	21,874	7,143,428
Dongah Tire Industry Company (Korea)	Tire Manufacturer	166,290	4,891,313
			121,492,918

Schedule of Investments—December 31, 1999 (Unaudited) cont.

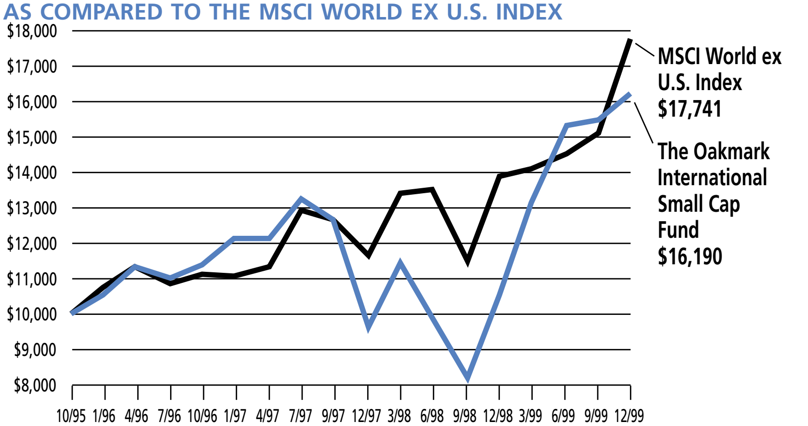
	Description	Shares Held/ Par Value	Market Value
Common Stocks—95.8% (cont.)			
Diversified Conglomerates—3.2%			
Berisford plc (Great Britain)	Diversified Operations	2,425,700	$ 13,263,220
First Pacific Company Ltd. (Hong Kong)	Diversified Operations	14,716,000	11,453,245
Brierley Investments Limited (New Zealand), (a)	Diversified Operations	6,650,000	1,389,850
			26,106,315
Total Common Stocks (Cost: $813,601,170)			**792,982,932**
Short Term Investments—4.3%			
Commercial Paper—1.8%			
American Express Credit Corporation, 6.25%–6.50% due 1/4/2000		10,000,000	$ 10,000,000
Ford Motor Credit Corp., 6.06% due 1/3/2000		5,000,000	5,000,000
Total Commercial Paper (Cost: $15,000,000)			**15,000,000**
Repurchase Agreements—2.5%			
State Street Repurchase Agreement, 3.25% due 1/3/2000		20,485,000	$ 20,485,000
Total Repurchase Agreements (Cost: $20,485,000)			**20,485,000**
Total Short Term Investments (Cost: $35,485,000)			**35,485,000**
Total Investments (Cost $849,086,170)—100.1%			$ 828,467,932
Foreign Currencies (Proceeds $165,145)—0.0%			165,169
Other Liabilities In Excess Of Other Assets—(0.1)%			(751,312)
Total Net Assets—100%			**$827,881,789**

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

THE OAKMARK INTERNATIONAL SMALL CAP FUND

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

THE VALUE OF A $10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/99) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX



12/31/99 NAV $12.50

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/99 From Fund Inception 11/1/95
The Oakmark International Small Cap Fund	**4.9%**	**12.3%**
MSCI World ex U.S. Index w/inc.**	17.4%	14.7%
Lipper International Small Cap Fund Average**	32.3%	22.6%
Micropal Equity International Small Cap Index**	37.3%	23.1%

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

** Each of the three indexes or averages is an unmanaged group of indexes or funds whose composition is different from the Fund. The MSCI World ex U.S. Index includes 21 country sub-indexes. The Lipper International Small Cap Fund Average includes 70 mutual funds that invest in securities whose primary markets are outside the United States. The Micropal Equity International Small Cap Index is an unweighted index comprised of all funds within the international small company fund sector. Past performance is no guarantee of future results.

Fellow Shareholders,

Your fund enjoyed excellent performance for calendar year 1999, up 53.8% compared with a 27.9% return for the MSCI World ex U.S. Index, and a 75.4% return for the Lipper International Small Cap Fund Average.

Over the past twelve months we have benefited from the market's recognition of the under-valuation of the securities in the portfolio. Our belief is that, over time, value and price converge. However, now more than ever, overseas markets are being split into "haves" and "have-nots", with a huge gap in valuation separating the two. The "haves" include anything associated with telecommunications and technology, and, especially in Europe, anything with a mega-market cap that is included in a major index. The "have-nots" are, basically, everything else. As long-term investors we remain very excited because of the values we are finding among the "have-nots."

Proceed with Caution

As noted above, especially in the last quarter of 1999, a few narrow areas of the world markets performed extremely well. Global technology companies and anything with a ".com" in its name have skyrocketed in terms of share price performance. **This is not sustainable!** Most of these companies make little or no money and will not become reasonably profitable within the next 5 years. Many of these shares are driven up by hype, illiquidity and, specifically in overseas markets, scarcity. It is truly greater fool speculating at its best.

We are not saying that the Internet and technology aren't potent forces, and we are not avoiding them just to be stubborn or different. The point we'd like to make is that for an investment to make sense to us, there must be a reasonably estimated flow of cash tied to the assets of a company with a share price that allows us to buy below the intrinsic value of those future cash-flows. Generally, technology stocks today are absurdly priced. In daily life, would it make sense to pay $1 million dollars for a HDTV set? Would you be wise to pay $5 million dollars for your favorite car? It may be a great TV or car, and if others were doing it, would you?

There are numerous examples of excellent technology companies with good growth rates that we've purchased over the years in the Fund at very reasonable valuations. In fact, four of the Fund's biggest winners this year were tech stocks that we were able to purchase at significant discounts to our estimate of future cash flows: Solution 6 Holdings, Koei, Enix, and SK Telecom. You can be assured that we will continue to monitor this area of the market to be in a position to take advantage of more reasonable prices when the inevitable pullback in valuation occurs.

1999 Results—The Good and The Bad

At the end of each calendar year we think it is important to specifically detail the ideas that had the biggest positive and negative impacts on the Fund's NAV. Our biggest collection of winners came from Asia, specifically our stock selection in Japan, Korea, and Hong Kong. The appreciation in share prices of our Japanese investments added around $1.20 to the Fund's NAV during the past twelve months. Ichiyoshi Securities, a stock that was burned-out, unloved, and under-followed when our analyst, David Samra, first recommended it, led the charge with a 300 percent increase in its share price—and it is still undervalued. Software entertainment producers Koei and Enix also posted huge gains and both hit their sell targets during 1999.

Our Korean holdings were again big winners in 1999, adding approximately $0.70 to the Fund's NAV in aggregate. SK Telecom powered ahead by almost 600 percent over the last twelve months. Hite Brewery, making a return appearance from our 1998 winners list, doubled.

The one stock that provided the biggest positive impact on the Fund also came from the Pacific Rim, in this case Australia. Solution 6 Holdings appreciated five-fold over the first eight months of 1999, adding around $0.60 to the NAV before being sold after exceeding our A$4.50 sell target. We owned this outstanding software company in the Fund for over three years and purchased shares for as little as A$0.55.

Carpetright plc, the UK-based retailer, added $0.48 with a doubling of its share price. Throughout the year, we were in the enviable position of competing to buy shares against members of management and the company's own repurchase program because we were all convinced of the attractiveness of the low share price. We only wish more companies were run by individuals with the same commitment to excellence as Carpetright's Chairman, Lord Harris.

Negative performers had a relatively small impact on Fund performance in 1999. Four companies generated declines in NAV of at least $0.14. With two of the four companies we continue to add to our positions (Reinsurance Australia and GFI Industries), while the other two have been sold (Dylex and TT Group).

Reinsurance Australia (ReAC) had the biggest individual negative impact, costing the Fund $0.27 for 1999. The reinsurance market has been extremely difficult over the past few years due to a substantial jump in claims but no corresponding firming in the pricing environment. This trend continued in 1999. Although new management has worked to stabilize the financial position, year-end storms of enormous magnitude in Europe thwarted their efforts. This has caused us to question the viability of ReAc as a long-term investment and thus at the time of this writing, we are reviewing our options.

The share price of GFI Industries of France was hit by market worries of an abrupt drop in aircraft production. GFI is a major supplier of fasteners to both Boeing and Airbus, and would certainly feel a slow-down but not nearly to the extent the market has assumed. The company is fierce in maintaining its cost competitiveness and has other business units that continue to perform well. Further, the company is run by one of the most shareholder-oriented management teams in Europe. We think it is a very attractive investment at the current price.

Two of this year's poorest performers are no longer in the portfolio. The share price decline in Canadian retailer Dylex cost the Fund $0.24. As detailed in last quarter's letter, we came to the conclusion that we had overestimated the ability of the company's management team and, therefore, sold the entire position.

Another poor performer was TT Group, the UK engineering company. The past several quarters have convinced us that TT's various manufacturing businesses do not have sufficient market positions or pricing power to warrant investment. We sold our position during the past quarter.

Looking Forward

Even though overseas markets had a very good year in 1999, we remain very optimistic about the value inherent in our investments. We want to thank you for your continued confidence.

David Herro

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Michael Welsh

Portfolio Manager
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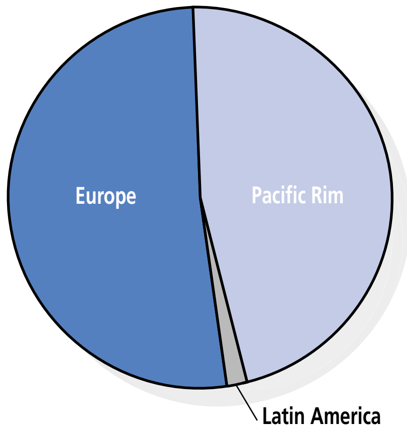
January 7, 2000

International Diversification—December 31, 1999



	% of Fund Net Assets
Europe	***49.6%***
Great Britain	23.0%
*France	11.1%
*Germany	8.0%
*Portugal	3.6%
*Italy	1.9%
Sweden	1.1%
*Finland	0.9%
Latin America	***0.4%***
Brazil	0.4%

	% of Fund Net Assets
Pacific Rim	***45.9%***
New Zealand	13.6%
Hong Kong	8.3%
Korea	5.3%
Japan	5.0%
Australia	4.6%
Singapore	4.2%
Thailand	2.6%
Philippines	2.3%

* Euro currency countries comprise 25.5% of the Fund.

Schedule of Investments—December 31, 1999 (Unaudited)

	Description	Shares Held	Market Value
Common Stocks—95.9%			
Consumer Non-Durables—1.9%			
Il Shin Spinning Company (Korea)	Fabric & Yarn Manufacturer	28,200	$ 1,216,909
Kingmaker Footwear Holdings Limited (Hong Kong)	Athletic Footwear Manufacturer	6,140,000	1,003,126
Designer Textiles (NZ) Limited (New Zealand)	Knit Fabrics	1,960,000	337,953
			2,557,988
Food & Beverage—3.4%			
Alaska Milk Corporation (Philippines), (a)	Milk Producer	42,544,000	$ 3,061,478
Hite Brewery Company (Korea)	Brewer	42,861	1,468,334
			4,529,812
Retail—12.7%			
House Of Fraser Plc (Great Britain)	Department Store	6,265,000	$ 7,488,693
Carpetright plc (Great Britain)	Carpet Retailer	522,000	4,527,912
Denny's Japan Co., Ltd. (Japan)	Restaurant Chain	211,000	4,336,890
Jusco Stores (Hong Kong) Co., Limited (Hong Kong)	Department Stores	6,888,000	549,374
			16,902,869
Other Consumer Goods & Services—10.9%			
Royal Doulton plc (Great Britain)	Tableware & Giftware	4,660,000	$ 9,145,668
Cewe Color Holding AG (Germany)	Photo Equipment & Supplies	176,340	3,623,775
Sanford Limited (New Zealand)	Fisheries	498,134	1,457,540
Shaw Brothers (Hong Kong) Ltd. (Hong Kong)	Media and Entertainment Services	270,000	317,810
			14,544,793

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—95.9% (cont.)			
Insurance—2.2%			
Reinsurance Australia Corporation Limited (Australia)	Reinsurance Company	8,422,211	$ 2,930,467
Other Financial—5.9%			
JCG Holdings Ltd. (Hong Kong)	Investment Holding Company	9,914,000	$ 5,579,694
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	433,000	2,288,539
			7,868,233
Hotels & Motels—3.4%			
Jarvis Hotels plc (Great Britain)	Hotel Operator	2,400,000	$ 4,555,146
Broadcasting & Publishing—3.7%			
Matichon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	2,039,500	$ 3,519,647
VLT AB, Class B (Sweden)	Newspaper Publisher	139,950	1,398,020
			4,917,667
Printing—1.2%			
Hung Hing Printing Group Limited (Hong Kong)	Printing Company	4,158,000	$ 1,564,566
Telecommunications—3.1%			
SK Telecom Co. Ltd. (Korea)	Telecommunications	1,016	$ 3,641,673
Telemig Celular Participacoes S.A. (Brazil), (a)	Telecommunications	247,600,000	479,712
			4,121,385
Pharmaceuticals—1.9%			
Recordati (Italy)	Pharmaceuticals	573,000	$ 2,533,958

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held	Market Value
Common Stocks—95.9% (cont.)			
Transportation Services—3.5%			
Mainfreight Limited (New Zealand)	Logistics Services	4,388,977	$ 4,586,480
Oil & Natural Gas—2.0%			
ISIS (France)	Oil Services	44,677	$ 2,673,318
Mining & Building Materials—12.3%			
Fletcher Challenge Building (New Zealand)	Building Materials Manufacturer	5,710,951	$ 8,414,799
Semapa-Sociedade de Investimento e Gestao, SGPS, SA (Portugal)	Cement Manufacturer	277,012	4,791,253
Parbury Limited (Australia)	Building Products	12,517,553	3,204,932
			16,410,984
Other Industrial Goods & Services—6.8%			
GFI Industries SA (France)	Industrial Fastener Manufacturer	219,974	$ 5,030,110
Yip's Hang Cheung (Holdings) Ltd. (Hong Kong)	Paint & Solvent Manufacturer	27,500,000	2,051,843
Vaisala Oyj (Finland)	Atmospheric Observation Equipment	15,350	1,198,368
Dongah Tire Industry Company (Korea)	Tire Manufacturer	26,900	791,246
			9,071,567
Production Equipment—10.7%			
Krones AG (Germany)	Manufacturer of Production Machinery	251,100	$ 7,082,474
NSC Groupe (France)	Manufacturer of Textile Equipment	45,955	4,629,275
De Dietrich et Compagnie SA (France)	Manufacturer of Production Machinery	41,500	2,483,217
			14,194,966

Schedule of Investments—December 31, 1999 (Unaudited) cont.

	Description	Shares Held/ Par Value	Market Value
Common Stocks—95.9% (cont.)			
Steel—2.5%			
Steel & Tube Holdings Limited (New Zealand)	Produces and Distributes Steel	3,460,370	$ 3,326,799
Diversified Conglomerates—7.8%			
Haw Par Corporation Ltd. (Singapore)	Healthcare and Leisure Products	3,030,000	$ 5,530,591
Wassall PLC (Great Britain)	Diversified Consumer Goods	888,000	4,819,539
			10,350,130
Total Common Stocks (cost $121,885,678)			**127,641,128**
Short Term Investments—3.7%			
Commercial Paper—0.8%			
American Express Credit Corporation, 5.25% due 1/3/2000		1,000,000	$ 1,000,000
Total Commercial Paper (cost $1,000,000)			**1,000,000**
Repurchase Agreements—2.9%			
State Street Repurchase Agreement, 3.25% due 1/3/2000		3,911,000	$ 3,911,000
Total Repurchase Agreements (cost $3,911,000)			**3,911,000**
Total Short Term Investments (cost $4,911,000)			**4,911,000**
Total Investments (Cost $126,796,678)—99.6%			$ 132,552,128
Foreign Currencies (Proceeds $145)—(0.0)%			141
Other Assets In Excess Of Other Liabilities—0.4%			488,683
Total Net Assets—100%			**$133,040,952**

(a) Non-income producing security.

THE OAKMARK FAMILY OF FUNDS

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