

# **ANNUAL REPORT**

*October 31, 1995*

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TRUSTEES & OFFICERS

Fellow Shareholders:

We are pleased to present the combined annual reports for the Oakmark Family of Funds. The current report contains the fiscal 1995 information for the Oakmark and Oakmark International Funds. Subsequent annual reports will include the newly launched Oakmark Small Cap, Balanced and International Emerging Value Funds. These new Funds were available November 1, 1995.

For the fourth quarter ended October 31, 1995 and the year as a whole, the U.S. stock market was the place to be. Oakmark Fund's returns continued to be robust, up 4.9%\* in the quarter, even without participation in the technology sector. In contrast, the money flows out of foreign stocks created a challenging environment in which the Oakmark International Fund lost (5.5)%\*. This decline has created some of the most compelling values we have witnessed and the performance of Oakmark International in the month following the quarter-end has us cautiously optimistic (up 3.2% from 10/31/95 to 11/29/95).

'Tis the season for holiday cheer and investment decisions! For those of you thinking about your 1995 IRA contributions, remember these contributions can be made until April 15, 1996.

From all of us at The Oakmark Family of Funds, we wish you a happy, healthy and prosperous new year!

Sincerely,  
**Victor A. Morgenstern**  
*President*

\*The Oakmark Fund's average annual total return for the twelve months ended September 30, 1995 and for the period August 5, 1991 (inception) through September 30, 1995 was 23.2% and 33.1% respectively. The Oakmark International Fund's average annual total return for the twelve months ended September 30, 1995 and for the period September 30, 1992 (inception) through September 30, 1995 was 1.5% and 15.8% respectively. The Funds' past performance is no guarantee of future results. Share prices and investment returns will vary, so you may have a gain or loss when you sell shares.

## The Oakmark Funds Summary

### Annualized Performance for Period Ended October 31, 1995

	<i>3 mo.</i>	<i>6 mo.</i>	<i>1 Year</i>	<i>3 Years</i>	<i>Since Inception</i>
The Oakmark Fund	4.9 %	12.3%	21.55 %	23.70%	32.00%(1)
The Oakmark International Fund	(5.5)%	1.8%	(3.06)%	14.40%	13.20%(2)

(1) Inception Date was August 5, 1991

(2) Inception Date was September 30, 1992

### Top Five Holdings and Top Five Industries as of October 31, 1995

#### The Oakmark Fund

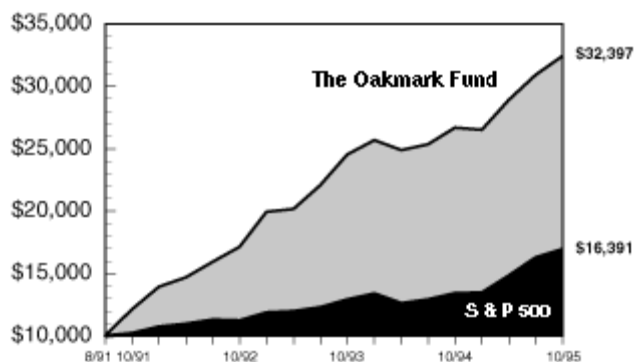
<i>Company</i>	<i>% of Total Net Assets</i>
Phillip Morris Companies, Inc.	6.30%
Mellon Bank Corporation	6.04%
Lockheed Martin Corporation	5.67%
First USA, Inc.	4.30%
Anheuser-Busch Companies, Inc.	3.90%
<i>Industry</i>	<i>% of Fund</i>
Food & Beverage	16.10%
Other Consumer Goods & Services	11.30%
Broadcasting & Publishing	9.40%
Other Financial	8.80%
Aerospace & Defense	8.20%

### **The Oakmark International Fund**

<i>Company</i>	<i>% of Total Net Assets</i>
Lion Nathan Limited (New Zealand)	5.00%
Kvaerner (Norway)	4.62%
AB Volvo (Sweden)	4.24%
YPF Sociedad Anonima (Argentina)	3.61%
Cordiant PLC (Great Britain)	3.59%
<i>Industry</i>	<i>% of Fund</i>
Banks	13.70%
Other Industrial Goods & Services	9.40%
Food	7.50%
Aerospace	7.40%
Transportation	5.80%

Past performance is no guarantee of future performance.

**The value of a \$10,000 investment in the Oakmark Fund from its inception (8/5/91) to present (10/31/95) as compared to the Standard & Poor's 500 Index.**



10/31/95 NAV \$28.47

	Total Return* Last 3 mos.	Total Return* Last 6 mos.	Average Annual Total Return* Through 10/31/95	
			From 10/31/94	From Fund Inception 8/5/91
<b>THE OAKMARK FUND</b>	<b>4.9%</b>	<b>12.3%</b>	<b>21.6%</b>	<b>32.0%</b>
Standard & Poor's 500 Stock Index*	4.1%	14.4%	26.3%	13.2%
Dow-Jones Industrial Average*	1.6%	11.4%	24.8%	14.4%
Value Line Composite Index*	(1.8)%	6.6%	10.1%	6.6%

\*Total return includes change in share prices and in each case included 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 performance.

### Report from Robert J. Sanborn, *Portfolio Manager*

Dear Fellow Shareholders:

The Oakmark Fund's fiscal year ended October 31, 1995 was a good one. The most significant macroeconomic factor in the strong performance of equities was the dramatic decline in long-term interest rates, driven by continued low levels of inflation. This is confirmed by the price action of the planet's two most important commodities—gold and oil—both of which declined in price over the year.

While our Fund generated large absolute returns, its performance lagged behind that of the Standard and Poor's 500. (As Dickens wrote, "It was the best of times, it was the worst of times.") This relative underperformance is due to our Fund's lack of high technology holdings. These sectors were among the best-performing in the market during the past year; software, semiconductor, and biotechnology stocks were up an average of fifty-five (!) percent in the past twelve months. As I indicated in my letter last quarter, these stocks do not meet our investment criteria.

The companies in our portfolio generally experienced very good *business* results in the past year. Of our top twenty holdings of a year ago, only one had results that were significantly less than our expectations. Despite the strong performance of our Fund, lower interest rates and the growth in

underlying value of our holdings lead me to conclude that the value in our Fund is as good today as it was a year ago. As I have written before, we spend our time monitoring and analyzing the businesses of which all of us are part owners, *not* in trying to anticipate stock price changes.

Two large sectors—consumer brands and financial services—constitute almost half of our Fund's value. Our larger consumer brand stocks—Philip Morris, Knight Ridder, Anheuser-Busch, Black & Decker, American Brands, Heinz—are all very high-quality, high-return, high-barrier-to-entry businesses with dominant market positions, very loyal end-users, and (to varying degrees) tremendous international opportunities. These companies are prime beneficiaries of the unfolding globalization of the economy. Yet, the market continues to place valuations on them that do not sufficiently differentiate them from more average companies in more competitive businesses.

Our large financial services holdings—First USA, Mellon, Torchmark, and AMBAC—have strong niche businesses and benefit from the ongoing consolidation of the financial services industry. We believe that this consolidation is a win/win proposition for the buyers and sellers (a dynamic we have experienced in our defense industry investments). Yet, they each sell at modest valuations at steep discounts to their underlying value.

We continue to frame, and will always frame, the investment process as buying an ownership piece of a business for the long term, not as buying merely a piece of paper for the short term. We sold only one of our ten largest holdings of a year ago. Eli Lilly reached our estimate of value and we sold the stock. Trading is expensive—there are commissions, price impacts, and capital gains taxes—and we attempt to minimize our trading activity. Our Fund's turnover is one-seventh that of the typical equity fund. I believe that the largest edge we have is our long-term investment time-frame.

What's ahead for 1996? While we do not base any of our investment decisions on predicting macroeconomic variables, let me cite two that are positive for the equity market. The first is the all-time high level of merger and acquisition activity. Many public companies continue to be acquired at substantial premium to public market prices. The globalization of the economy and the efficacy of technology within companies will continue to drive this process. The second factor is the political revolution that is in its early stages in the USA. There is broad consensus that our federal government is too big, too inefficient, and too expensive. The inevitable downsizing of the government—more than 40 percent of our GDP is spent by local, state, and federal governments!—should result in lower interest rates in the medium term (which will have a positive impact on equity valuations). In the long term, a rationalization of our tax system, perhaps in the form of a flat tax regime, will unleash the tremendous potential of our economy. This process will have a very significant impact on all aspects of our economy.

I believe that we at Harris Associates have a time-tested investment philosophy, great people, and a nonbureaucratic culture. These attributes should allow us to continue to add value. We remain focused on generating results that will continue to allow you (and us!!) to realize your financial goals.

On a personal note, I cannot believe we are in our fifth year. On behalf of everyone at Harris Associates, I thank you for your support. Managing your hard-earned money remains a great challenge and a great honor.

## **A Primer on Goodwill**

As I write this, we are in the midst of the season of goodwill to all people. Yet, in the financial world, goodwill has a far different meaning. Goodwill usually results when a company acquires another company at a price greater than the acquiree's book value. Book value is a balance sheet item that

represents the retained book earnings of a company. It has little relation to the true economic value of a company and, therefore is a number we ignore.

Goodwill affects the income statement through the accounting process of amortization. Amortization refers to the gradual write-downs of the goodwill, generally over forty years. The word amortization itself is derived from the Latin word for death, and means to "kill off the goodwill." This amortization reduces reported earnings for the entire time period. However, it is important to recognize that it is a non-cash reduction in earnings that has no effect on the intrinsic value of a company.

Let me give an example from one of our holdings, Philip Morris (MO). As of 12/30/94, MO had goodwill totalling \$19.7 billion, which represented over 37 percent of its total book assets. Most of this was incurred through its purchase of Kraft in 1988. This goodwill resulted in the amortization of \$600 million in the year 1994, which reduced reported earnings per share (EPS) by \$0.58 (compared to total net EPS of \$5.45). Yet, MO can use this \$600 million to make an acquisition, repurchase its own shares, or do any number of things to grow shareholder value.

A patient shareholder is probably by now muttering. "What's with this goodwill, why is he boring me with this stuff?" Well, seven of our ten largest holdings have meaningful amounts of goodwill that reduce reported EPS. In our view, the market tends to ignore the economic value of the goodwill. For instance, a leading Wall Street brokerage firm recently issued a report on MO that concludes that MO should sell at its historical relative P/E ratio of 75 percent of the market. This, of course, ignores the fact that MO's earnings are artificially reduced by the amortization charge.

We evaluate our investments, and all potential investments, as if we were buying the entire business. Thus, we tend to regard some financial parameters (i.e., cash flow) more highly than others regarded more highly by the investment community (i.e., reported EPS). Since we firmly believe that market price and value ultimately converge, our approach is intellectually coherent and, we believe, gives us an edge.

### **Billy Johnson Update**

An E-mailing shareholder from California writes, "Who the heck is Billy "White Shoes" Johnson?" Well, he was a wide receiver for the Houston Oilers and was an early pioneer of in-your-face touchdown celebrations. Some of you may remember my allusion to Johnson in last quarter's letter. I wrote that, when my prediction on the likely under-performance of high technology stocks comes to fruition, I will do some similar in-your-face crowing.

Well, as I write this on November 28, Netscape (NSCP) is trading at \$138, up more than 75 percent from just last quarter. So, Billy is bruised, but he knows that we are early in the first quarter, and all that matters is who wins the game.

I had the pleasure of making a presentation recently with a very nice guy who manages a pure technology hedge fund. His fund was up over 80 percent this year. He gave very compelling background on the growth of the Internet and how useful technology is, and so forth. Then, some curmudgeon in the crowd, (perhaps a shareholder of The Oakmark Fund), broke the balloon, and asked about the "ridiculous" valuations of these stocks. The manager's sole justification was that technology currently represents "only" thirteen percent of the value of the Standard & Poor's 500, and he saw no reason why it could not get as high as thirty percent. After all, the energy sector got that high in 1980.

Shareholders, that is not an intellectually coherent investment approach. If that is the best reason to

own technology stocks, Billy will be celebrating soon.

### **Oak Leaf Cluster**

We award the Oak Leaf Cluster to that individual whose input into our Fund had the greatest positive impact on performance. This year the coveted honor goes to our very own John Raitt for his work on the defense stocks. Since these stocks go back to the early days of the Fund, it represents sort of a Lifetime Achievement Award. Lockheed Martin has more than doubled from our cost and McDonnell Douglas has appreciated more than 67 percent. Congratulations, John! On behalf of all shareholders, we like you, we like you!

**Robert J. Sanborn**  
*Portfolio Manager*  
*harjs@aol.com*  
November 28, 1995

### **The Oakmark Fund** **Schedule of Investments—October 31, 1995**

<i>Shares Held</i>	<i>Common Stocks</i>	<i>Market Value</i>
<b>COMMON STOCKS—93.1%</b>		
<b>FOOD &amp; BEVERAGE—16.1%</b>		
2,106,500	Philip Morris Companies Inc.	\$ 177,999,250
1,669,100	Anheuser-Busch Companies, Inc.	110,160,600
1,619,100	H.J. Heinz Company	75,288,150
1,420,800	Nabisco Holdings Corp.	38,184,000
1,571,900	Interstate Bakeries	33,599,362
430,000	The Quaker Oats Company	14,673,750
200,000	International Dairy Queen, Inc. (a)	4,250,000
		<hr/>
		454,155,112
<b>APPAREL—.3%</b>		
388,500	K-Swiss Inc.	4,419,188
620,600	J. Baker Inc.	3,568,450

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7,987,638

**RETAIL—4.4%**

2,920,000	Federated Department Stores, Inc. (a)	74,095,000
1,600,000	Zale Corporation (a)	23,600,000
1,000,000	Carson Pirie Scott & Co. (a)	16,875,000
600,000	Cole National Corporation (a)	7,350,000
777,500	Best Products Co., Inc. (a)	3,838,906
53,800	Rex Stores Corporation (a)	914,600

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126,673,506

**OTHER CONSUMER GOODS & SERVICES—11.3%**

1,982,800	American Brands, Inc.	85,012,550
2,437,900	The Black & Decker Corporation	82,583,861
477,700	The Clorox Company	34,274,975
957,500	Whitman Corporation	20,346,875
440,200	First Brands Corporation	20,139,150
583,800	GC Companies, Inc. (a)	18,827,550
400,000	Stanhome Inc.	12,200,000
750,000	Arctco Inc.	8,437,500
575,000	JUNO Lighting Inc.	8,337,500
601,500	Justin Industries, Inc.	6,015,000
281,500	Rollins, Inc.	5,911,500
395,000	Mikasa, Inc. (a)	5,135,000
257,600	Paragon Trade Brands, Inc. (a)	4,089,400



100,000	Alberto-Culver Company	2,700,000
225,525	Rauch Industries, Inc.	2,227,059
51,500	Polaroid	2,201,625
107,000	Armor All	1,765,500
304,000	Drypers Corporation (a)	798,000
		<hr/>
		321,003,045
<b>OIL—.4%</b>		
270,000	Murphy Oil Corporation	10,226,250
<b>BANKS—6.1%</b>		
3,406,550	Mellon Bank Corporation	170,753,319
340,000	River Bank America (a)	2,465,000
		<hr/>
		173,218,319
<b>INSURANCE—6.5%</b>		
2,496,400	Torchmark Corporation	103,600,600
984,700	American Financial Group, Inc.	27,571,600
928,200	Old Republic International	26,569,725
501,300	Acordia, Inc.	13,785,750
331,930	MAIC Holdings, Inc. (a)	10,123,865
85,000	Meridian Insurance Group	1,168,750
		<hr/>
		182,820,290
<b>OTHER FINANCIAL—8.8%</b>		
2,640,500	First USA, Inc.	121,463,000

2,194,900	AMBAC Inc.	92,460,163
620,000	Capital One Financial Corporation	15,190,000
204,400	Fund American Enterprises Holdings, Inc. (a)	14,103,600
330,000	Duff & Phelps Corporation	3,588,750
102,200	White River Corporation (a)	3,551,450
		<hr/>
		250,356,963

**BROADCASTING & PUBLISHING—9.4%**

6,329,179	Tele-Communications, Inc. Class A (a)	107,596,043
1,715,400	Knight-Ridder, Inc.	95,204,700
1,432,294	TCI Communications, Inc. (a)	35,270,240
400,000	Gannett	21,750,000
500,000	Adelphia Communications Corp. (a)	4,375,000
200,000	Jones Intercable, Inc. (a)	2,500,000
		<hr/>
		266,695,983

**COMPUTER SYSTEMS—.5%**

1,014,000	Control Data Systems, Inc. (a)	13,435,500
210,000	InaCom Corporation (a)	2,100,000
		<hr/>
		15,535,500

**PHARMACEUTICAL—3.1%**

975,000	American Home Products Corporation	86,409,375
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**MANAGED CARE SERVICES—3.4%**

1,740,000	Foundation Health Corporation (a)	73,732,500
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420,000	Physicians Health Services, Inc. (a)	13,965,000
500,000	Laboratory Corporation of America Holdings	4,250,000
270,000	Right CHOICE Managed Care, Inc. (a)	3,442,500
		<hr/>
		95,390,000
<b>MEDICAL PRODUCTS—2.4%</b>		
648,900	Sybron Corporation (a)	27,578,250
502,000	St. Jude Medical, Inc. (a)	26,731,500
550,000	Spacelabs Medical, Inc. (a)	14,162,500
		<hr/>
		68,472,250
<b>AEROSPACE &amp; DEFENSE—8.2%</b>		
2,351,750	Lockheed Martin Corporation	160,212,969
610,000	McDonnell Douglas Corporation	49,867,500
779,600	Logicon, Inc.	17,833,350
54,200	Alliant Techsystems, Inc. (a)	2,520,300
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		230,434,119
<b>FURNITURE &amp; TEXTILES—0%</b>		
363,000	Forstmann & Company, Inc. (a)	113,438
<b>MACHINERY AND METAL PROCESSING—.1%</b>		
237,500	Encore Wire Corporation (a)	2,493,750
<b>OTHER INDUSTRIAL GOODS &amp; SERVICES—4.6%</b>		
1,699,700	The Geon Company	42,280,038
508,000	Great Lakes Chemical Corporation	34,099,500

550,000	OM Group, Inc.	15,950,000
191,200	Bandag, Incorporated Class A	9,536,100
554,200	SPX Corporation	8,590,100
190,000	USG Corp. (a)	5,533,750
170,000	UCAR International Inc. (a)	4,845,000
175,000	American Home Star Corporation (a)	2,800,000
182,600	Amtrol Inc.	2,784,650
60,200	Exide	2,641,275
50,000	Griffon Corporation (a)	418,750
71,300	Detrex Corporation (a)	409,975

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129,889,138

**COMMERCIAL REAL ESTATE—1.0%**

1,957,200	Host Marriott Corporation (a)	24,220,350
585,700	Catellus Development Corporation (a)	3,221,350

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27,441,700

**FOREIGN SECURITIES—6.5%**

2,650,000	DeBeers Consolidated Mines Limited ADR (b)	72,875,000
3,276,500	YPF Sociedad Anonima (b)	56,110,062
888,200	Telefonos de Mexico, S.A. de C.V. (b)	24,425,500
547,700	EVC International NV	17,182,881
697,500	Scitex Corporation Limited	12,119,063

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182,712,506

**TOTAL COMMON STOCKS (Cost: \$2,133,912,975)****2,632,028,882****COMMERCIAL PAPER—7.1%**

American Express Credit Corp., 5.70% due 11/22/95	6,000,000
American Express Credit Corp., 5.70% due 11/24/95	5,000,000
American Express Credit Corp., 5.70% due 11/30/95	8,000,000
American Express Credit Corp., 5.70% due 12/13/95	5,000,000
Ford Motor Credit Corp., 5.70% due 11/01/95	5,000,000
Ford Motor Credit Corp., 5.71% due 11/01/95	4,000,000
Ford Motor Credit Corp., 5.76% due 11/02/95	6,000,000
Ford Motor Credit Corp., 5.70% due 11/03/95	8,000,000
Ford Motor Credit Corp., 5.69% due 11/13/95	9,000,000
Ford Motor Credit Corp., 5.70% due 11/17/95	5,000,000
Ford Motor Credit Corp., 5.70% due 11/20/95	6,000,000
Ford Motor Credit Corp., 5.69% due 11/21/95	2,000,000
Ford Motor Credit Corp., 5.70% due 11/27/95	10,000,000
Ford Motor Credit Corp., 5.70% due 11/28/95	4,000,000
Ford Motor Credit Corp., 5.70% due 11/29/95	4,000,000
Ford Motor Credit Corp., 5.70% due 12/01/95	7,000,000
Ford Motor Credit Corp., 5.70% due 12/04/95	7,000,000
Ford Motor Credit Corp., 5.70% due 12/05/95	10,000,000
Ford Motor Credit Corp., 5.70% due 12/06/95	3,000,000
Ford Motor Credit Corp., 5.70% due 12/07/95	6,000,000
Ford Motor Credit Corp., 5.70% due 12/08/95	6,000,000
Ford Motor Credit Corp., 5.70% due 12/11/95	6,000,000
Ford Motor Credit Corp., 5.71% due 12/12/95	4,000,000

General Electric Capital Corp., 5.68% due 11/02/95	7,000,000
General Electric Capital Corp., 5.65% due 11/06/95	5,000,000
General Electric Capital Corp., 5.67% due 11/07/95	7,000,000
General Electric Capital Corp., 5.67% due 11/08/95	9,000,000
General Electric Capital Corp., 5.67% due 11/09/95	6,000,000
General Electric Capital Corp., 5.67% due 11/10/95	10,000,000
General Electric Capital Corp., 5.70% due 11/14/95	7,000,000
General Electric Capital Corp., 5.70% due 11/15/95	6,000,000
General Electric Capital Corp., 5.71% due 11/16/95	4,000,000
General Electric Capital Corp., 5.70% due 12/13/95	4,000,000
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<b>TOTAL COMMERCIAL PAPER (Cost: \$201,000,000)</b>	<b>201,000,000</b>
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Total Investments—100.2% (Cost: \$2,334,912,975)	2,833,028,882
Other liabilities, less other assets (.2%)	(5,959,863)
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<b>TOTAL NET ASSETS—100%</b>	<b>\$ 2,827,069,019</b>
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Notes:

(a) Non-income producing security.

(b) Represents an American Depositary Receipt.

(c) At October 31, 1995, net unrealized appreciation of \$498,115,907 for federal income tax purposes consisted of gross unrealized appreciation of \$553,289,304 and gross unrealized depreciation of \$55,173,397. Cost for federal income tax purposes was \$2,334,912,975.

See accompanying notes to financial statements.

**The Oakmark Fund**  
**Statement of Assets and Liabilities—October 31, 1995**

**Assets**

Investments, at value (cost: \$2,334,912,975)		\$ 2,833,028,882
Cash		545,778
Receivable for:		
Securities Sold	4,853,140	
Fund Shares Sold	5,749,257	
Dividends and Interest	4,713,433	15,315,830
Other Assets	<hr/>	28,583
		<hr/>
		2,848,919,073

**Liabilities and Net Assets**

Payable for:		
Securities Purchased	18,076,273	
Fund shares redeemed	900,361	
Due to Adviser	2,377,099	
Other	496,321	
Total liabilities	<hr/>	21,850,054
		<hr/>
Net assets applicable to Fund shares outstanding		\$ 2,827,069,019
		<hr/>

Fund Shares Outstanding 99,284,171

**Pricing of Shares**

Net asset value per share \$28.47

**Analysis of Net Assets**

Paid in Capital		\$ 2,218,201,560
Accumulated undistributed net realized gain on sale of investments and foreign currency transactions		87,367,855
Net unrealized appreciation of investments		498,115,907
Accumulated undistributed net investment income		23,383,697
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Net assets applicable to Fund shares outstanding \$ 2,827,069,019

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See accompanying notes to financial statements.

**The Oakmark Fund**  
**Statement of Operations—October 31, 1995**

	<i>Year Ended</i> <i>October 31, 1995</i>
Investment Income:	
Dividends (net of withholding of \$354,146)	\$ 42,140,243
Interest	10,886,088
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Total investment income	53,026,331
Expenses:	
Investment advisory fee	21,215,738
Transfer and dividend disbursing agent fees and expenses	3,144,790
Custodian and accounting fees and expenses	268,307
Legal fees and expenses	70,564
Audit fees and expenses	27,850
Trustees fees and expenses	29,837
Registration and blue sky expenses	165,178
Reports to shareholders	334,371
Amortization of organization cost	34,675
Other—net	162,098
	<hr/>
Total expenses	25,453,408
	<hr/>
Net investment income	27,572,923
Net realized and unrealized gain on investments	
Net realized gain on sale of investments	87,157,237
Net realized gain (loss) on foreign currency transactions	(37,102)
Net change in unrealized appreciation	320,305,458



Net realized and unrealized gain on investments	407,425,593
Net increase in net assets resulting from operations	\$434,998,516

See accompanying notes to financial statements.

**The Oakmark Fund**  
**Statement of Changes in Net Assets—October 31, 1995**

	<i>Year Ended October 31, 1995</i>	<i>Year Ended October 31, 1994</i>
From Operations:		
Net investment income	\$ 27,572,923	\$ 16,288,352
Net realized gain on sale of investments	87,157,237	96,029,651
Net realized gain (loss) on foreign currency transactions	(37,102)	—
Net change in unrealized appreciation	320,305,458	386,607
Net increase in net assets from operations	434,998,516	112,704,610
Distributions to shareholders from:		
Net investment income (per share \$.231 in Fiscal Year 1995 and \$.23 in Fiscal Year 1994)	(15,107,181)	(10,879,838)
Net realized short-term gain (per share \$.7277 in Fiscal Year 1995 and \$.41 in Fiscal Year 1994)	(47,575,398)	(19,428,508)
Net realized long-term gain (per share \$.7411 in Fiscal Year 1995 and \$.36 in Fiscal Year 1994)	(48,452,482)	(17,059,178)
	(111,135,061)	(47,367,524)
From Fund share transactions:		
Reinvestment of dividends and capital gains distributions	106,504,973	45,046,719
Proceeds from shares sold	1,384,343,262	1,168,751,822
Payments for shares redeemed	(664,894,744)	(708,888,845)

Net increase in net assets from Fund share transactions	825,953,491	504,909,696
Total increase in net assets	1,149,816,946	570,246,782
Net assets:		
Beginning of period	1,677,252,073	1,107,005,291
End of period (including undistributed net investment income of \$23,383,697 and \$10,917,955, respectively)	\$ 2,827,069,019	\$ 1,677,252,073

See accompanying notes to financial statements.

## **HARRIS ASSOCIATES INVESTMENT TRUST THE OAKMARK FUND**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. Significant Accounting Policies**

The following are the significant accounting policies of The Oakmark Fund ("the Fund"), a series of the Harris Associates Investment Trust (a Massachusetts business trust).

##### *Security valuation—*

Investments are stated at current value. Securities traded on securities exchanges and securities traded on the NASDAQ National Market are valued at the last sales price on the day of valuation, or if lacking any reported sales that day, at the most recent bid quotation. Over-the-counter securities not so traded are valued at the most recent bid quotation. Money market instruments having a maturity of 60 days or less from the date of valuation are valued on an amortized cost basis which approximates market value. Securities for which quotations are not readily available are valued at a fair value as determined by the Trustees.

##### *Security transactions and investment income—*

Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date. Interest income and expenses are recorded on the accrual basis.

Fund shares are sold and redeemed on a continuing basis at net asset value. Net asset value per share is determined daily as of the closing of regular trading on the New York Stock Exchange on each day the Exchange is open for trading by dividing the total value of the Fund's investments and other assets, less liabilities, by the number of Fund shares outstanding.

*Federal income taxes, dividends and distributions to shareholders—*

No provision is made for Federal income taxes since the Fund elects to be taxed as a "regulated investment company" and make such distributions to its shareholders as to be relieved of all Federal income taxes under provisions of current Federal tax law.

## **2. Transactions with affiliates**

The Fund has an investment advisory agreement with Harris Associates L.P. (Adviser). For management services and facilities furnished, the Fund pays the Adviser monthly fees at the annual rate of 1% of the first \$2.5 billion of net assets, .95% on the next \$2.5 billion of net assets and .90% of the net assets of the fund in excess of \$5 billion as determined at the end of each preceding calendar month. The investment advisory agreement of the Fund provides that the Adviser will reimburse the Fund to the extent that its annual expenses, excluding certain expenses, exceed the applicable limits prescribed by any state in which the Fund's shares are offered for sale.

In connection with the organization of the Fund, expenses of approximately \$146,500 were advanced to the Fund by the Adviser. These expenses are being reimbursed to the Adviser and amortized by the Fund on a straight line basis through July, 1996.

The Fund's initial shareholder has agreed that, if any of the initial shares are redeemed during the first 60 months of the Fund's operations, the proceeds of redemption will be reduced by the pro rata share of the unamortized expenses as of the date of redemption, to the extent the Fund is obligated to reimburse such expenses to the Adviser. The pro rata share by which the redemption proceeds shall be reduced shall be derived by dividing the number of original shares redeemed by the total number of original shares outstanding at the time of redemption.

Certain officers and trustees of the Fund are also executives and employees of the Adviser. The Fund makes no direct payments to its officers who are affiliated with the Adviser. The Fund paid trustees fees of \$29,837 in 1995 and \$16,000 in 1994 to trustees of the Fund not affiliated with the Adviser.

During the periods ended October 31, 1995 and October 31, 1994 the Fund incurred brokerage commissions of \$2,100,849 and \$2,286,161, respectively, of which \$389,339 and \$244,055 were paid to an affiliate of the Adviser.

## **3. Fund share transactions**

Proceeds and payments on Fund shares as shown in the statement of changes in net assets are in respect of the following number of shares (in thousands):

	<i>Year ended October 31, 1995</i>	<i>Year ended October 31, 1994</i>
Shares issued in reinvestment of dividend and capital gain distributions	4,782	1,948
Shares sold	54,044	48,461
Less shares redeemed	(26,065)	(29,668)

Net increase in shares outstanding	32,761	20,741
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#### 4. Investment transactions

	<i>Year ended October 31, 1995</i>	<i>Year ended October 31, 1994</i>
Investment securities (excluding short term securities) in thousands:		
Purchases	\$ 1,085,381	\$ 733,331
Proceeds from sales	359,990	366,527

### The Oakmark Fund Financial Highlights

#### For a Share Outstanding throughout each Period

	<i>Year ended October 31,</i>				<i>Period ended Oct. 31, 1991 (a)</i>
	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>	
Net Asset Value, Beginning of Period	\$25.21	\$24.18	\$17.11	\$12.10	\$10.00
Income From Investment Operations:					
Net Investment Income (Loss)	0.30	0.27	0.17	(0.03)(d)	(0.01)
Net Gains or Losses on Securities (both realized and unrealized)	4.66	1.76	7.15	5.04	2.11
Total From Investment Operations	4.96	2.03	7.32	5.01	2.10
Less Distributions:					
Dividends (from net investment income)	(0.23)	(0.23)	(0.04)	—	—
Distributions (from capital gains)	(1.47)	(0.77)	(0.21)	—	—
Total Distributions	(1.70)	(1.00)	(0.25)	—	—
Net Asset Value, End of Period	\$28.47	\$25.21	\$24.18	\$17.11	\$12.10

Total Return	21.55%	8.77%	43.21%	41.40%	87.10%*
Ratios/Supplemental Data:					
Net Assets, End of Period (\$ million)	\$2,827.1	\$1,677.3	\$1,107.0	\$ 114.7	\$ 4.8
Ratio of Expenses to Average Net Assets	1.17%	1.22%	1.32%	1.70%	2.50%(b)*
Ratio of Net Income (Loss) to Average Net Assets	1.27%	1.19%	0.94%	(0.24)%	(0.66%)(c)*
Portfolio Turnover Rate	18%	29%	18%	34%	0%

\*Ratios for the period have been determined on an annualized basis.

(a) From August 5, 1991, the date on which Fund shares were first offered for sale to the public.

(b) If the Fund had paid all of its expenses and there had been no reimbursement by the Adviser, this annualized ratio would have been 4.92% for the period.

(c) Computed giving effect to the Adviser's expense limitation undertaking.

(d) Based on average month-end shares outstanding.

**The value of a \$10,000 investment in the Oakmark International Fund from its inception (9/30/92) to present (10/31/95) as compared to The Morgan Stanley World ex U.S. Index.**



10/31/95 NAV \$12.97

Average Annual Total Return\*  
Through 10/31/95

	Total Return* Last 3 mos.	Total Return* Last 6 mos.	From 10/31/94	From Inception 9/30/92
<b>OAKMARK INTERNATIONAL</b>	(5.5)%	1.8%	(3.1)%	13.2%
Morgan Stanley World ex U.S.*	(4.5)%	(1.3)%	(0.1)%	12.2%
Morgan Stanley EAFE*	(4.6)%	(1.6)%	(0.4)%	12.3%
Lipper Analytical International Fund Average*	(2.1)%	4.7%	(0.6)%	12.6%

\*Total return includes change in share prices and in each case included 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 Morgan Stanley World ex U.S. Index includes 19 country sub-indexes. The Morgan Stanley EAFE Free Index refers to Europe, Asia and the Far East and includes 18 country sub-indexes. The Lipper International Fund Average includes

106 mutual funds that invest in securities whose primary markets are outside the United States. Past performance is no guarantee of future performance.

## **Report from David G. Herro, *Portfolio Manager***

Dear Fellow Shareholders:

A large ship that carries cargo across the ocean will no doubt encounter many types of conditions on its journey; anything from clear skies and still water to the occasional storm at sea. But to an experienced crew with a good ship, the weather really doesn't make much difference. They've made the trip many times before and always deliver the goods to port.

In many ways the Oakmark International Fund is experiencing this type of journey. The past year has been turbulent, to say the least. Most foreign markets have been weak since the peso crisis of last year, and our Fund has not escaped the consequences. On a relative basis it's been particularly difficult to compete against the booming U.S. market. But our results are positive, and as I write this (December 1, 1995) our Fund is now up 7.25%\* since January 1, 1995.

### **THE GLOBAL PICTURE**

The Fund's performance in recent months can be traced to three factors: geographic exposure, industry focus and global money flows. First, the Fund's Latin American investments (particularly Mexico) have significantly underperformed. These markets continue to be buffeted by currency and political speculation. Second, investors concerned with the declining rate of worldwide industrial growth, have avoided many of the cyclical companies we find extremely undervalued. Lastly, the flow of investment funds is running against us. We have heard from the large global brokerage firms that there continues to be strong flows of money into the U.S. market and out of foreign markets, generally causing downturns and price volatility in the foreign markets.

So, like our ocean freighter analogy, while we have hit some rough water and our speed has slowed, we continue to proceed toward our destination. The most recent weeks indicate we may see smoother water ahead.

I remain extremely optimistic about the prospects for both the Fund and foreign markets. The companies we own are strong and diverse, and most importantly, they are selling at bargain basement prices. Consider the following:

#### **Telemex (4% of the portfolio)**

***Current Situation:*** Down 13.5% in the four weeks through October 31, 1995 yet up 21.5% for the month of November.

***Reason for Optimism:*** Telemex will generate more than \$1 billion (U.S. dollars) a year in free cash with just a trace of debt. The company has been actively buying back stock and has proposed buying even more. All of this has occurred during a harsh recession in Mexico. The stock sells at a price less than 10 times earnings and long-term prospects are bright.

#### **Volvo (4% of the portfolio)**

***Current Situation:*** Down 12% in the four weeks through October 31, 1995, and down 9% for the month of November.

**Reason for Optimism:** The company has recognized its problems, replaced management and is attacking costs. With planned asset sales, by 1997 half of the current share price will be in cash on the balance sheet. Management has pledged to use this cash to bolster shareholder value. On an adjusted basis, the stock sells at just 3 times earnings.

### **Asia Pulp and Paper (3% of the portfolio)**

**Current Situation:** Down 15.4% in the four weeks through October 31, 1995, yet up 1.2% for the month of November. The stock was down due to fears of weaker pulp prices. The fears are overdone! There is little new pulp capacity on the horizon, and thus prices will soon stabilize. The company is one of the world's lowest cost producers and is located in the world's fastest growing region.

**Reason for Optimism:** It's clear that fears of paper and pulp prices collapsing have been overdone. These prices are supply driven and there is little new capacity coming on stream. The company sells at 4 times normal earnings and below book value.

These are just few examples in overseas markets where current share prices do not come close to reflecting true value. This is the nature of equity market investment; over short periods of time price and value seldom match. We believe patient investors will be rewarded, because over the longer term share prices tend to reflect value. Just as storms at sea eventually subside, value and price converge.

## **TRAVELLER'S LOG...AUSTRALASIA**

In my last quarterly letter I briefly mentioned the differences between the Australian and New Zealand economies. They can be as opposite as night and day, yet they share some similarities as well. For example, both countries seem to be keenly aware of good corporate governance and have responsible, owner-oriented managements. However, the macroeconomic environment of the two countries are quite distinctive.

### **New Zealand**

**Macro:** During the past 10 years New Zealand has completely deregulated and embraced just about every free market reform imaginable. The results are stunning: huge budget surpluses, surging productivity, very low unemployment, strong economic growth and low inflation.

**Micro:** We have been able to find a number of examples of strong, competitive companies, though most have proven to be too small for the Fund. Our lone New Zealand position is **Lion Nathan**, which brews Steinlager and other drinks brands. Lion has close to 50% of the Australasian beer market and is a franchisee for both Pepsi and Gatorade. In addition, the company has opened up brewing operations in China that already are profitable. Lion has wisely used its free cash flow to pay down debt, increase dividends and make intelligent investments.

### **Australia**

**Macro:** The country has archaic collective bargaining agreements and is not as open as it should be. As one might predict, Australia has lagged behind New Zealand in productivity and employment growth while suffering a higher rate of inflation. They are still running huge "normalized" budget deficits as well.

**Micro:** Despite the macro picture, we have found good values in Australia. **Pioneer International** is

an excellent example of an extremely well-run, global company. Pioneer has global building materials businesses (concrete, aggregates, cement, etc.) that are well positioned for the continuing boom in global infrastructure development. On top of this, they have prudently used cash to pay down debt and expand their global franchises to the fast growing regions of the world.

Ideally, over time Australia will adopt policies similar to New Zealand, adding a positive new element to the Australasian economic environment!

**David G. Herro**  
*Portfolio Manager*  
*OAKIX@aol.com*  
*72242.772@COMPUSERV.COM*  
 December 1, 1995

**The Oakmark International Fund**  
**Schedule of Investments—October 31, 1995**

<i>Shares Held</i>		<i>Description</i>	<i>Market Value</i>
<b>COMMON STOCKS—94.5%</b>			
<b>CONSUMER NON-DURABLES—4.4%</b>			
90,210,000	Yue Yuen Industrial (Holdings) Limited (Hong Kong)	Athletic Footwear Manufacturing	\$ 23,626,790
61,533	Chargeurs S.A. (France)	Entertainment & Wool Production Holding Company	12,658,676
			36,285,466
<b>FOOD—7.5%</b>			
18,069,300	Lion Nathan Limited (New Zealand)	New Zealand Brewer	41,031,350
4,939,000	Leong Hup Holdings Berhad (Malaysia)	Major Poultry Operation in Malaysia and KFC Operator	7,463,896
3,300,265	Burns, Philp & Company Limited (Australia)	Yeast and Spices	7,390,904
36,970	Lotte Chilsung Beverage (Korea)	Manufacturer of Soft Drinks, Juices, & Sport Drinks	5,314,906
			61,201,056
<b>HOUSEHOLD PRODUCTS—3.5%</b>			
2,017,853	Reckitt & Colman PLC (Great Britain)	Household Cleaners and Air Fresheners	21,470,594
3,430,600	London International Group PLC (Great Britain)	Latex Products	7,105,274
			7,105,274



28,575,868

**RETAIL—4.9%**

24,995,000	Giordano Holdings Limited (Hong Kong)	East Asian Clothing Retailer & Manufacturer	20,689,887
462,900	Macintosh (Netherlands)	Non-Food Specialty Retailer	13,495,627
16,702,189	Alparagatas Sociedad Anonima Industrial Y Comercial (Argentina)	Textiles	5,928,684

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40,114,198
**TELECOMMUNICATIONS—5.4%**

1,049,700	Telefonos de Mexico, S.A. de C.V. (Mexico) (b)	Telephone Company in Mexico	28,866,750
935,500	Call Net Enterprises, Inc. Common (Canada) (a)	Telecommunications	7,855,184
944,300	Call Net Enterprises, Inc. Class B (Canada) (a)	Telecommunications	7,752,872

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44,474,806
**TRANSPORTATION—5.8%**

1,544,000	AB Volvo (Sweden)	Automobiles	34,760,112
3,548,033	CIADDEA S.A. (Argentina) (a)	Assembler and Distributor of Automobiles	12,949,026

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47,709,138
**OIL AND NATURAL GAS—4.0%**

1,730,500	YPF Sociedad Anonima (Argentina) (b)	Oil Exploration, Production and Marketing	29,634,813
55,609	Total S.A. (France)	Oil Production and Refining	3,436,543

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33,071,356
**ELECTRIC—2.7%**

4,760,230	Union Electrica Fenosa S.A. (Spain)	Spanish Electric Utility	22,152,396
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**BANKS—13.7%**

1,512,850	Svenska Handelsbanken (Sweden)	Large Swedish Bank	26,540,828
5,209,175	Banco de Galicia Y Buenos Aires (Argentina)	Argentinian Bank	24,584,848
145,100	Banco Popular Espanol (Spain)	Large Spanish Bank	23,050,993
1,455,400	Banco Espirito Santo E		

	Comercial de Lisboa, S.A. (Portugal)	Portuguese Bank	21,381,306
34,885,000	Grupo Financiero Bancomer, S.A. De C.V. (GFB)—B (Mexico) (a)	Large Mexican Financial Group	9,008,898
326,080	Banco Espirito Santo E Comercial de Lisboa, S.A. Rights (Portugal)	Portuguese Bank	4,790,447
6,129,630	Grupo Financiero Bancomer, S.A. De C.V. (GFB)—L (Mexico) (a)	Large Mexican Financial Group	1,419,493
185,715	Banco Frances del Rio de la Plata S.A. (Argentina)	Argentinian Bank	1,350,014
			<hr/>
			112,126,827
<b>INVESTMENT COMPANIES—0.5%</b>			
6,000,000	The Central European Growth Fund PLC (Great Britain)	Diversified, Closed-End Fund Investing in Central Europe	3,747,036
<b>COMPUTER SYSTEMS—3.0%</b>			
1,414,500	Scitex Corporation Limited (Israel) (b)	Color Pre-Press Systems	24,576,938
<b>MARKETING SERVICES—3.6%</b>			
21,654,328	Cordiant PLC (Great Britain) (a)	Advertising Agency Holding Company	29,443,039
<b>AEROSPACE—7.4%</b>			
2,344,666	British Aerospace Public Limited Company (Great Britain)	Defense and Civil Aviation	26,282,501
7,548,737	Rolls-Royce Public Limited Company (Great Britain)	Jet Engines	18,379,534
6,248,000	Hong Kong Aircraft Engineering Company Limited (Hong Kong)	Commercial Aircraft Overhaul and Maintenance	16,081,224
			<hr/>
			60,743,259
<b>COMPONENTS—1.7%</b>			
6,685,000	Varitronix International Holdings Limited (Hong Kong)	Liquid Crystal Displays	12,753,178
1,840,000	Chen Hsong Holdings Limited (Hong Kong)	Plastic Injection Moulding Machines	1,070,916
			<hr/>
			13,824,094
<b>FORESTRY PRODUCTS—5.2%</b>			

2,355,000	Asia Pulp & Paper Company Ltd (a) (Indonesia)	Paper & Packaging Products in Asia	24,138,750
360,700	Mo och Domsjo AB (Sweden)	Paper, Pulp & Timber	18,359,275
144,000	Empaques Ponderosa, S.A. (Mexico) (a)	Boxboard	303,158
			<hr/>
			42,801,183
<b>MACHINERY AND METAL PROCESSING—1.9%</b>			
115,849	Strafor Facom (France)	Metal Processing, Office Equipment, Mining Tools	13,977,405
6,180,000	Lochpe-Maxion (Brazil)	Agricultural Machinery & Automotive Parts	1,927,572
			<hr/>
			15,904,977
<b>MINING AND BUILDING MATERIALS—3.0%</b>			
9,854,423	Pioneer International (Australia)	Concrete Products, Aggregates	24,170,660
<b>OTHER INDUSTRIAL GOODS AND SERVICES—9.4%</b>			
21,596,600,000	Usiminas (Brazil)	Steel Production	20,208,921
643,200	EVC International NV (Netherlands)	Western European PVC Manufacturer	20,178,984
1,466,000	Avesta Sheffield (Sweden)	Stainless Steel	14,459,989
65,400	ECCO Travail Temporaire (France)	European Temporary Employment Services	10,137,461
700,966	Tung-Ho Steel Enterprise Corp. (Taiwan) (a)	Taiwanese Manufacturer of Steel Bars and H-Beams	7,184,902
14,040,000	Lamex Holdings Limited (Hong Kong)	Hong Kong's Largest Office Furniture Supplier	3,141,508
60,000	Groupe Legris Industries (France)	Europe's Leading Crane Manufacturer	1,742,295
			<hr/>
			77,054,060
<b>SHIPBUILDING—4.6%</b>			
951,610	Kvaerner (Norway)	Shipbuilding and Engineering	37,899,354
<b>REAL ESTATE AND CONSTRUCTION—2.3%</b>			
127,332	Hollandsche Beton Groep nv (Netherlands)	Construction	19,207,134
			<hr/>
			775,082,845
<b>COMMERCIAL PAPER—3.0%</b>			
	Ford Motor Credit Corp., 5.72% due 11/02/95		1,500,000

Ford Motor Credit Corp., 5.73% due 11/02/95	5,000,000
Ford Motor Credit Corp., 5.75% due 11/02/95	5,000,000
Ford Motor Credit Corp., 5.76% due 11/02/95	3,000,000
General Electric Capital Credit Corp., 5.69% due 11/01/95	8,000,000
General Electric Capital Credit Corp., 5.73% due 11/03/95	2,000,000
	<hr/>
<b>TOTAL COMMERCIAL PAPER (Cost: \$24,500,000)</b>	<b>24,500,000</b>
	<hr/>
Total Investments—97.5% (Cost: \$892,631,191)	799,582,845
Foreign currencies—0.0% (Cost: \$322,067)	321,211
Other assets, less other liabilities—2.5% (c)	19,827,486
	<hr/>
<b>TOTAL NET ASSETS —100%</b>	<b>\$819,731,542</b>
	<hr/> <hr/>

Notes:

(a) Non-income producing security.

(b) Represents an American Depositary Receipt.

(c) Includes portfolio and transaction hedges.

(d) At October 31, 1995, net unrealized depreciation of \$93,049,202 for federal income tax purposes consisted of gross unrealized appreciation of \$69,234,440 and gross unrealized depreciation of \$162,283,642. Cost for federal income tax purposes was \$892,953,258.

See accompanying notes to financial statements.

**The Oakmark International Fund**  
**Schedule of Investments (continued)**  
**Country Diversification—October 31, 1995**

<i>Country</i>	<i>% of Fund Net Assets</i>
<hr/>	<hr/>
<b>ARGENTINA</b>	<b>9.1%</b>
Alparagatas Sociedad Anonima Industrial Y Comercial	
Banco de Galicia y Buenos Aires	
Banco Frances del Rio de la Plata S.A.	
CIADEA S.A.	
YPF Sociedad Anonima	
<b>AUSTRALIA</b>	<b>3.9%</b>
Burns, Philp & Company Limited	
Pioneer International	
<b>BRAZIL</b>	<b>2.7%</b>

lochpe-Maxion Usiminas	
<b>CANADA</b>	<b>1.9%</b>
Call Net Enterprises Inc. Class B Call Net Enterprises Inc. Common	
<b>CENTRAL EUROPE</b>	<b>0.5%</b>
The Central European Growth Fund PLC	
<b>FRANCE</b>	<b>5.1%</b>
Chargeurs S.A. Ecco S.A Groupe Legris Industries Strafor Facom Total S.A.	
<b>GREAT BRITAIN</b>	<b>12.5%</b>
British Aerospace Public Limited Company Cordiant PLC London International Group PLC Reckitt & Colman PLC Rolls Royce Public Limited Company	
<b>HONG KONG</b>	<b>9.4%</b>
Chen Hsong Holdings Limited Giordan Holdings Limited Hong Kong Aircraft Engineering Company Limited Lamex Holdings Limited Varitronix International Holdings Limited Yue Yuen Industrial (Holdings) Limited	
<b>INDONESIA</b>	<b>2.9%</b>
Asia Pulp & Paper Company Ltd	
<b>ISRAEL</b>	<b>3.0%</b>
Scitex Corporation Limited	
<b>KOREA</b>	<b>0.6%</b>
Lotte Chilsung Beverage	
<b>MALAYSIA</b>	<b>0.9%</b>
Leong Hup Holdings Berhad	
<b>MEXICO</b>	<b>4.8%</b>
Empaques Ponderosa, S.A. Grupo Financiero Bancomer, S.A. De C.V. (GFB)-B Grupo Financiero Bancomer, S.A. De C.V. (GFB)-L Telefonos de Mexico, S.A. de C.V.	
<b>NETHERLANDS</b>	<b>6.5%</b>
EVC International NV	



Total assets		\$ 834,358,216
<b>Liabilities and Net Assets</b>		
Payable for:		
Securities purchased	\$ 2,374,806	
Fund shares redeemed	1,884,706	
Forward foreign currency contracts	9,103,567	
Due to adviser	769,279	
Other	494,316	
Total liabilities		<u>14,626,674</u>
Net assets applicable to Fund shares outstanding		<u>\$ 819,731,542</u>
Fund shares outstanding		<u>63,224,193</u>
<b>Pricing of Shares</b>		
Net asset value per share		<u>\$12.97</u>
<b>Analysis of Net Assets</b>		
Paid in Capital		\$ 862,870,293
Accumulated undistributed net realized gain on sale of investments, forward contracts and foreign currency transactions		26,425,139
Net unrealized depreciation of investments and foreign currencies		(93,049,202)
Net unrealized depreciation of foreign currency portfolio hedges		(8,062,429)
Net unrealized appreciation—other		169,294
Accumulated undistributed net investment income		<u>31,378,447</u>
Net assets applicable to Fund shares outstanding		<u>\$ 819,731,542</u>

See accompanying notes to financial statements.

**The Oakmark International Fund**  
**Statement of Operations—October 31, 1995**

	<i>Year Ended</i> <i>October 31, 1995</i>
Investment Income:	
Dividends	\$ 28,937,627
Interest	2,162,084
Foreign taxes withheld	(3,686,997)
	<hr/>
Total investment income	27,412,714
Expenses:	
Investment advisory fee	9,916,904
Transfer and dividend disbursing agent fees and expenses	1,455,154
Custodian and accounting fees and expenses	1,273,334
Legal fees and expenses	48,041
Audit fees and expenses	37,848
Trustees fees and expenses	18,580
Registration and blue sky expenses	136,505
Reports to shareholders	311,789
Amortization of organization cost	9,490
Other—net	461,762
	<hr/>
Total expenses	13,669,407
	<hr/>
Net investment income	13,743,307
Net realized and unrealized gain (loss) on investments	
Net realized gain on sale of investments	62,822,164
Net realized loss on foreign currency transactions	(26,735,730)
Net change in unrealized appreciation (depreciation) of:	
Investments and foreign currency transactions	(120,637,092)
Forward foreign currency contracts	17,767,564
Other foreign currency transactions	(20,391)
	<hr/>
Net realized and unrealized gain (loss) on investments,	<hr/>



forward contracts and foreign currency transactions	(66,803,485)
	<hr/>
Net decrease in net assets resulting from operations	\$ (53,060,178)
	<hr/> <hr/>

See accompanying notes to financial statements.

## **The Oakmark International Fund**

### **Statement of Changes in Net Assets—October 31, 1995**

	<i>Year Ended October 31, 1995</i>	<i>Year Ended October 31, 1994</i>
	<hr/>	<hr/>
From Operations:		
Net investment income	\$ 13,743,307	\$ 18,774,576
Net realized gain on sale of investments	62,822,164	117,306,013
Net realized gain (loss) on foreign currency transactions	(26,735,730)	(39,262,860)
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(120,637,092)	(58,275,156)
Net change in unrealized appreciation (depreciation) of forward foreign currency contracts	17,767,564	(27,201,474)
Net change in unrealized appreciation (depreciation) - other	(20,391)	145,115
	<hr/>	<hr/>
Net increase in net assets from operations	(53,060,178)	11,486,214
Distributions to shareholders from:		
Net investment income (per share \$.08 in fiscal 1994)	0	(5,086,447)
Net realized short-term gain (per share \$.6863 in fiscal year 1995 and \$.15 in fiscal year 1994)	(56,722,392)	(10,445,839)
Net realized long-term gain (per share \$.3725 in fiscal year 1995)	(30,791,949)	0
	<hr/>	<hr/>
	(87,514,341)	(15,532,286)
From Fund share transactions:		
Reinvestment of dividends and capital gains		

distributions	81,810,540	15,134,825
Proceeds from shares sold	312,101,705	1,562,821,681
Payments for shares redeemed	(719,598,750)	(1,103,291,079)
	<hr/>	<hr/>
Net increase (decrease) in net assets from Fund share transactions	(325,686,505)	474,665,427
	<hr/>	<hr/>
Total increase in net assets	(466,261,024)	470,619,355
Net assets:		
Beginning of period	1,285,992,566	815,373,211
End of period (including undistributed net investment income of \$31,378,447 and \$17,635,140, respectively)	<hr/>	<hr/>
	\$ 819,731,542	\$ 1,285,992,566
	<hr/>	<hr/>
	<hr/>	<hr/>

See accompanying notes to financial statements.

## **HARRIS ASSOCIATES INVESTMENT TRUST THE OAKMARK INTERNATIONAL FUND**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. Significant Accounting Policies**

The following are the significant accounting policies of The Oakmark International Fund ("the Fund"), a series of the Harris Associates Investment Trust (a Massachusetts business trust).

##### *Security valuation—*

Investments are stated at current market value. The values of portfolio securities are generally based upon market quotations which, depending upon local convention or regulation, may be last sale price, last bid or asked price, or the mean between last bid and asked prices as of, in each case, the close of the appropriate exchange or other designated time. Securities for which quotations are not available and any other assets are valued at a fair value as determined in good faith by the Board of Trustees. If such quotations are not available, the rate of exchange will be determined in accordance with policies established in good faith by the Board. Money market instruments having a maturity of 60 days or less from the date of valuation are valued on an amortized cost basis which approximates market.

##### *Foreign currency translations—*

Values of investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the mean of the bid and offer prices of such currencies at the time of valuation.

Purchases and sales of investments and dividend and interest income are converted at the prevailing rate of exchange on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized gain or loss from investments.

Net realized gain on foreign currency transactions arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid, and the realized gains or losses resulting from the portfolio and transaction hedges.

Net unrealized appreciation—other includes the following components:

Unrealized appreciation on open securities purchases	\$ 517
Unrealized appreciation on open securities sales	38,079
Unrealized depreciation on transaction hedge purchases	(2,445)
Unrealized depreciation on transaction hedge sales	(68,784)
Unrealized appreciation on dividends and dividend reclaim receivable	202,332
Other—net	(405)
	<hr/>
	\$169,294
	<hr/>
	<hr/>

*Security transactions and investment income—*

Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date. Interest income and expenses are recorded on the accrual basis.

Fund shares are sold and redeemed on a continuing basis at net asset value. Net asset value per share is determined on each day the New York Stock Exchange is open for trading by dividing the total value of the Fund's investments and other assets, less liabilities, by the number of Fund shares outstanding.

*Forward foreign currency contracts—*

At October 31, 1995, the Fund had entered into forward foreign currency contracts under which it is obligated to exchange currencies at specified future dates. The Fund's currency transactions are limited to transaction hedging and portfolio hedging involving either specific transactions or portfolio positions.

The contractual amounts of forward foreign exchange contracts do not necessarily represent the amounts potentially subject to risk. The measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency

values. The Fund had the following outstanding contracts at October 31, 1995:

**Portfolio Hedges:**

<i>Foreign Currency</i>	<i>U.S. Dollar Proceeds</i>	<i>Settlement Date</i>	<i>Unrealized Appreciation (Depreciation) at October 31, 1995</i>
1,000,000,000 Spanish Pesetas	8,063,216	December 1995	\$ (89,487)
1,000,000,000 Spanish Pesetas	8,165,932	January 1996	31,264
2,153,250,000 Spanish Pesetas	17,733,899	February 1996	265,712
1,191,800,000 Spanish Pesetas	9,541,270	February 1996	(116,501)
45,000,000 French Francs	9,410,682	February 1996	224,305
40,534,000 French Francs	8,210,249	February 1996	(63,100)
49,760,000 French Francs	10,000,000	March 1996	(150,518)
18,794,637 Pounds Sterling	29,883,473	January 1996	220,735
12,738,854 Pounds Sterling	19,899,364	March 1996	(177,727)
9,458,000 Netherlands Guilders	5,939,462	February 1996	(89,230)
47,574,000 Netherlands Guilders	30,000,000	March 1996	(380,552)
15,152,000 Netherlands Guilders	9,589,873	April 1996	(97,772)
108,870,000 Norwegian Kroner	17,693,808	November 1995	207,151
156,370,000 Swedish Krona	21,279,173	November 1995	(2,252,006)
78,810,000 Swedish Krona	10,691,901	December 1995	(1,142,003)
198,987,500 Swedish Krona	26,992,336	December 1995	(2,858,049)
113,595,000 Swedish Krona	15,421,531	January 1996	(1,594,651)
			\$ (8,062,429)
			\$ (8,062,429)

**Transaction Hedges:**

**Purchases:**

<i>U.S. Dollar</i>	<i>Foreign Currency Proceeds</i>	<i>Settlement Date</i>	<i>Unrealized Appreciation (Depreciation) at October 31, 1995</i>

\$801,711	5,307,605 Swedish Krona	November 1995	\$ (2,445)
			<hr/>
Net unrealized depreciation			\$ (2,445)
			<hr/> <hr/>

**Sales:**

<i>Foreign Currency</i>	<i>U.S. Dollar Proceeds</i>	<i>Settlement Date</i>	<i>Unrealized Appreciation (Depreciation) at October 31, 1995</i>
<hr/>	<hr/>	<hr/>	<hr/>
10,117,320 Australian Dollars	\$ 7,642,577	November 1995	\$ (64,096)
299,023 Brazilian Real	310,835	November 1995	(64)
760,805,389 Spanish Pesetas	6,243,277	November 1995	9,978
9,936,431 French Francs	2,027,222	November 1995	(4,726)
4,664,594 Pounds Sterling	7,358,753	November 1995	(16,100)
521,523 Netherlands Guilders	331,990	November 1995	1,452
2,802,469 New Zealand Dollar	1,845,397	November 1995	(4,540)
149,849,449 Portuguese Escudo	1,014,923	November 1995	5,088
16,494,258 Swedish Krona	2,488,075	November 1995	4,224
			<hr/>
Net unrealized depreciation			\$ (68,784)
			<hr/> <hr/>

At October 31, 1995, the Fund had sufficient cash and/or securities to cover any commitments under these contracts.

*Federal income taxes, dividends and distributions to shareholders—*

No provision is made for federal income taxes since the Fund elected to be taxed as a "regulated investment company" and makes such distributions to its shareholders as to be relieved of all federal income taxes under provisions of current federal tax law.

**2. Transactions with affiliates**

The Fund has an investment advisory agreement with Harris Associates L.P. (Adviser). For management services and facilities furnished, the Fund pays the Adviser monthly fees at the annual rate of 1% of the first \$2.5 billion of net assets, .95% on the next \$2.5 billion of net assets and .90% of the net assets of the Fund in excess of \$5 billion as determined at the end of each preceding calendar month.

The investment advisory agreement of the Fund provides that the Adviser will reimburse the Fund to the extent that its annual expenses, excluding certain expenses, exceed the applicable limits prescribed by any state in which the Fund's shares are offered for sale.

In connection with the organization of the Fund, expenses of approximately \$47,000 have been advanced to the Fund by the Adviser. These expenses are being reimbursed to the Adviser by the Fund on a straight line basis through September, 1997.

Certain officers and trustees of the Fund are also executives and employees of the Adviser. The Fund makes no direct payments to its officers who are affiliated with the Adviser. The Fund paid trustees fees of \$18,580 in 1995 and \$15,000 in 1994 to trustees not affiliated with the Adviser.

During the period ended October 31, 1995, the Fund incurred broker commissions of \$2,609,780, of which \$71,600 were paid to an affiliate of the Adviser.

### 3. Fund share transactions

Proceeds and payments on Fund shares as shown in the statement of changes in net assets are in respect of the following number of shares (in thousands):

	<i>Year ended October 31, 1995</i>	<i>Year ended October 31, 1994</i>
Shares sold	24,062	104,988
Shares issued in reinvestment of dividends	6,472	1,091
Less shares redeemed	(56,012)	(75,240)
	<hr/>	<hr/>
Net (decrease) increase in shares outstanding	(25,478)	30,839
	<hr/> <hr/>	<hr/> <hr/>

### 4. Investment transactions

	<i>Year ended October 31, 1995</i>	<i>Year ended October 31, 1994</i>
Investment securities (excluding short term securities) in thousands:		
Purchases	\$ 251,353	\$ 1,121,268
Proceeds from sales	671,180	682,450
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

**The Oakmark International Fund**  
**Financial Highlights**

**For a Share Outstanding throughout each Period**

	<i>Year ended October 31,</i>			<i>Period ended</i>
	<i>1995</i>	<i>1994</i>	<i>1993</i>	<i>Oct. 31, 1992(a)</i>
<b>Net Asset Value, Beginning of Period</b>	\$14.50	\$14.09	\$ 9.80	\$10.00
Income From Investment Operations:				
Net Investment Income (Loss)	0.30	0.21	0.06	0.26
Net Gains or Losses on Securities (both realized and unrealized)	(0.77)	0.43	4.48	(0.46)
<b>Total From Investment Operations</b>	<b>(0.47)</b>	<b>0.64</b>	<b>4.54</b>	<b>(0.20)</b>
Less Distributions				
Dividends (from net investment income)	—	(0.08)	(0.25)	—
Distributions (from capital gains)	(1.06)	(0.15)	—	—
<b>Total Distributions</b>	<b>(1.06)</b>	<b>(0.23)</b>	<b>(0.25)</b>	<b>—</b>
<b>Net Asset Value, End of Period</b>	<b>\$12.97</b>	<b>\$14.50</b>	<b>\$14.09</b>	<b>\$ 9.80</b>
<b>Total Return</b>	<b>(3.06)%</b>	<b>4.62%</b>	<b>47.49%</b>	<b>(22.81)%*</b>
<b>Ratios/Supplemental Data:</b>				
Net Assets, End of Period (\$million)	\$819.7	\$1,286.0	\$815.4	\$23.5
Ratio of Expenses to Average Net Assets	1.40%	1.37%	1.26%	2.04%*
Ratio of Net Income (Loss) to Average Net Assets	1.40%	1.44%	1.55%	37.02%*
Portfolio Turnover Rate	27%	55%	21%	0%

\*Ratios for the period have been determined on an annualized basis.

(a) From September 30, 1992, the date on which Fund shares were first offered for sale to the public.

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Shareholders and Board of Trustees of Harris Associates Investment Trust:

We have audited the accompanying statements of assets and liabilities of The Oakmark Fund and Oakmark International Fund (each a series of Harris Associates Investment Trust), including the schedules of investments, as of October 31, 1995, and the related statements of operations, statements of changes in net assets and the financial highlights for the periods indicated thereon. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1995, by correspondence with the custodian and brokers. As to securities purchased but not received, we requested confirmation from brokers, and when replies were not received, we carried out alternative auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of The Oakmark Fund and Oakmark International Fund of the Harris Associates Investment Trust as of October 31, 1995, the results of their operations, the changes in their net assets and the financial highlights for the periods indicated thereon in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Chicago, Illinois  
December 5, 1995

## **THE OAKMARK FUNDS' ANNUAL REPORT**

**OCTOBER 31, 1995**

### ***Trustees and Officers***

#### ***Trustees***

Christine M. Bucher  
James W. Ford  
Michael J. Friduss  
Thomas H. Hayden  
Allan J. Reich  
Burton W. Ruder  
Peter S. Voss  
Gary Wilner, M.D.

#### ***Officers***

Victor A. Morgenstern—*President*  
Robert J. Sanborn—*Executive Vice President*



David G. Herro—*Vice President*  
Clyde S. McGregor—*Vice President*  
Steven J. Reid—*Vice President*  
Adam Schor—*Assistant Vice President*  
Michael J. Welsh—*Assistant Vice President*  
Donald Terao—*Treasurer*  
Anita M. Nagler—*Secretary*  
Lauren B. Pitalis—*Vice President—Shareholder Operations and Assistant Secretary*  
Kristi L. Rowsell—*Assistant Treasurer*

***Other Information***

***Transfer Agent***

State Street Bank and Trust Company  
Attention: The Oakmark Family of Funds  
P.O. Box 8510  
Boston, Massachusetts 02266-8510  
1-800-626-9392

***Investment Adviser***

Harris Associates L.P.

***Legal Counsel***

Bell, Boyd & Lloyd  
Chicago, Illinois

***Independent Public Accountants***

Arthur Andersen & Co.  
Chicago, Illinois

***Address of Fund and Adviser***

Two North LaSalle Street, Suite 500  
Chicago, Illinois 60602  
1-800-OAKMARK (1-800-625-6275)

***24-HOUR NAV INFORMATION***

1-800-GROWOAK (1-800-476-9625)

This report, including the audited financial statements contained herein, is submitted for the general information of the shareholders of the Funds. The report is not authorized for distribution to prospective investors in the Funds unless it is accompanied or preceded by a currently effective prospectus of the Funds. No sales charge to the shareholder or to the new investor is made in offering the shares of the Funds.