# THE OAKMARK FAMILY OF FUNDS ANNUAL REPORT

*October 31, 1996*

## *Letter from the President . . .*

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*Fellow Shareholders:*

*We are pleased to present the annual report for The Oakmark Family of Funds. For our fiscal year-end October 31, 1996, our Family was five-strong and as I write this, we have just launched our newest member, The Oakmark Select Fund, a non-diversified equity fund. We passed several important milestones this year. The Oakmark Fund had its fifth birthday and notably is the top-performing fund (out of 250) in the Lipper growth fund category for the five years ended October 31, 1996. The Oakmark Small Cap Fund, The Oakmark Balanced Fund and The Oakmark International Emerging Value Fund had their first birthdays, with Small Cap and International Emerging Value significantly outperforming their respective benchmarks. We have built our six-fund family very carefully, and we believe we are well along in meeting our long-term goal: being the best value-oriented fund family.*

*Each of our Funds employs the same value-oriented investment philosophy applied across both the domestic and international spectrum. Also, each Fund uses the resources of the entire Harris Associates research team. All of our analysts are generalists and apply the same value philosophy to their work. The reports that follow highlight some of the Fund managers' selections in creating their respective portfolios.*

*We have redesigned our annual report this year to make it more readable and user-friendly. We are mindful of its overall size and, therefore, used a self-mailer to reduce costs. Kudos to Jeani Meola, Ann Regan and our outside consultant (and logo designer), Jude Mahler, for the new look. As always, your comments and suggestions for improvement are solicited.*

*Thank you for your support and best wishes for a healthy, happy and prosperous new year!*

**Victor A. Morgenstern,**
President

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# The Oakmark Family of Funds

### *Summary Information**

| | | The | The | | The Oakmark |
|---|---|---|---|---|---|

| ***Performance for Period Ended October 31, 1996*** | **The Oakmark Fund** | **Oakmark Small Cap Fund** | **Oakmark Balanced Fund** | **The Oakmark International Fund** | **Int'l Emerging Value Fund** |
|---|---|---|---|---|---|
| *3 Months* | *7.6%* | *11.5%* | *5.9%* | *3.8%* | *3.4%* |
| *6 Months* | *3.9%* | *8.3%* | *6.2%* | *.8%* | *.6%* |
| *Performance for:* | | | | | |
| *1 Year* | *18.1%* | *31.9%* | *12.9%* | *24.9%* | *14.1%* |
| *3 Years* | *16.0%*** | *N/A* | *N/A* | *8.2%*** | *N/A* |
| *5 Years* | *25.8%*** | *N/A* | *N/A* | *N/A* | *N/A* |
| *Since inception* | *29.2%*** | *31.9%* | *12.9%* | *16.0%*** | *14.1%* |
| *Value of $10,000 from inception date* | *$38,252 08/05/91* | *$13,190 11/01/95* | *$11,290 11/01/95* | *$18,309 09/30/92* | *$11,410 11/01/95* |
| ***Top Five Holdings as of October 31, 1996*** | | | | | |
| *Company and % of Total Net Assets* | Philip Morris Co., 6.3% | US Industries, Inc. New, 5.7% | US Industries, Inc. New, 4.7% | National Australia Bank, 4.8% | Sanford Limited, 4.5% |
| | Mellon Bank Corp., 6.0% | SPX Corp., 5.5% | Premark International, Inc., 3.4% | AB Volvo, 4.5% | Parbury Limited, 4.1% |
| | First USA, Inc., 5.2% | Catellus Dev. Corp., 5.3% | Lee Enterprises, Inc., 3.3% | Cordiant PLC, 4.3% | Cordiant PLC, 3.8% |
| | Dun & Bradstreet, 4.8% | First Brands Corp., 4.1% | Mellon Bank Corp., 3.2% | Usiminas, 3.7% | Solution 6 Holdings Ltd., 3.7% |
| | Knight Ridder, Inc., 4.1% | Premark International, Inc., 4.1% | McDonnell Douglas Corp., 3.2% | Telefonica, 3.5% | Yip's Hang Cheung (Holdings) Limited, 3.7% |
| ***Top Five Industries as of October 31, 1996*** | | | | | |
| *Industries and % of Total Net Assets* | Food & Beverage, 17.7% | Other Industrial Goods & Services, 16.9% | Government & Agency Securities, 27.4% | Banks, 13.7% | Other Industrial Goods & Services, 17.9% |
| | Broadcasting & Publishing, 13.3% | Machinery & Metal Processing, 12.8% | Other Consumer Goods & Services, 20.9% | Telecommunications, 11.3% | Mining & Building Materials, 8.2% |
| | Other Consumer Goods & Services, 12.5% | Banks, 10.7% | Other Industrial Goods & Services, 8.1% | Food, 10.2% | Other Consumer Goods & Services, 7.8% |
| | Other Financial, 10.3% | Insurance, 9.1% | Other Financial, 6.2% | Steel, 8.9% | Components, 6.3% |
| | Insurance, 6.4% | Broadcasting & Publishing, 8.9% | Broadcasting & Publishing, 5.8% | Aerospace, 6.2% | Broadcasting & Publishing, 6.0% |

* The Oakmark Fund's average annual total returns for the twelve months ended September 30, 1996 and for the period August 5, 1991 (inception) through September 30, 1996 were 15.5% and 29.5%, respectively. The Oakmark Small Cap Fund's total return for November 1, 1995 (inception) through September 30, 1996 was 32.5%.
The Oakmark Balanced Fund's total return for November 1, 1995 (inception) through September 30, 1996 was 11.1%.

** Annualized.

The Oakmark International Fund's average annual total returns for the twelve months ended September 30, 1996 and for the period September 30, 1992 (inception) through September 30, 1996 were 18.3% and 16.4%, respectively. The Oakmark International Emerging Value Fund's total return for November 1, 1995 (inception) through September 30, 1996 was 15.9%. The Funds' past performances are no guarantee of future results. Share prices and investment returns will vary, so you may have a gain or loss when you sell shares.

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# The Oakmark Fund

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

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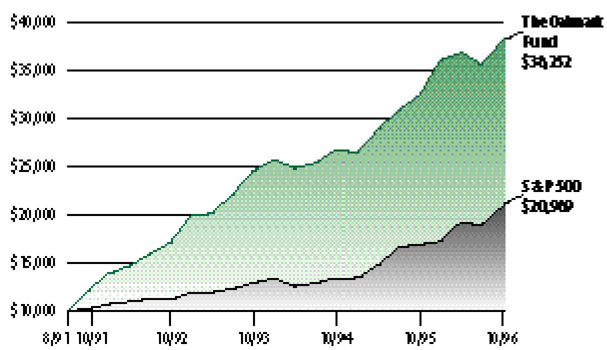
**The value of a $10,000 investment in The Oakmark Fund from its inception (8/5/91) to present (10/31/96) as compared to the Standard & Poor's 500 index**




**10/31/96 NAV $32.39**

| | Total Return Last 3 mos. | Average Annual Total Return* Through 10/31/96: From 10/31/95 | From Fund Inception 8/5/91 |
|---|---|---|---|
| **THE OAKMARK FUND** | 7.6% | 18.1% | 29.2% |
| Standard & Poor's 500 Stock Index* | 10.9% | 24.1% | 15.2% |
| Dow-Jones Industrial Average* | 9.7% | 29.8% | 17.3% |
| Value Line Composite Index* | 7.5% | 12.5% | 7.7% |

*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.

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## Annual Portfolio Update

The Oakmark Fund's fiscal year ended October 31, 1996 was eerily reminiscent of our 1995 fiscal year. As Yogi Berra might say, "It's deja vu all over again." A very similar macroeconomic environment—slow, steady growth; continued low inflation, with the price of gold down again; long-term interest rates down again—provided a good context for equities. As in fiscal 1995, your Fund generated strong absolute returns but lagged those of the Standard & Poor's 500.

More than half of this relative gap is attributable to our investments in cable companies. Increased competition and very heavy required capital expenditures have combined to retard value growth in this industry. Our estimate of the underlying value of Tele-Communications Inc. (TCOMA), for example, has been stagnant for a few years. This is contrary to our expectations of a few years ago, and explains the disappointing stock performance. Like my weekly hoops game at the 'Y' where you call your own fouls, this has been my bad.

While these stocks have been poor performers of late, this does not mean that we are sick of them, or embarrassed by them, or need to sell them to gain perspective. Our long-time shareholders know that investments in this industry have been very kind to us over the long term. At current prices, we find our cable holdings—TCOMA, U.S. West Media Group, and TCI Liberty Media—extremely undervalued.

In general, as in fiscal 1995, the rest of our holdings' *businesses* performed at least as well as our expectations. In fact, the discount to underlying value in the portfolio is greater today than a year ago.

While we, as always, make our investments one by one, two sectors—consumer non-durable companies (Philip Morris, Knight Ridder, Black & Decker, Heinz, Anheuser-Busch, and American Brands, et. al.) and financial services (First USA, Mellon, Torchmark, and Ambac, et. al.)—comprise almost one-half and one-quarter of the value of your Fund, respectively.

At the risk of repetition, I want to comment briefly on our consumer holdings. These companies are well above-average, with high barriers to entry, dominant market shares, loyal customers, and good international prospects. These characteristics tend to produce well-above-average returns on assets and very high free cash flow, which many of our holdings are using to repurchase their own shares. Still, the market is not yet rewarding these above-average businesses with the above-average valuations they deserve.

It is common for us to agree on the facts with market participants, yet reach different investment conclusions. It reminds me of the scene in *Annie Hall* in which Alvie Singer and Annie are having sessions with their respective psychoanalysts. In the scene, each character states that the couple's love life is a source of frustration. The analysts ask each how often they make love. "Oh, all the time," answers Annie; "Hardly ever," responds Alvie. Then in unison they each add, "Three times a week."

So it is with our consumer stocks. Yet, rather than waste any time trying to anticipate when the market will value these stocks appropriately, we patiently wait for price and value to converge. In the meantime, the superior value growth that we expect these holdings to produce should benefit your Fund. In fact, we continue to find additional candidates for investment in this sector.

Your Fund continues its high concentration and low portfolio turnover. Our twenty largest holdings comprise over 70 percent of our value, up from 67 percent last year. Our five largest holdings comprise over 26 percent of our holdings. As I have stated before, we believe in putting our absolute best ideas in your Fund, and have no interest in becoming a closet index fund. I characterize our portfolio as diversified without being overdiversified.

We are long-term investors who buy ownership pieces of companies for the long term. Given that our holdings have produced strong business results, yet below-average stock price performance, it should be no surprise that our portfolio turnover was quite low last year. In fact, we sold only one (Federated Department Stores) of our twenty largest holdings last year. However, we sold several other holdings—Clorox, Interstate Bakeries, Zale, and St. Jude Medical, et. al.—as they approached our estimate of value.

Professional investors too often mistake trading activity for investment activity. The correct level of trading is that which optimizes returns. This reminds me of a scene from another movie, *Amadeus.* The young Mozart is playing a new composition for Salieri and the King. Finishing, he seeks the King's approval. After offering tepid enthusiasm, the King adds, "There are too many notes." Of couse, Mozart knows that the work has the exact number of notes to convey what he is trying to communicate. No more, no less. So it is with our trading.

We are fortunate to have the services of Harris Associates' crack trading team—Connie Twomey, Tony Sinople, newlywed John Tansey, and Betsy Burns. We could not have a more reliable, professional, and experienced group implementing our philosophy. (And, except for John, no one even vaguely resembles any character on Lifetime TV's "Traders".)

What is ahead for 1997? On the one hand, anecdotal evidence indicates a frothy market; on the other hand, I like our quality portfolio a lot, and would much prefer owning it than cash over the next five years. As the curtain falls on another year, I want to thank you again for your support and confidence over the past five-plus years.

## The Crash of 1987 Revisited

A little over nine years ago, on October 19, 1987, the most singular day of my investment career occurred. On "Black Monday," the Dow dropped 508 points, a decline of 22.6 percent, the biggest one-day drop in history. In fact, the drop was actually worse than that, since the more-liquid S&P 500 futures index declined by over 29 percent that day. By contrast, the worst single-day percentage decline in the 1929 market crash was "only" 12.8 percent.

At the time, I was working for a large pension fund in Columbus, Ohio. Some colleagues, other investment friends and I met at a tavern to lick our wounds. As I recall, the consensus was that we had all seen it coming (of course), that the Crash would have profound negative effects on the economy and the market, and also on our careers.

The consensus was wrong.

Next year, there will be a lot of tenth anniversary observations about The Crash of 1987. Let's beat them all by a year, and ask ourselves, what was the cause of the Crash and what is its legacy? And, what can we learn from it?

Many explanations for THE cause have been offered: a confrontation between Iran and the US, an SEC ruling that would chill the corporate acquisition market, an increase in inflationary expectations. These are all unsatisfactory, however. In my estimation, the biggest cause of the Crash was complacency on the part of institutional investors who had convinced themselves that they had protected their portfolios from any significant downside. This delusion was fostered by the growing use of something called "dynamic hedging," or, more commonly, "portfolio insurance."

Portfolio insurance was based on the beguiling notion that it's better to own more stocks when the market is going up than when it's going down. An investor would simply buy more stocks in a rising market and sell stocks in a declining market. (Some of you may recognize the "stop-loss" trading technique in this strategy. You are correct—but "dynamic hedging" sounded a lot better and more sophisticated when the purveyors of portfolio insurance made their sales calls.)

One of the problems with portfolio insurance was that it required orderly, liquid markets to implement. Another problem was that it required participants to sell more and more stock into declining markets, thus exacerbating any price weakness. The SEC concluded that the relatively small $200 million of portfolios being managed with portfolio insurance at the market peak of 1987 mushroomed to as high as $90 billion after the Crash.

The Crash had little to no effect on the economy, and did not scare individual investors away from the stock market. The greatest growth in individual participation in the US equity market occurred after the Crash. If one had bought the Dow after the Crash, and held until today, he would have earned about 17.5 percent annually. If one had bought the day BEFORE the Crash, he would still have earned over 14.5 percent. The key investment decision has never been when to buy equities, but rather to allocate the majority of your long-term assets to equities.

The importance of a long-term investment time-horizon is the most crucial lesson from the Crash of 1987. Stocks in the US have significantly outperformed bonds, cash, and inflation over the past 70 years. For example, from 1926 to 1996, stocks have generated annual returns of 10 percent, vs. 5 percent for bonds, 3 percent for cash, and 3 percent for inflation. The longer one's holding period, the more compelling the case for stocks. In the years 1926 to 1995, for example, stocks have outperformed bonds 61 percent of the years; however, as the holding period rises to 5, 10, and 20 years, stocks outperform 77%, 89%, and 98%, respectively.

While there is, of course, no assurance that these relationships will persist, I suspect they will. There is evidence of froth in today's market: record issuance of IPOs, dramatic growth in mutual fund and personal investing media coverage, record attendance at the Schwab advisors' conference. Nevertheless, I have no intention of trying to time the market, and I am very comfortable with the absolute and relative value of our holdings. Prepare yourself for the occasional Crash, and regard it as part of the price for growing your wealth in the long run.

**Robert J. Sanborn**
Portfolio Manager
harjs@aol.com
November 6, 1996

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# The Oakmark Fund

## Schedule of Investments—October 31, 1996

| | Shares Held | Market Value |
|---|---|---|
| ***Common Stocks—94.6%*** | | |
| ***Food & Beverage—17.7%*** | | |
| Philip Morris Companies Inc. | 2,670,400 | $ 247,345,800 |
| H.J. Heinz Company | 4,007,250 | 142,257,375 |
| Anheuser-Busch Companies Inc. | 3,538,200 | 136,220,700 |
| Nabisco Holdings Corp. | 2,422,100 | 90,223,225 |
| CPC International | 843,100 | 66,499,513 |
| Ralston Purina Group | 189,900 | 12,557,137 |
| | | 695,103,750 |
| ***Retail—1.7%*** | | |
| The Kroger Company | 954,600 | $42,599,025 |
| Carson Pirie Scott & Co. (a) | 1,000,000 | 24,875,000 |
| Cole National Corporation (a) | 20,000 | 472,500 |
| | | 67,946,525 |
| ***Telecommunications—3.9%*** | | |
| U.S. West Media Group | 9,918,400 | $154,975,000 |
| ***Other Consumer Goods & Services—12.5%*** | | |
| The Black & Decker Corporation | 3,810,400 | $142,413,700 |
| Polaroid | 2,922,600 | 118,730,625 |
| American Brands, Inc. | 2,435,500 | 116,295,125 |
| First Brands Corporation | 940,400 | 26,683,850 |
| Whitman Corporation | 957,500 | 23,219,375 |
| Brunswick Corporation | 779,700 | 18,322,950 |
| GC Companies, Inc. (a) | 500,000 | 16,937,500 |
| JUNO Lighting Inc. | 885,000 | 13,772,813 |
| Arctic Cat, Inc. | 957,500 | 8,976,562 |
| Justin Industries, Inc. | 601,500 | 6,165,375 |
| | | 491,517,875 |
| ***Banks—6.0%*** | | |

| | | |
|---|---|---|
| Mellon Bank Corporation | 3,606,550 | $234,876,569 |
| River Bank America (a) | 340,000 | 3,060,000 |
| | | 237,936,569 |
| ***Insurance—6.4%*** | | |
| Torchmark Corporation | 3,296,200 | $159,453,675 |
| Old Republic International | 2,108,620 | 52,188,345 |
| American Financial Group, Inc. | 684,700 | 24,563,613 |
| Acordia, Inc. | 501,300 | 14,287,050 |
| | | 250,492,683 |
| ***Other Financial—10.3%*** | | |
| FirstUSA, Inc. | 3,548,000 | $204,010,000 |
| AMBAC Inc. | 2,194,900 | 137,181,250 |
| Federal National Mortgage Association | 1,184,500 | 46,343,563 |
| Fund American Enterprises Holdings, Inc. | 204,400 | 18,319,350 |
| | | 405,854,163 |
| ***Broadcasting & Publishing—13.3%*** | | |
| Dun & Bradstreet Corporation | 3,256,200 | $188,452,575 |
| Knight-Ridder, Inc. | 4,348,800 | 162,536,400 |
| Tele-Communications, Inc. Class A (a) | 9,179,179 | 114,166,038 |
| TCI Communications, Inc. (a) | 2,113,494 | 54,422,470 |
| AC Nielson Corporation | 311,700 | 4,792,387 |
| | | 524,369,870 |
| ***Pharmaceutical—2.7%*** | | |
| American Home Products Corporation | 1,720,600 | $105,386,750 |
| ***Managed Care Services—1.6%*** | | |
| Foundation Health Corporation (a) | 1,813,700 | $54,184,288 |
| Physicians Health Services, Inc. (a) | 420,000 | 7,035,000 |
| Right CHOICE Managed Care, Inc. (a) | 270,000 | 2,666,250 |
| | | 63,885,538 |
| ***Medical Products—1.0%*** | | |
| Sybron Corporation (a) | 1,297,800 | $37,798,425 |

| | | |
|---|---|---|
| ***Aerospace & Defense—5.3%*** | | |
| Lockheed Martin Corporation | 1,287,210 | $115,366,196 |
| McDonnell Douglas Corporation | 1,220,000 | 66,490,000 |
| Logicon, Inc. | 654,800 | 27,092,350 |
| | | 208,948,546 |
| ***Other Industrial Goods & Services—5.4%*** | | |
| James River Corporation | 2,839,100 | $89,431,650 |
| Bandag Incorporated, Class A | 1,014,300 | 47,164,950 |
| SPX Corporation | 880,400 | 24,981,350 |
| The Geon Company | 912,100 | 17,899,963 |
| USG Corporation (a) | 590,000 | 17,405,000 |
| UCAR International Inc. (a) | 253,000 | 9,898,625 |
| Premark International, Inc. | 186,200 | 3,886,925 |
| Bandag Incorporated | 26,300 | 1,249,250 |
| | | 211,917,713 |
| ***Commercial Real Estate—1.0%*** | | |
| Host Marriott Corporation (a) | 2,291,700 | $35,234,888 |
| Catellus Development Corporation (a) | 585,700 | 5,783,787 |
| | | 41,018,675 |
| ***Foreign Securities—5.8%*** | | |
| DeBeers Consolidated Mines Ltd. ADR (b) | 3,135,000 | $92,482,500 |
| YPF Sociedad Anonima (b) | 3,276,500 | 74,540,375 |
| Unilever NV | 297,000 | 45,403,875 |
| EVC International NV | 547,700 | 15,139,465 |
| | | 227,566,215 |
| **Total Common Stocks (Cost: $2,936,176,488)** | | **3,724,718,297** |

## *Common Stocks Sold Short—0.0%*

| | | |
|---|---|---|
| Broadcasting & Publishing | | |
| Cognizant Corporation | (65,800) | $(2,056,250) |
| **Total Common Stocks Sold Short (Proceeds: $2,062,103)** | | **(2,056,250)** |

| | Principal Value | Market Value |
|---|---|---|
| ***Short-Term Investments—5.0%*** | | |
| ***Commercial Paper—4.7%*** | | |
| American Express Credit Corporation, 5.30% due 11/5/1996 | $25,000,000 | $25,000,000 |
| Ford Motor Credit Corporation, 5.35% due 11/4/1996 | 25,000,000 | 25,000,000 |
| Ford Motor Credit Corporation, 5.26% due 11/4/1996 | 25,000,000 | 25,000,000 |
| Ford Motor Credit Corporation, 5.37% due 11/4/1996 | 50,000,000 | 50,000,000 |
| General Electric Capital Corporation, 5.65% due 11/1/1996 | 10,000,000 | 10,000,000 |
| General Electric Capital Corporation, 5.65% due 11/1/1996 | 50,000,000 | 50,000,000 |
| **Total Commercial Paper** | | **185,000,000** |
| ***Repurchase Agreements—0.3%*** | | |
| State Street Repurchase Agreement, 5.55% due 11/1/1996 Collateralized by US Treasury Securities | $12,061,000 | 12,061,000 |
| **Total Repurchase Agreements** | | **12,061,000** |
| **Total Short-Term Investments (Cost: $197,061,000)** | | **197,061,000** |
| Total Investments (Cost $3,131,175,385)—99.6% | | $3,919,723,047 |
| Other assets, less other liabilities—0.4% | | 14,212,613 |
| **Total Net Assets—100%** | | **$3,933,935,660** |

*See accompanying notes to financial statements.*

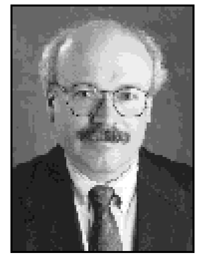
Notes:
(a) Non-income producing security.
(b) Represents an American Depositary Receipt.
(c) At October 31, 1996, net unrealized appreciation of $788,547,662 for federal income tax purposes consisted of gross unrealized appreciation of $878,790,727 and gross unrealized depreciation of $90,243,065.

Each of the following companies is considered affiliated because the Fund owns greater than 5% of the outstanding voting shares of the company.

| | | | |
|---|---|---|---|
| AMBAC, Inc. | 6.27% | GC Companies, Inc. | 6.4% |
| Bandag Inc. Class A | 8.75% | Polaroid Corporation | 6.3% |
| Carson Pirie Scott & Co | 5.96% | SPX Corporation | 6.19% |
| First USA, Inc. | 5.92% | | |

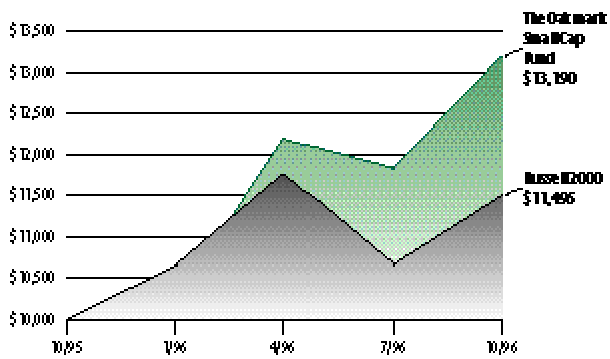
The aggregate cost and value of investments in these companies at October 31, 1996 was $424,717,809 and $573,880,675 respectively, which represents 14.6% of the total net assets. During the year ended October 31, 1996, dividends received from these companies was $3,642,783.

# The Oakmark Small Cap Fund



## *Report from Steven J. Reid, Portfolio Manager*

**The value of a $10,000 Investment in The Oakmark Small Cap Fund from its Inception (11/1/95) to Present (10/31/96) as compared to the Russell 2000**




**10/31/96 NAV $13.19**

| | Total Return Last 3 mos. | Total Return* Through 10/31/96 From Fund Inception 11/1/95 |
|---|---|---|
| **The Oakmark Small Cap Fund** | 11.5% | 31.9% |
| Lipper Small Co. Growth* | 8.6% | 17.1% |
| Russell 2000* | 7.8% | 15.0% |
| S&P 600* | 9.8% | 19.3% |

*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 Lipper Small Company Growth 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 a small market capitalization. Past performance is no guarantee of future results.

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## Trick or Treat!!!

On Halloween, October 31, 1996, your Fund completed its first fiscal year of operation. It was truly an outstanding year. We as shareholders were treated to gains of 31.9% for the year and 11.5% for the fourth quarter. Our results were significantly better than the relevant indices.

As the Fund's fiscal year ended, so did the beautiful fall weather in the Midwest. The abrupt change in temperatures for Halloween was a frosty surprise for many trick-or-treaters. As one of the many thousands who were able to participate in this year's quest for candy, the change in weather was a very mean trick.

## What Happened

I have been asked numerous times to explain the results of The Oakmark Small Cap Fund. My one word answer is philosophy. We at Harris Associates and The Oakmark Funds wholeheartedly embrace a value-oriented investment philosophy. Over the long term our philosophy of investing has rewarded our shareholders. However, it would be remiss on my part not to acknowledge the unique performance of several of the Fund's holdings and highlight some of the characteristics we look for in our investment process.

Catellus Development Corporation, SPX Corporation, and U.S. Industries, Inc. are the Fund's three largest holdings. All of these companies have performed well and have earned their place at the top of the heap in the portfolio. In particular, SPX Corp. stands out as a shining example of what we look for when we invest in a stock for your Fund. Henry Berghoef sourced this idea, and our hats are off to you Henry!

SPX Corporation is a long-established Muskegon, Michigan-based company that operates a group of very fine businesses. The company had lost focus in the last several years, and as a result its performance and stock price had deteriorated significantly. SPX came to our attention when it was announced that a new management team would be brought in to revitalize the company. Soon after that John Blystone was selected as the new President and Chief Executive Officer. John's mission was two-fold. First, he needed to reshape the culture of the company. This meant providing proper incentives related to the performance of the individual business units and giving employees at all levels the opportunity and responsibility to improve results. Second, it required rationalizing several aspects of the business. As John told us, "I probably have to grow by shrinking." After careful analysis, management decided that several business units would be sold to repay debt that the company had incurred over the years, thus allowing management to focus on the core remaining businesses.

It is worth noting that while all of this was taking place Wall Street remained skeptical. This provided the opportunity for us to purchase shares at an attractive valuation for your Fund. Both the performance of the operating businesses of SPX and shares of the stock have improved. We still see tremendous potential and have noted that Wall Street has begun to catch on. In the meantime, we wish John and his management team continued success.

## Outlook

As you may know, we don't make forecasts regarding the stock market, the economy, or interest rates. We adhere to a bottom-up approach to investing. Every security is researched and evaluated on its own merit. In a recent issue of a major financial periodical they listed their 100 most attractive small company investments. I was pleased to see, and take comfort in knowing, that not one of our holdings in the Fund was a part of this list. We still see excellent opportunities for investing and are elated that other people are not seeing what we do.

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

**Steven J. Reid**
Portfolio Manager
sreid@oakmark.com
October 31, 1996

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# The Oakmark Small Cap Fund

## *Schedule of Investments—October 31, 1996*

| | *Shares Held* | *Market Value* |
|---|---|---|
| ***Common Stocks—94.9%*** | | |
| ***Food & Beverage—3.8%*** | | |
| GoodMark Foods, Inc. | 258,500 | $ 4,459,125 |
| Ralcorp Holdings, Inc. (a) | 186,500 | 3,916,500 |
| | | 8,375,625 |
| ***Retail—6.4%*** | | |
| Cole National Corporation (a) | 325,000 | $ 7,678,125 |
| Carson Pirie Scott & Co. (a) | 175,000 | 4,353,125 |
| Rex Stores Corporation (a) | 200,000 | 1,900,000 |
| | | 13,931,250 |
| ***Other Consumer Goods & Services—5.9%*** | | |
| First Brands Corporation | 315,000 | $ 8,938,125 |
| Justin Industries, Inc. | 207,400 | 2,125,850 |
| Triarc Companies, Inc. (a) | 150,000 | 1,762,500 |
| | | 12,826,475 |

| | | |
|---|---|---|
| ***Banks—10.7%*** | | |
| Peoples Bank of Bridgeport Connecticut | 300,000 | $ 7,725,000 |
| Harbor Federal Savings Bank | 160,000 | 5,060,000 |
| Texas Regional Bancshares, Inc. | 145,000 | 4,676,250 |
| Northwest Savings Bank | 215,000 | 2,687,500 |
| Pocahontas Federal Savings & Loan Association | 140,000 | 1,995,000 |
| Savings Bank of Finger Lakes | 86,500 | 1,167,750 |
| | | 23,311,500 |
| ***Insurance—9.1%*** | | |
| Renaissance Holdings, Ltd. | 260,000 | $ 7,572,500 |
| Chartwell Re Corporation | 257,000 | 6,521,375 |
| Highlands Insurance Group, Inc. (a) | 294,200 | 5,810,450 |
| | | 19,904,325 |
| ***Other Financial—3.4%*** | | |
| Duff & Phelps Credit Rating Company | 251,500 | $ 5,564,438 |
| First USA Paymentech Inc. | 50,000 | 1,850,000 |
| | | 7,414,438 |
| ***Broadcasting & Publishing—8.9%*** | | |
| Granite Broadcasting Corporation | 500,000 | $ 5,750,000 |
| Cablevision Systems Corporation (a) | 175,000 | 5,446,875 |
| Lee Enterprises, Incorporated | 184,300 | 4,215,862 |
| Central Newspapers, Class A | 100,000 | 4,025,000 |
| | | 19,437,737 |
| ***Computer Systems—1.9%*** | | |
| Imation Corporation (a) | 150,000 | $ 4,106,250 |
| ***Managed Care Services—1.5%*** | | |
| Healthcare Services Group, Inc. | 355,000 | $ 3,416,875 |
| ***Machinery and Metal Processing—12.8%*** | | |
| Gardner Denver Machinery Incorporated | 237,500 | $ 7,481,250 |
| Kysor Industrial Corporation | 175,800 | 5,120,175 |
| The Carbide/Graphite Group | 292,000 | 4,763,250 |

| | | |
|---|---|---|
| Sudbury, Inc. | 350,000 | 3,937,500 |
| Northwest Pipe Company | 200,000 | 3,450,000 |
| Matthews International Corporation | 105,000 | 3,110,625 |
| | | 27,862,800 |
| ***Other Industrial Goods & Services—16.9%*** | | |
| SPX Corporation | 420,000 | $ 11,917,500 |
| Premark International, Inc. | 425,000 | 8,871,875 |
| Zurn Industries, Inc. | 250,000 | 6,281,250 |
| MagneTek, Inc. (a) | 500,000 | 5,562,500 |
| Dal-Tile International Inc. (a) | 250,000 | 4,375,000 |
| | | 37,008,125 |
| ***Commercial Real Estate—7.9%*** | | |
| Catellus Development Corporation (a) | 1,175,000 | $11,603,125 |
| Innkeepers USA Trust | 255,000 | 2,996,250 |
| Castle & Cooke, Inc. (a) | 170,000 | 2,613,750 |
| | | 17,213,125 |
| ***Diversified Conglomerates—5.7%*** | | |
| U.S. Industries, Inc. New (a) | 460,000 | $ 12,420,000 |
| **Total Common Stocks (Cost: $187,590,109)** | | **207,228,525** |

| | *Principal Value* | *Market Value* |
|---|---|---|
| ***Corporate Bonds—1.7%*** | | |
| Harrah's Jazz Bonds, 14.25% due 11/15/2001 (c) | $6,700,000 | $ 3,768,750 |
| **Total Corporate Bonds (Cost: $3,304,413)** | | **3,768,750** |
| ***Short-Term Investments—2.7%*** | | |
| ***Commercial Paper—2.3%*** | | |
| American Express Credit Corporation, 5.30% due 11/5/1996 | $1,000,000 | $1,000,000 |
| Ford Motor Credit Corporation, 5.37% due 11/4/1996 | 2,000,000 | 2,000,000 |
| General Electric Capital Corporation, 5.65% due 11/1/1996 | 2,000,000 | 2,000,000 |

| | | |
|---|---|---|
| **Total Commercial Paper** | | **5,000,000** |
| ***Repurchase Agreements—0.4%*** | | |
| State Street Repurchase Agreement, 5.55% due 11/1/1996 Collateralized by US Treasury Securities | 845,000 | 845,000 |
| **Total Repurchase Agreements** | | **845,000** |
| **Total Short-Term Investments (Cost: $5,845,000)** | | **5,845,000** |
| Total Investments (Cost $196,739,522)—99.3% | | 216,842,275 |
| Other assets, less other liabilities—.7% | | 1,578,132 |
| **Total Net Assets—100%** | | **$218,420,407** |

Notes:
(a) Non-income producing security.
(b) At October 31, 1996, net unrealized appreciation of $20,102,753 for federal income tax purposes consisted of gross unrealized appreciation of $24,650,766 and gross unrealized depreciation of $4,548,013.
(c) This bond is currently in default and the Fund is no longer accruing interest.

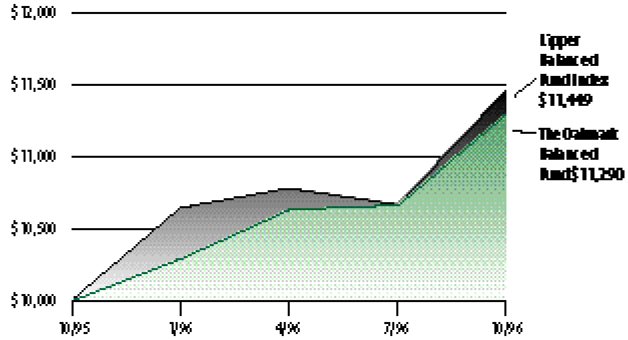
At October 31, 1996, the Fund owned 8.7% of Pocohontas Federal Savings & Loan Association and 5.8% of Granite Broadcasting. Companies in which the Fund owns greater than 5% are considered affiliated to the Fund. The purchase cost was $8,438,933, market value was $7,745,000 and represents 3.5% of the total net assets. Dividends earned during the year ended October 31, 1996 were $68,880.

*See accompanying notes to financial statements.*

# The Oakmark Balanced Fund

## *Report from Clyde S. McGregor, Portfolio Manager*

**The value of a $10,000 investment in The Oakmark Balanced Fund from its inception (11/1/95) to present (10/31/96) as compared to the Lipper Balanced Fund Index**




| **10/31/96 NAV $11.29** | **Total Return Last 3 mos.** | **Total Return* Through 10/31/96 From Fund Inception 11/1/95** |
|---|---|---|
| **The Oakmark Balanced Fund** | 5.9% | 12.9% |
| Lipper Balanced Fund Index* | 7.4% | 14.5% |
| Lehman Govt./Corp. Bond* | 3.9% | 5.4% |
| S&P 500* | 10.9% | 24.1% |

*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 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.

## Fiscal Year-End Review

The Oakmark Balanced Fund is now a one-year old, and I would like to thank my fellow shareholders for their support as well as their insightful questions and comments in the inaugural year. While not without nervous moments, the year was a successful beginning for the Fund. Oakmark Balanced returned 12.9% for the fiscal year, 5.9% for the fourth fiscal quarter. One of our goals for the Balanced Fund is to produce returns that are more consistent and less volatile than those exhibited by funds which invest only in stocks. Given that goal, I am particularly pleased that in the Fund's first year of existence each quarter produced a positive result.

## Deals/Acquisitions

Recently, announcements of large acquisitions and mergers have dominated the financial news. Deals such as the bidding war for Conrail or the MCI/British Telecom merger get most of the media coverage, but they are merely representative of the high level of activity. Shareholders sometimes assume that we invest with the expectation that our holdings will be taken over. While our portfolios do occasionally experience such pleasant surprises, they benefit more from our ability to derive useful valuation tools from publicly announced transactions.

For example, in September, A.H. Belo announced that it would acquire the Providence Journal Company.

While we did not own shares in either Belo or Providence Journal, we studied the transaction for what it might tell us about the value of Lee Enterprises, your Fund's third largest equity holding.

Providence and Lee both own newspapers and television stations. If we look at the pricing of the media properties in the Providence acquisition and apply similar valuations to Lee's properties, we find that Lee's current market price is approximately one-half of the company's value to a possible purchaser.

We own Lee Enterprises shares not in anticipation of the company's acquisition but because we have determined that the company has irreplaceable media properties, a strong balance sheet, and a management team which is both competent and shareholder-oriented. We expect that this combination of assets and management will produce substantial growth in business value over time. An acquisition of the company would be at best a mixed blessing.

Implicit in corporate transactions like the Providence Journal acquisition are clues to understanding the economics of a business and how consolidation can add to value. We will continue to study mergers and acquisitions because they offer an insightful look into how people in an industry value companies.

## Corporate Restructuring

In corporate America today it seems that everything is in flux. Mergers and acquisitions receive the lion's share of media attention, but companies which restructure their operations are even more common. Restructured companies have been a fertile source of investment ideas for Harris Associates since our establishment more than 20 years ago. We have found that companies which restructure are often mispriced in the stock market. At the same time, the restructuring often better aligns the interests of management with their shareholders.

Many of the companies in which your Fund has invested have significantly changed their composition in the last two years. For example, Premark International spun off its Tupperware division, US Industries was itself spun off from its English parent, Associates First Capital was partially divested by Ford Motor, and Dun & Bradstreet split itself into three parts in November. In each of these restructured companies we have discovered undervaluation as well as new management focus, incentive, and initiative.

We expect the high level of corporate restructuring which we observe today to continue. If so, we know where we will find many of our ideas in the future.

## Mighty Oaks Awards

My partner Robert Sanborn created the Oak Leaf Cluster Award for the person who contributes an idea which has the greatest positive impact on The Oakmark Fund. Believing this to be a good idea, I have considered a variety of titles for an award specific to the Balanced Fund. (The Balance Beam Award? This sounds like a leftover from the Olympics, and I would never be confused with a gymnast.)

I finally settled on the Mighty Oaks Award because that is the name of our firm's softball team. For the award, I will give the recipients t-shirts that are already made up for the team (as a value investor, I am always looking for ways to minimize costs).

This year we have two winners, one for fixed income and one for stocks. In my last quarterly report I wrote at some length about Everen Capital Preferred, which Bill Nygren, our Director of Research and manager of the new Select Fund, recommended for The Balanced Fund. In view of this holding's 38% return to the Fund, Bill is the winner of the first fixed income award.

On the equity side, the winner is Steve Reid (the manager of the Small Cap Fund). Steve's recommendation of US Industries achieved an 80% return for the Fund. Mentioned above in the section on restructuring, US Industries is a fine example of how an unwanted business unit can generate newfound profitability once separated from its corporate parent.

My best wishes for a happy holiday season and a prosperous 1997 accompany this report. Please write or E-mail me with your questions or comments.

**Clyde S. McGregor**
Portfolio Manager
hacsm@aol.com
November 5, 1996

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# The Oakmark Balanced Fund

## *Schedule of Investments—October 31, 1996*

| | *Shares Held* | *Market Value* |
|---|---|---|
| ***Equity and Equivalents—57.1%*** | | |
| ***Food & Beverage—5.2%*** | | |
| Philip Morris Companies, Inc. | 3,900 | $361,238 |
| H.J. Heinz Company | 10,150 | 360,325 |
| | | 721,563 |
| ***Retail—2.7%*** | | |
| The Kroger Company | 8,500 | $379,312 |
| ***Other Consumer Goods & Services—20.9%*** | | |
| Armstrong World Industries, Inc. | 6,500 | $433,875 |
| Promus Hotel Corporation | 13,400 | 425,450 |
| JUNO Lighting Inc. | 26,800 | 417,075 |
| Arctic Cat, Inc. | 44,200 | 414,375 |
| National Presto Industries, Inc. | 11,000 | 412,500 |
| Polaroid Corporation | 10,000 | 406,250 |
| The Black & Decker Corporation | 9,900 | 370,013 |

| | | |
|---|---|---|
| | | 2,879,538 |
| ***Banks—3.2%*** | | |
| Mellon Bank Corporation | 6,700 | $436,337 |
| ***Other Financial—6.2%*** | | |
| Associates First Capital Corporation | 10,000 | $433,750 |
| First USA, Inc. | 7,300 | 419,750 |
| | | 853,500 |
| ***Broadcasting & Publishing—5.8%*** | | |
| Lee Enterprises, Incorporated | 20,100 | $459,788 |
| Dun & Bradstreet Corporation | 6,000 | 347,250 |
| | | 807,038 |
| ***Aerospace & Defense—3.2%*** | | |
| McDonnell Douglas Corporation | 8,000 | $436,000 |
| ***Other Industrial Goods & Services—8.1%*** | | |
| U.S. Industries, Inc. (a) | 24,000 | $648,000 |
| Premark International, Inc. | 22,500 | 469,687 |
| | | 1,117,687 |
| ***Commercial Real Estate—1.8%*** | | |
| Catellus Development Corp. Preferred Convertible Ser. A 3.75% | 4,493 | $ 247,115 |
| **Total Equity and Equivalents (cost: $7,001,071)** | | **7,878,090** |

## *Fixed Income—39.3%*

| | | |
|---|---|---|
| ***Preferred Stocks—1.7%*** | | |
| ***Broadcasting & Cable TV—1.7%*** | | |
| Tele-Communications, Inc. Preferred Junior Class B, 6% | 3,900 | $236,925 |
| **Total Preferred Stock (Cost: $257,263)** | | **236,925** |

| | *Principal Value* | *Market Value* |
|---|---|---|

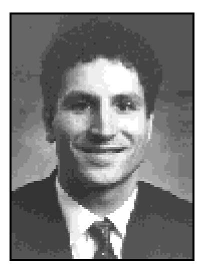
| | | |
|---|---|---|
| ***Corporate Bonds—10.2%*** | | |
| ***Retail—1.1%*** | | |
| The Vons Companies, Inc. 9.625% due 4/1/2002 | $150,000 | $157,500 |
| ***Building Materials & Construction—1.2%*** | | |
| USG Corporation 9.25% due 9/15/2001 Senior Notes Series B | $150,000 | $159,938 |
| ***Utilities—1.2%*** | | |
| Midland Funding Corp. 11.75% due 7/23/2005 | $150,000 | $163,500 |
| ***Other Industrial Goods & Services—3.3%*** | | |
| UCAR Global Enterprise Inc. 12% due 1/15/2005 Senior Subordinate | $250,000 | $288,125 |
| SPX Corp. 11.75% due 6/1/2002 | $150,000 | 162,750 |
| | | 450,875 |
| ***Aerospace & Automotive—1.1%*** | | |
| Coltec Industries, Inc. 9.75% due 1/1/2000 | $150,000 | $155,812 |
| ***Other Consumer Goods & Services—2.3%*** | | |
| Samsonite Corp. 11.125% due 7/15/2005 | $300,000 | $319,500 |
| **Total Corporate Bonds (Cost: $1,400,924)** | | **1,407,125** |
| ***Government & Agency Securities—27.4%*** | | |
| United States Treasury Notes, 7.875% due 8/15/2001 | $200,000 | $214,656 |
| United States Treasury Notes, 6.375% due 8/15/2002 | 700,000 | 708,071 |
| United States Treasury Notes, 7.125% due 9/30/1999 | 1,100,000 | 1,134,914 |
| United States Treasury Notes, 8.5% due 5/15/1997 | 800,000 | 813,216 |
| United States Treasury Notes, 6.625% due 7/31/2001 | 600,000 | 612,864 |
| Federal Home Loan Bank, 6.405% due 4/10/2001 Consolidated Bond | 300,000 | 301,734 |
| | | 3,785,455 |

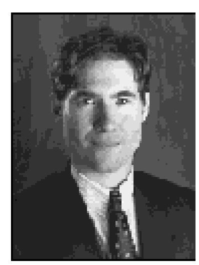
| | | |
|---|---|---|
| **Total Government & Agency Securities (Cost: $3,744,619)** | | **3,785,455** |
| **Total Fixed Income (cost: $5,402,806)** | | **5,429,505** |
| ***Short-Term Investments—6.2%*** | | |
| ***Commercial Paper—6.2%*** | | |
| American Express Credit Corporation, 5.30% due 11/15/1996 | $250,000 | $250,000 |
| Ford Motor Credit Corporation, 5.37% due 11/4/1996 | 250,000 | 250,000 |
| General Electric Capital Corporation, 5.65% due 11/1/1996 | 350,000 | 350,000 |
| | | 850,000 |
| **Total Commercial Paper (Cost: $850,000)** | | **850,000** |
| Total Investments (Cost: $13,253,877)—102.6% | | $14,157,595 |
| Other liabilities, less other assets—(2.6%) | | (358,669) |
| **Total Net Assets—100%** | | **$13,798,926** |

Notes:
(a) Non- income producing security.
(b) At October 31, 1996, net unrealized appreciation of $903,718 for federal income tax purposes consisted of gross unrealized appreciation of $1,008,877 and gross unrealized depreciation of $105,159.

*See accompanying notes to financial statements.*

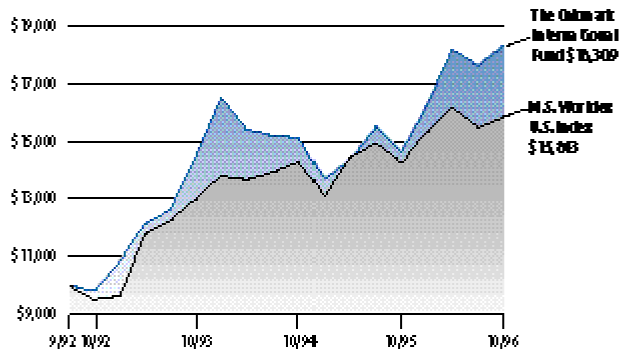
# The Oakmark International Fund





## *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 (10/31/96) as compared to the Morgan Stanley World ex U.S. Index**




**10/31/96 NAV $14.92**

| | Total Return Last 3 mos. | Average Annual Total Return* Through 10/31/96: From 10/31/95 | Average Annual Total Return* Through 10/31/96: From Inception 9/30/92 |
|---|---|---|---|
| **Oakmark International** | 3.8% | 24.9% | 16.0% |
| Morgan Stanley World ex U.S.* | 2.4% | 11.2% | 11.9% |
| Morgan Stanley EAFE* | 1.8% | 10.5% | 11.8% |
| Lipper Analytical International Fund Average* | 3.4% | 12.7% | 12.6% |

*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 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 results.

## Fellow shareholders

Our fiscal year ends with your Fund up 24.9%! This performance compares very favorably to other international funds as represented by the Lipper International Index and to all the recognized international indices. For example, over the same period the Lipper International and Morgan Stanley World-ex US indices were up only 12.7% and 11.2%, respectively.

While the performance of the Fund for the last twelve months has been outstanding, we are more heartened by our long-term performance. The Oakmark International Fund has returned 16.0% on an annualized basis since inception, while the Lipper International and Morgan Stanley World-ex US have returned 12.6% and 11.9%, respectively, over the same period.

## Performance Analysis

For our fourth annual report (really our fifth, but our first fiscal year was only a little over a month), let's look at those companies that helped and hurt us the most over the last twelve months. These are the stocks that had the biggest absolute dollar impact (as opposed to the biggest percentage movers) on the

Fund's performance.

## The Winners...

Rolls-Royce and British Aerospace performed exceptionally well, up 65% and 64%, respectively. Rolls was rewarded by the market for receiving a rash of new orders for its new Trent aircraft engines from Boeing and Airbus. British Aerospace continued its remarkable run as investors continued to recognize its preeminence in the consolidating European defense industry. We have owned British Aerospace since the Fund's inception and it clearly has been one of our single best ideas.

Chargeurs, prompted by a lack of market understanding of its assets, pioneered the idea of the de-merger in France. The company split itself into two entities to unlock value which had been hidden by its former holding company structure. The shares were up 59% for the fiscal year.

Telefonica de España was up 52% over the last twelve months. With Telefonica, the market began to recognize the value of some of its assets in Latin America and the gains in efficiency that management has made over the past several years in Spain.

Cordiant, another long-term holding, came storming back in 1996 with a new chairman and a renewed sense of purpose. Cordiant's shares were up 20% for the fiscal year and the company remains substantially undervalued compared to other advertising firms of similar size and quality.

## and the...

Losers were fewer and of smaller portfolio impact. The Israeli company Scitex, which comprised 2% of the portfolio in January, had the biggest negative impact on the portfolio, with its shares dropping 43%. Initially, we were attracted to Scitex for its cheap valuation and market leader position which we thought compensated for other weaknesses. They didn't.

EVC International (down 5%) and Asia Pulp and Paper (down 4%) felt the pain of lower commodity prices. We still are very happy with these investments on a long-term horizon. EVC remains extremely cheap on trend earnings, sits at 2/3rds of book value (and at 25% of replacement cost), has solid shareholder-oriented management, and yields 6.4%. Asia Pulp, with its Indonesian production base, remains one of the world's lowest cost producers, is moving up the value-added chain in terms of products, and is located in the fastest growing area of consumption in the world.

Although the share price is down 31% from where we first starting buying, it is still too early to judge the success of our investment in Technology Resources, a Malaysian cellular operator. Our loss in Kvaerner (down 10%) was due in part to company management spending more time looking to buy new businesses rather than running the ones they already had. The result was recurring earnings disappointments in its core operations. We have since sold our entire position.

## Going Forward

We had an excellent fiscal year 1996 and we remain optimistic about overseas markets going forward. Valuations in many cases are very attractive and we continue to find excellent opportunities.

Our continued optimism is reflected in the substantial changes from last year in our top twenty holdings. Seven of the top twenty are new positions: National Australia Bank, Telefonica de España, Guinness, Saurer, Bezeq, Pakhoed, and Kyocera. As you know, we believe in structuring our portfolio with fewer positions so that our best ideas can have a more meaningful impact on the Fund's net asset value. The presence of many new names in the top twenty holdings reflects our optimism in finding substantial new opportunities for The Oakmark International Fund.

**David G. Herro**

**Michael J. Welsh**
Portfolio Managers
72242.722@compuserv.com
oakix@aol.com
October 31, 1996

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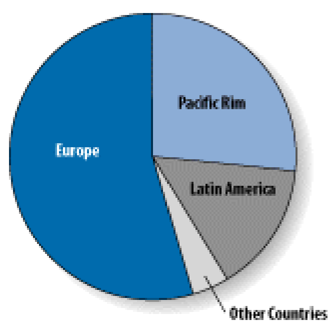
# The Oakmark International Fund

## *International Diversification—October 31, 1996*




| | | % of Fund Net Assets | | | % of Fund Net Assets |
|---|---|---|---|---|---|
| ■ | ***Europe*** | ***51.8%*** | ■ | ***Pacific Rim*** | ***25.2%*** |
| | Great Britain | 14.5% | | Australia | 6.8% |
| | Sweden | 13.5% | | Hong Kong | 6.3% |
| | Netherlands | 5.1% | | New Zealand | 2.9% |
| | Spain | 5.1% | | Indonesia | 2.7% |
| | France | 3.9% | | Korea | 2.4% |
| | Portugal | 3.4% | | Japan | 1.9% |
| | Switzerland | 2.5% | | Malaysia | 1.9% |
| | Italy | 1.9% | | Taiwan | 0.3% |

| | |
|---|---|
| Finland | 1.4% |
| Germany | 0.5% |

| | | | |
|---|---|---|---|
| ***Latin America*** | ***13.9%*** | ***Other Countries*** | ***3.9%*** |
| Argentina | 5.7% | Israel | 3.1% |
| Mexico | 4.5% | Canada | 0.8% |
| Brazil | 3.7% | | |

# The Oakmark International Fund

## *Schedule of Investments—October 31, 1996*

| | *Description* | *Shares Held* | *Market Value* |
|---|---|---|---|
| ***Common Stocks—94.9%*** | | | |
| ***Consumer Non-durables—3.7%*** | | | |
| Yue Yuen Industrial (Holdings) Limited (Hong Kong) | Athletic Footwear Manufacturing | 81,328,000 | $ 24,191,614 |
| Chargeurs International S.A. (France) | Entertainment & Wool Production Holding Company | 334,324 | 14,517,345 |
| BYC Company (Korea) | Textile Manufacturer | 31,230 | 3,628,539 |
| Pacific Corporation (Korea) | Cosmetics and Household Goods Manufacturer | 35,820 | 641,617 |
| | | | 42,979,115 |
| ***Food—10.2%*** | | | |
| Guinness PLC (Great Britain) | Distiller & Brewer | 5,595,000 | $40,204,956 |
| Lion Nathan Limited (New Zealand) | Brewer | 12,113,200 | 31,279,222 |
| Parmalat Finanziaria S.p.A. (Italy) | Dairy Products | 15,440,000 | 22,137,113 |
| Leong Hup Holdings Berhad (Malaysia) | Major Poultry Operation and KFC Operator | 8,214,666 | 9,233,980 |
| Lotte Confectionery (Korea) | Confectionary Manufacturer | 56,000 | 8,370,348 |
| Lotte Chilsung Beverage (Korea) | Manufacturer of Soft Drinks, Juices, & Sport Drinks | 44,770 | 5,797,749 |
| Daehan Flour Mills Co., Ltd. (Korea) | Food Processing | 31,770 | 2,307,050 |

| | | | |
|---|---|---|---|
| | | | 119,330,418 |
| ***Household Products—1.9%*** | | | |
| Reckitt & Colman PLC (Great Britain) | Household Cleaners and Air Fresheners | 1,950,853 | $22,496,409 |
| ***Retail—2.3%*** | | | |
| Giordano Holdings Limited (Hong Kong) | East Asian Clothing Retailer & Manufacturer | 12,361,000 | $12,469,388 |
| Alparagatas Sociedad Anonima Industrial Y Comercial (Argentina) | Textiles | 17,430,294 | 11,505,145 |
| Macintosh (Netherlands) | Non-Food Specialty Retailer | 140,950 | 3,322,920 |
| | | | 27,297,453 |
| ***Telecommunications—11.3%*** | | | |
| Telefonica (Spain) | Telecommunications | 2,050,500 | $41,140,170 |
| Telefonos de Mexico, S.A. de C.V. (Mexico) (b) | Telephone Company | 1,295,100 | 39,500,550 |
| Bezeq (Israel) | Telephone Company | 11,654,271 | 28,451,074 |
| Technology Resources Industries Berhad (Malaysia) | Telecommunications | 5,520,000 | 13,218,286 |
| Call Net Enterprises, Inc. Common (Canada) (a) | Telecommunications | 899,600 | 9,733,025 |
| | | | $132,043,105 |
| ***Transportation—5.8%*** | | | |
| AB Volvo (Sweden) | Automobiles | 2,534,600 | $52,613,851 |
| CIADEA S.A. (Argentina) (a) | Assembler and Distributor of Automobiles | 3,517,246 | 15,758,839 |
| | | | 68,372,690 |
| ***Oil and Natural Gas—3.4%*** | | | |
| YPF Sociedad Anonima (Argentina) (b) | Oil Exploration, Production and Marketing | 1,756,200 | $39,953,550 |
| ***Banks—13.7%*** | | | |
| National Australia Bank Limited (Australia) | Largest Australian Bank | 5,145,000 | $56,482,443 |
| Banco Espirito Santo E Comercial de Lisboa, S.A. | Portuguese Bank | | |

| | | | |
|---|---|---|---|
| (Portugal) | | 2,275,480 | 39,993,735 |
| Svenska Handelsbanken (Sweden) | Largest Swedish Bank | 1,268,850 | 31,259,592 |
| Banco Popular Español (Spain) | Fourth-largest Spanish Bank | 100,093 | 19,132,946 |
| Grupo Financiero Bancomer, S.A. De C.V. (GFB)-B (Mexico) (a) | Large Mexican Financial Group | 26,635,000 | 11,300,199 |
| Grupo Financiero Bancomer, S.A. De C.V. (GFB) - L (Mexico) (a) | Large Mexican Financial Group | 6,129,630 | 2,097,230 |
| | | | 160,266,145 |
| ***Other Financial—0.2%*** | | | |
| Sedgwick Group plc (Great Britain) | Insurance Broker, Financial Services | 1,150,000 | $2,330,322 |
| ***Broadcasting & Publishing—2.0%*** | | | |
| Pathé (France) | Television & Film | 88,233 | $23,799,180 |
| ***Computer Systems—0.2%*** | | | |
| Scitex Corporation Limited (Israel) (b) | Color Pre-Press Systems | 179,300 | $1,770,588 |
| ***Marketing Services—4.3%*** | | | |
| Cordiant PLC (Great Britain) (a) | Advertising Agency Holding Company | 30,408,656 | $50,730,587 |
| ***Aerospace—6.2%*** | | | |
| Rolls-Royce Public Limited Company (Great Britain) | Jet Engines | 7,566,479 | $31,219,115 |
| British Aerospace Public Limited Company (Great Britain) | Defense and Civil Aviation | 1,209,666 | 22,927,345 |
| Hong Kong Aircraft Engineering Company Limited (Hong Kong) | Commercial Aircraft Overhaul and Maintenance | 7,504,400 | 19,119,614 |
| | | | 73,266,074 |
| ***Chemicals—4.8%*** | | | |
| Royal Pakhoed N.V. | Petroleum Products, Chemical | | |

| | | | |
|---|---|---|---|
| (Netherlands) | Handling | 943,383 | $29,357,354 |
| EVC International NV (Netherlands) | Western European PVC Manufacturer | 989,165 | 27,342,393 |
| | | | 56,699,747 |
| ***Components—3.0%*** | | | |
| Kyocera Corporation (Japan) | Electric Components | 334,000 | $22,031,004 |
| Varitronix International Holdings Limited (Hong Kong) | Liquid Crystal Displays | 7,177,000 | 13,087,569 |
| | | | 35,118,573 |
| ***Forestry Products—4.2%*** | | | |
| Asia Pulp & Paper Company Ltd (Indonesia) (a) | Paper & Packaging Products | 3,210,600 | $31,704,675 |
| Mo och Domsjo AB (Sweden) | Paper, Pulp & Timber | 624,500 | 17,189,729 |
| | | | 48,894,404 |
| ***Machinery and Metal Processing—2.6%*** | | | |
| Saurer Ltd. (Switzerland) | Textile Machinery | 70,000 | $29,406,645 |
| Iochpe-Maxion SA (Brazil) | Agricultural Machinery & Automotive Parts | 7,880,000 | 759,315 |
| | | | 30,165,960 |
| ***Mining and Building Material—2.7%*** | | | |
| Pioneer International (Australia) | Concrete Products, Aggregates | 8,530,923 | $22,720,277 |
| Keumkang Ltd. (Korea) | Building Materials | 126,980 | 7,007,913 |
| Fletcher Challenge Ltd. (New Zealand) | Building Materials & Services | 835,104 | 2,245,062 |
| | | | 31,973,252 |
| ***Other Industrial Goods and Services—3.0%*** | | | |
| Kone Corporation (Finland) | Elevators | 161,870 | $15,990,685 |
| Groupe Legris Industries (France) | Europe's Leading Crane Manufacturer | 195,097 | 7,590,180 |
| Buderus AG (Germany) | German Industrial Manufacturing | 14,000 | 6,332,541 |
| Lamex Holdings Limited (Hong Kong) | Hong Kong's Largest Office Furniture Supplier | 14,040,000 | 4,948,010 |
| | | | 34,861,416 |

| | | | |
|---|---|---|---|
| ***Steel—8.9%*** | | | |
| Usiminas (Brazil) | Steel Production | 41,063,700,000 | $43,166,046 |
| Avesta Sheffield (Sweden) | Stainless Steel | 3,575,000 | 35,882,111 |
| Svenskt Stal AB, Series A (Sweden) | Steel | 1,410,000 | 20,584,881 |
| Tung-Ho Steel Enterprise Corp. (Taiwan) (a) | Manufacturer of Steel Bars and H-Beams | 374,000 | 3,570,466 |
| Svenskt Stal AB, Series B (Sweden) | Steel | 65,200 | 946,911 |
| | | | 104,150,415 |
| ***Diversified Conglomerates—0.5%*** | | | |
| Koor Industries Limited (Israel) | Israeli Holding Company | 378,200 | $6,571,224 |
| **Total Common Stocks (Cost: $1,029,710,841)** | | | **1,113,070,627** |

| | *Principal Value* | *Market Value* |
|---|---|---|
| ***Short-Term Investments—5.3%*** | | |
| ***Commercial Paper—5.1%*** | | |
| American Express Credit Corporation, 5.30% due 11/5/1996 | $10,000,000 | $10,000,000 |
| Ford Motor Credit Corp., 5.35% due 11/4/1996 | 10,000,000 | 10,000,000 |
| Ford Motor Credit Corp., 5.37% due 11/4/1996 | 20,000,000 | 20,000,000 |
| General Electric Capital Corp., 5.65% due 11/1/1996 | 20,000,000 | 20,000,000 |
| **Total Commercial Paper** | | **60,000,000** |
| ***Repurchase Agreements—0.2%*** | | |
| State Street Repurchase Agreement, 5.55% due 11/1/1996 Collateralized by US Treasury Securities | $2,412,000 | $2,412,000 |
| **Total Repurchase Agreements** | | **2,412,000** |
| **Total Short-Term Investments (Cost: $62,412,000)** | | **62,412,000** |
| Total Investments - (Cost $1,092,122,841) - 100.2% | | $1,175,482,627 |
| Foreign currencies - (Cost $7,407,430) - .6% | | 7,380,858 |
| Other liabilities, less other assets - (.8%)(c) | | (10,096,291) |
| | | **$1,172,767,194** |
| **Total Net Assets - 100%** | | |

Notes:
(a) Non-income producing security.

(b) Represents an American Depositary Receipt.
(c) Includes portfolio and transaction hedges.
(d) At October 31, 1996, net unrealized appreciation of $83,359,786 for federal income tax purposes consisted of gross unrealized appreciation of $155,931,431 and gross unrealized depreciation of $72,571,645.
The following companies are considered affiliated because the Fund owns greater than 5% of the outstanding voting shares of the company:

| | | | |
|---|---|---|---|
| Alparagatas Sociedad Anomia Industrial Y. | 6.49% | EVC International NV | 6.76% |
| BYC Company | 5.00% | Lamex Holdings Limited | 5.01% |
| Call Net Enterprises, Inc. Common | 5.18% | Leong Hup Holdings Berhad | 5.43% |
| Cordiant PLC | 6.85% | | |

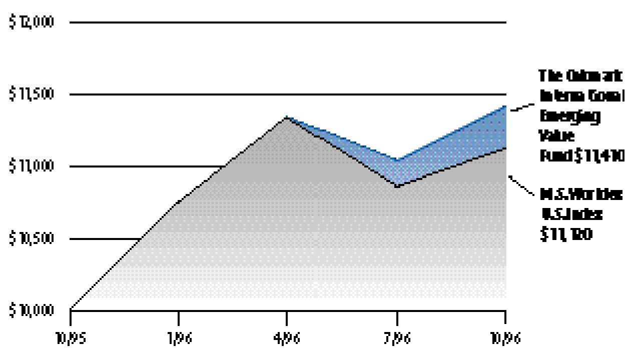
The aggregate cost and value of investments in these companies at October 31, 1996 was $123,905,187 and $117,121,679, respectively, which represents 10.0% of the total net assets. During the year ended October 31, 1996, dividends received from these companies was $1,779,766.

*See accompanying notes to financial statements.*

# The Oakmark Int'l Emerging Value Fund

## *Report from David Herro and Adam Schor, Portfolio Managers*

**The value of a $10,000 investment in The Oakmark International Emerging Value Fund from its inception (11/1/95) to present (10/31/96) as compared to the Morgan Stanley World ex U.S. index**




**10/31/96 NAV $11.41**

| | Total Return Last 3 Months | Total Return* Through 10/31/96 From Fund Inception 11/1/95 |
|---|---|---|
| **The Oakmark Int'l Emerging Value Fund** | 3.4% | 14.1% |

| | | |
|---|---|---|
| Morgan Stanley World ex U.S.* | 2.4% | 11.2% |
| Lipper Analytical International Fund Average* | 3.4% | 12.7% |
| Lipper Emerging Market Fund Index* | 1.3% | 9.6% |

*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 Lipper International Fund Average includes 106 mutual funds that invest in securities whose primary markets are outside the United States. The Lipper Emerging Market Fund Index is comprised of 10 Emerging Market Funds. Past performance is no guarantee of future results.

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## Rookie Season in Review

We are happy with our first fiscal year which ended October 31, 1996. The Fund was up 14.1%. We outpaced our benchmarks including the Morgan Stanley World ex U.S which was up 11.2%. In addition, Lipper Analytical Services, Inc., ranked the Fund fifth among 339 international funds, making it one of the top performers from January through October, 1996.

The international markets were fairly quiet this year, especially compared to the thunderous stampede of the U.S. market. While the average international fund was up 9.56% and most markets were up for the last twelve months, the international markets lacked the surge that we expected. Some markets rallied: Hungary almost doubled; several Latin American countries increased by 50%. And some markets went in the other direction: Thailand and India each fell more than 20%. Investors, who in 1993 loved emerging markets and in 1995 hated them, seemed to be indifferent in 1996. Emerging markets, on average, were up 4.3% during this rather lackluster period.

In the stock market, nothing moves in a straight line. Our Fund surged and paused, retrenched and surged again in its initial year. It's interesting to note that relatively few trading days, perhaps fewer than 20, accounted for the difference in our Fund and an average international fund. Market timers should take note. You would have needed to be extremely lucky to have made more than an investor who merely bought and held our Fund.

## Home Runs

This Fund picks stocks, not countries. Our top performing shares, when you combine movement in the share price with the size of the holding in our portfolio, were examples of small companies that are undervalued by the market.

Our biggest contributor was **Nice Systems**. Nice produces the leading digital telephone recording system. When our traders call the traders on Wall Street to execute a trade, the conversation very well may be recorded on a system produced by Israeli-based Nice. If there is ever a need to retrieve the recording, you just push a couple buttons, as you would to retrieve a document off your hard drive.

Nice was a fast growing company moving into profitability in a quickly developed market. Being value investors does not preclude us from buying companies growing quickly. It means that we buy stocks trading at a discount to their economic values. We did that with Nice, buying at $10 and selling at $27, when our target was passed.

We have mentioned in previous fund reports **PT Polysindo Eka Perkasa**, an Indonesian textile company that we like because of its expansion and vertical integration. The textile business is generally a lousy business, unless you are a low-cost producer and located in one of the fastest growing markets in the world. Polysindo scores on both counts. We bought the company at about 800 (after adjusting for a rights issue). At the time, we were looking at the increase in profits that we expect will occur in 1997 when Polysindo's planned expansion comes on line. The myopic market was looking at ho-hum 1996 results. We still hold Polysindo, currently trading at about 1250.

Meanwhile, two names we share with Oakmark International paid us back for our patience. We acquired initial positions in **Cordiant** and **Ciadea** while their prices were weak. Cordiant, a global advertising agency based in England, rallied during our fiscal year. The company has new management that is focused on increasing profitability and shareholder value, a trait not found two years ago. Ciadea, an Argentine car maker, rallied as the Argentine economy showed signs of recovery. The stock pulled back in the last few months. We sold most of our holding when the price passed our sell target.

Rounding out our list of top five contributors was **Egis Pharmaceuticals**, which soared more than 200% this year. The Hungarian drug company was a large position for us early in the year. When the Hungarian market got hot later this year, we were already there when investors discovered this gem trading at six times earnings and growing 15% per year. We have sold most of the position now that it has reached our target.

Egis demonstrated our basic tenet of investing. It is impossible to determine when a stock adjusts to reflect the value of the business but when it does, it happens quickly. It's like riding a train. You want to be there before it moves and not try to catch it while it's moving.

## Ground Outs

We relish the big hits, of course, but we missed a couple of times too during the year. We were stung in Brazil when the government intervened in **Banco Nacional**. Investigators found fraud used to deceive auditors and investors about the health of the bank. Shareholders suffered. Two technology stocks also hurt us. The stock price of **Tower Semiconductor** in Israel dropped 50% in 1996 when it lost a major customer during the slowdown in the semiconductor industry. Since our year end, Tower has climbed back a bit and has paid a special dividend equal to 20% of its stock price. The stock is trading just above the cash on the balance sheet — and we think it's still undervalued. We continue to hold Tower in the portfolio. We calculated that sound card and CD-ROM maker **Aztech Systems** would go up. It didn't. Inventory problems and price pressure in the fast changing CD-ROM business depressed profitability and the stock price. We adjusted our evaluation of the prospects and the business and sold the stock when it bounced to our new lowered sell target.

### 'Tweeners

In between the Nices and Nacionals were a host of stocks that provided steady but less glamorous appreciation. We continue to hold stocks we think are priced below their values without trying to time the moves. The stocks we sold hit their targets and more attractive names replaced them. We have high expectations for the years to come. We hope this first year has laid a solid foundation for our future for us as a fund and yours as a shareholder.

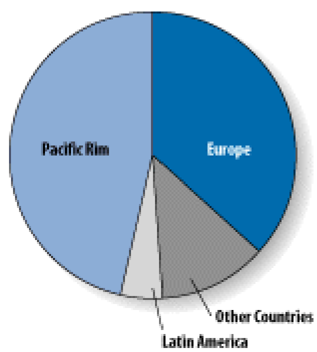
**David G. Herro**


**Adam Schor**
Portfolio Managers
72242.722@compuserv.com
oakix@aol.com

November 5, 1996

# The Oakmark Int'l Emerging Value Fund

## *International Diversification—October 31, 1996*




| | % of Fund Net Assets | | % of Fund Net Assets |
|---|---|---|---|
| ***Europe*** | ***35.3%*** | ***Pacific Rim*** | ***45.0%*** |
| Ireland | 7.7% | Australia | 10.6% |
| Great Britain | 7.1% | Indonesia | 8.0% |
| Netherlands | 4.6% | Korea | 7.2% |
| France | 3.6% | New Zealand | 6.6% |
| Sweden | 3.4% | Hong Kong | 6.3% |
| Spain | 2.3% | Japan | 3.2% |
| Germany | 2.1% | Singapore | 3.1% |
| Italy | 2.1% | | |
| Hungary | 1.7% | | |
| Switzerland | 0.7% | | |
| ***Latin America*** | ***11.8%*** | ***Other Countries*** | ***4.4%*** |
| Argentina | 6.4% | Israel | 1.9% |
| Mexico | 5.4% | Canada | 1.7% |

| | |
|---|---|
| India | 0.8% |

# The Oakmark Int'l Emerging Value Fund

## *Schedule of Investments—October 31, 1996*

| | *Description* | *Shares Held* | *Market Value* |
|---|---|---|---|
| ***Common Stocks—96.3%*** | | | |
| ***Consumer Non-Durables—3.6%*** | | | |
| PT Polysindo EKA Perkasa (Indonesia) | Integrated Textile Manufacturer | 2,652,000 | $1,423,174 |
| ***Food—5.4%*** | | | |
| Grupo Herdez, SA de CV (Mexico) | Manufacturer and Distributor of Bottled and Canned Food | 3,674,000 | $1,234,190 |
| Chosun Brewery (Korea) | Brewer | 14,410 | 383,685 |
| Daehan Flour Mills Co., Ltd. (Korea) | Food Processing | 4,500 | 326,777 |
| Soproni Sorgy AR RT (Hungary) | Brewer | 13,155 | 194,720 |
| | | | 2,139,372 |
| ***Household Products—5.5%*** | | | |
| WMF (Germany) | Tableware and Kitchenware | 4,500 | $820,126 |
| N.V. Koninklijke Sphinx Gustavsberg (Netherlands) | Bathroom Products | 54,159 | 743,741 |
| Enix Corporation (Japan) | Manufactures home-use electronic appliances, computer | 26,000 | 632,559 |
| | | | 2,196,426 |
| ***Retail—3.1%*** | | | |
| Alparagatas Sociedad Anonima Industrial Y Comercial (Argentina) | Textiles and Footwear | 1,885,000 | $1,244,224 |
| ***Other Consumer Goods & Services—7.8%*** | | | |
| Vardon PLC (United Kingdom) | Bingo Parlors | 915,000 | $1,317,993 |
| Fyffes (Ireland) | Distributor of Fresh Fruit, | | |

| | | | |
|---|---|---|---|
| | Flowers and Produce in Europe | 578,133 | 950,846 |
| PT Steady Safe (Indonesia) | Taxi Company | 862,500 | 833,137 |
| | | | 3,101,976 |
| ***Pharmaceutical—1.2%*** | | | |
| Egis Gygogyszergyar (Hungary) | Pharmaceutical Company | 7,600 | $468,810 |
| ***Telecommunications—2.3%*** | | | |
| Telefonos de Mexico, S.A. de C.V. (Mexico) (b) | Telephone Company | 29,950 | $913,475 |
| ***Transportation—1.0%*** | | | |
| CIADEA S.A. (Argentina) (a) | Assembler and Distributor of Automobiles | 84,975 | $380,726 |
| ***Oil and Natural Gas—2.3%*** | | | |
| YPF Sociedad Anonima (Argentina) (b) | Exploration, Production and Marketing | 40,500 | $921,375 |
| ***Banks—2.5%*** | | | |
| Anglo Irish Bank Corporation plc (Ireland) | Bank | 860,000 | $1,008,305 |
| ***Other Financial—1.3%*** | | | |
| HIH Winterthur International Holdings Ltd. (Australia) | Insurance and Reinsurance Broker | 9,243 | $22,492 |
| JCG Holdings Ltd. (Hong Kong) | Investment Holding Company | 518,000 | 482,347 |
| | | | 504,839 |
| ***Computer Systems—5.3%*** | | | |
| Aztech (Singapore) | Design and Produce Multimedia Computing Products | 1,675,000 | $594,604 |
| Solution 6 Holdings Limited (Australia) | Design Computer Systems Consultants | 1,382,500 | 1,490,330 |
| | | | 2,084,934 |
| ***Marketing Services—3.8%*** | | | |
| Cordiant PLC (United Kingdom) (a) | Global Advertising Agency | 910,000 | $1,518,148 |

| | | | |
|---|---|---|---|
| ***Broadcasting & Publishing—6.0%*** | | | |
| Moffat Communications Limited (Canada) | Owner and Operator of Television Stations and Cable Systems | 46,700 | $662,066 |
| Woong Jim Publishing Co. (Korea) | Publisher | 23,045 | 1,436,390 |
| Zee Telefilms, B Shares (India) | Broadcasting and TV | 85,900 | 301,372 |
| | | | 2,399,828 |
| ***Chemicals—2.8%*** | | | |
| EVC International NV (Netherlands) | Western European PVC Manufacturer | 39,600 | $1,094,619 |
| ***Components—6.3%*** | | | |
| Tower Semiconductor Ltd. (Israel) | Semiconductors | 108,400 | $758,800 |
| Barlo Group PLC (Ireland) | Manufacturer of Radiators and Industrial Plastics | 1,605,000 | 1,097,704 |
| Pentex Schweizer Circuits Limited (Singapore) | Manufacturer and Marketer of Printed Circuit Boards | 546,000 | 643,493 |
| | | | 2,499,997 |
| ***Forestry Products—2.3%*** | | | |
| Asia Pulp & Paper Company Ltd (Indonesia) (a) | Paper & Packaging Products in Asia | 94,000 | $928,250 |
| ***Machinery and Metal Processing—2.8%*** | | | |
| Groupe Fives-Lille (France) | Builder of Heavy Machinery | 3,125 | $283,007 |
| Steel & Tube Holdings Ltd. (New Zealand) | Produces and Distributes Steel | 150,500 | 832,621 |
| | | | 1,115,628 |
| ***Mining and Building Materials—8.2%*** | | | |
| Groupo Uralita (Spain) | Manufacturers of Building Products and Chemicals | 117,100 | $917,748 |
| Asia Cement Mfg. Co. (Korea) | Large Cement Manufacturer | 22,550 | 717,779 |
| Parbury Limited (Australia) | Manufactures Building Products | 3,174,277 | 1,635,447 |
| | | | 3,270,974 |

| | | | |
|---|---|---|---|
| ***Other Industrial Goods and Services—17.9%*** | | | |
| BT Industries AB (Sweden) | Fork Lifts & Transportation Equipment | 78,000 | $1,340,390 |
| Sanford Limited (New Zealand) | Owns and Manages Fisheries | 936,400 | 1,788,666 |
| Wattyl (Australia) | Paint Company | 277,926 | 1,053,017 |
| SwissLog Holding AG (Switzerland) | Logistics Services | 1,045 | 280,265 |
| Fukuda Denshi Co., Ltd. (Japan) | Medical Products Manufacturer and Distributor | 29,000 | 634,228 |
| TechTronic Industries Company Limited (Hong Kong) | Manufactures Electric Hand Tools | 3,850,000 | 542,730 |
| Yip's Hang Cheung (Holdings) Limited (Hong Kong) | Paint Company | 10,090,000 | 1,474,574 |
| | | | 7,113,870 |
| ***Production Equipment—4.9%*** | | | |
| Danieli & Company (Italy) | Steel Mini-Mills Equipment | 260,300 | $827,057 |
| The NSC Group (France) | Wool Textile Manufacturer | 8,977 | 1,139,574 |
| | | | 1,966,631 |
| **Total Common Stocks (Cost: $38,001,263)** | | | **38,295,581** |

| | *Shares Held/ Principal Value* | *Market Value* |
|---|---|---|
| ***Short-Term Investments—3.9%*** | | |
| ***Commercial Paper—3.2%*** | | |
| American Express Credit Corporation, 5.30% due 11/5/1996 | 250,000 | $250,000 |
| Ford Motor Credit Corp., 5.37% due 11/4/1996 | 500,000 | 500,000 |
| General Electric Capital Corp., 5.65% due 11/1/1996 | 500,000 | 500,000 |
| **Total Commercial Paper** | | **1,250,000** |
| ***Repurchase Agreements—0.7%*** | | |
| State Street Repurchase Agreement, 5.55% due 11/1/1996 | 269,000 | **269,000** |
| **Total Short-Term Investments (Cost: $1,519,000)** | | **1,519,000** |
| Total Investments (Cost: $39,520,263) - 100.2% | | $39,814,581 |
| Foreign currencies (Cost: $335,539) - .8% | | 337,614 |
| Other liabilities, less other assets - (1.0%)(c) | | (400,154) |
| **Total Net Assets - 100%** | | |

**$39,752,041**

Notes:
(a) Non-income producing security.
(b) Represents an American Depositary Receipt.
(c) Includes transaction hedges.
(d) At October 31, 1996, net unrealized appreciation of $294,318 for federal income tax purposes consisted of gross unrealized appreciation of $3,159,068 and gross depreciation of $2,864,750.

*See accompanying notes to financial statements.*

# The Oakmark Family of Funds

## *Statement of Assets and Liabilities—October 31, 1996*

| | The Oakmark Fund | The Oakmark Small Cap Fund | The Oakmark Balanced Fund | The Oakmark International Fund | The Oakmark Int'l Emerging Value Fund |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments, at value | $3,921,779,297 (cost: $3,133,237,488) | $216,842,275 (cost: $196,739,522) | $14,157,595 (cost: $13,253,877) | $1,175,482,627 (cost: $1,092,122,841) | $39,814,581 (cost: $39,520,263) |
| Cash | 843 | 945 | 594 | 439 | 498 |
| Foreign currency, at value | 0 | 0 | 0 | 7,380,858 (cost: $7,407,430) | 337,614 (cost: $335,539) |
| Receivable for: | | | | | |
| Forward foreign currency contracts | 0 | 0 | 0 | 741,937 | 86 |
| Securities sold | 25,477,664 | 1,153,092 | 0 | 2,623,708 | 168,485 |
| Fund shares sold | 3,182,096 | 1,005,698 | 34,800 | 1,691,832 | 111,078 |
| Dividends and interest | 4,783,234 | 153,665 | 107,501 | 2,005,064 | 291,013 |
| Expense reimbursement | 0 | 0 | 11,060 | 0 | 35,441 |
| Total receivables | 33,442,994 | 2,312,455 | 153,361 | 7,062,541 | 606,103 |
| Other assets | 5,657 | 14,299 | 14,277 | 9,476 | 14,403 |
| Total assets | $3,955,228,791 | $219,169,974 | $14,325,827 | $1,189,935,941 | $40,773,199 |
| **Liabilities and Net Assets** | | | | | |
| Securities sold, not yet purchased, at value | $2,056,250 (proceeds: | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | $2,062,103) | $0 | $0 | $0 | $0 |
| Payable for: | | | | | |
| Securities purchased | 8,666,525 | 140,505 | 451,600 | 10,396,988 | 827,277 |
| Fund shares redeemed | 5,783,091 | 214,453 | 0 | 1,187,134 | 4,089 |
| Due to adviser | 3,224,222 | 205,533 | 32,377 | 1,003,619 | 81,097 |
| Forward foreign currency contracts | 0 | 0 | 0 | 3,783,399 | 177 |
| Other | 1,563,043 | 189,076 | 42,924 | 797,607 | 108,518 |
| Total liabilities | 21,293,131 | 749,567 | 526,901 | 17,168,747 | 1,021,158 |
| Net assets applicable to fund shares outstanding | $3,933,935,660 | $218,420,407 | $13,798,926 | $1,172,767,194 | $39,752,041 |
| Fund shares outstanding | 121,452,592 | 16,553,945 | 1,222,137 | 78,606,944 | 3,482,519 |
| **Pricing of Shares** | | | | | |
| Net asset value per share | $32.39 | $13.19 | $11.29 | $14.92 | $11.41 |
| **Analysis of Net Assets** | | | | | |
| Paid in capital | $2,883,530,157 | $198,837,145 | $12,607,741 | $1,080,224,970 | $38,042,778 |
| Accumulated undistributed net realized gain (loss) on sale of investments, forward contracts and foreign currency exchange transactions | 226,361,549 | (243,291) | 161,939 | (33,901,942) | 1,259,557 |
| Net unrealized appreciation of investments | 788,547,662 | 20,102,753 | 903,718 | 83,333,214 | 296,393 |
| Net unrealized depreciation of foreign currency portfolio hedges | 0 | 0 | 0 | (2,896,488) | 0 |
| Net unrealized appreciation — other | 0 | 0 | 0 | (194,131) | (1,788) |
| Accumulated undistributed net investment income (loss) | 35,496,292 | (276,200) | 125,528 | 46,201,571 | 155,101 |
| Net assets applicable to Fund shares outstanding | $3,933,935,660 | $218,420,407 | $13,798,926 | $1,172,767,194 | $39,752,041 |

*See accompanying notes to financial statements.*

# The Oakmark Family of Funds

## *Statement of Operations—October 31, 1996*

| | The Oakmark Fund | The Oakmark Small Cap Fund | The Oakmark Balanced Fund | The Oakmark International Fund | The Oakmark Int'l Emerging Value Fund |
|---|---|---|---|---|---|
| **Investment Income:** | | | | | |
| Dividends | $69,135,177 | $930,817 | $118,500 | $29,460,152 | $744,076 |
| Interest | 15,845,858 | 302,068 | 261,357 | 1,708,929 | 70,932 |
| Securities lending income | 0 | 19,400 | 3,897 | 376,919 | 5,649 |
| Foreign taxes withheld | 0 | 0 | 0 | (3,243,211) | (70,675) |
| Total investment income | 84,981,035 | 1,252,285 | 383,754 | 28,302,789 | 749,982 |
| **Expenses:** | | | | | |
| Investment advisory fee | 36,082,925 | 956,809 | 69,005 | 10,113,272 | 258,427 |
| Transfer and dividend disbursing agent fees | 4,398,544 | 250,126 | 45,412 | 1,298,501 | 93,991 |
| Custodian and accounting fees | 439,430 | 36,616 | 23,552 | 1,306,439 | 103,589 |
| Legal expenses | 46,842 | 10,970 | 10,285 | 19,589 | 10,288 |
| Audit expenses | 17,176 | 21,034 | 20,075 | 22,047 | 24,187 |
| Trustees fees | 69,705 | 13,688 | 12,749 | 28,936 | 12,970 |
| Registration and blue sky expenses | 573,243 | 181,799 | 83,142 | 14,675 | 112,215 |
| Reports to shareholders | 836,558 | 26,164 | 3,694 | 215,584 | 9,933 |
| Insurance expense | 58,501 | 3,671 | 961 | 0 | 1,678 |
| Organization expense | 23,768 | 1,457 | 1,457 | 9,516 | 1,457 |
| Other - net | 881,263 | 26,469 | 2,364 | 457,287 | 5,966 |
| Total expenses | 43,427,955 | 1,528,803 | 272,696 | 13,485,846 | 634,701 |
| Expense offset arrangements | (15,263) | (318) | (225) | (6,181) | (4,379) |
| Expense reimbursement | 0 | 0 | (14,245) | 0 | (35,441) |
| Net expenses | 43,412,692 | 1,528,485 | 258,226 | 13,479,665 | 594,881 |
| **Net investment income (loss)** | 41,568,343 | (276,200) | 125,528 | 14,823,124 | 155,101 |

| Net realized and unrealized gain (loss) on investments and foreign currency transactions: | | | | | |
|---|---|---|---|---|---|
| Net realized gain (loss) on investments | 226,166,113 | (243,291) | 161,939 | 2,806,950 | 1,284,213 |
| Net realized (loss) on foreign currency transactions | (12,777) | 0 | 0 | (1,017,660) | (24,656) |
| Net change in unrealized appreciation of investments and foreign currencies | 290,431,755 | 20,102,753 | 903,718 | 176,382,416 | 296,393 |
| Net change in appreciation (depreciation) of forward currency exchange contracts | 0 | 0 | 0 | 5,165,941 | 0 |
| Net change in (depreciation)-other | 0 | 0 | 0 | (363,425) | (1,788) |
| **Net realized and unrealized gain on investments and foreign currency transactions** | 516,585,091 | 19,859,462 | 1,065,657 | 182,974,222 | 1,554,162 |
| **Net increase (decrease) in net assets resulting from operations** | $558,153,434 | $19,583,262 | $1,191,185 | $197,797,346 | $1,709,263 |

*See accompanying notes to financial statements.*

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# The Oakmark Family of Funds

## *Statement of Changes in Net Assets—October 31, 1996*

| | **The Oakmark Fund** | | **The Oakmark Small Cap Fund** | **The Oakmark Balanced Fund** |
|---|---|---|---|---|
| | **Year Ended October 31, 1996** | **Year Ended October 31, 1995** | **Year Ended October 31, 1996** | **Year Ended October 31, 1996** |
| **From Operations:** | | | | |
| Net investment income | $41,568,343 | $27,572,923 | $(276,000) | $125,528 |
| Net realized gain on sale of investments | 226,166,113 | 87,157,237 | (243,291) | 161,939 |
| Net realized gain (loss) on foreign currency transactions | (12,777) | (37,102) | 0 | 0 |
| Net change in unrealized appreciation | 290,431,755 | 320,305,458 | 20,102,753 | 903,718 |

| | | | | |
|---|---|---|---|---|
| **Net increase in net assets from operations** | 558,153,434 | 434,998,516 | 19,583,262 | 1,191,185 |
| **Distributions to shareholders from (Oakmark Fund only):** | | | | |
| Net investment income (per share $.2841 in Fiscal Year 1996 and $.231 in Fiscal Year 1995) | (29,455,748) | (15,107,180) | 0 | 0 |
| Net realized short-term gain (per share $.042 in Fiscal Year 1996 and $.7277 in Fiscal Year 1995) | (4,354,309) | (47,575,398) | 0 | 0 |
| Net realized long-term gain (per share $.7987 in Fiscal Year 1996 and $.7411 in Fiscal Year 1995) | (82,805,333) | (48,452,482) | 0 | 0 |
| **Total distributions to shareholders** | (116,615,390) | (111,135,060) | 0 | 0 |
| **From Fund share transactions:** | | | | |
| Reinvestment of dividends and capital gains distributions | 110,976,647 | 106,504,973 | 0 | 0 |
| Proceeds from shares sold | 1,810,842,079 | 1,384,343,262 | 224,762,208 | 15,231,573 |
| Payments for shares redeemed, net of fees | (1,256,490,130) | (664,894,744) | (25,925,063) | (2,623,832) |
| **Net increase in net assets from Fund share transactions** | 665,328,596 | 825,953,491 | 198,837,145 | 12,607,741 |
| **Total increase in net assets** | 1,106,866,640 | 1,149,816,947 | 218,420,407 | 13,798,926 |
| **Net assets:** | | | | |
| Beginning of period | 2,827,069,020 | 1,677,252,073 | 0 | 0 |
| End of period | $3,933,935,660 | $2,827,069,020 | $218,420,407 | $13,798,926 |
| Undistributed net investment Income (loss) | $35,496,292 | $23,383,697 | $(276,200) | $125,528 |

| | **The Oakmark International Fund** | | **Int'l Emerging Value Fund** |
|---|---|---|---|
| | **Year Ended October 31, 1996** | **Year Ended October 31, 1995** | **Year Ended October 31, 1996** |
| **From Operations:** | | | |
| Net investment income | $14,823,124 | $13,743,307 | $155,101 |
| Net realized gain (loss) on investments | 2,806,950 | 62,822,164 | 1,284,213 |
| Net realized gain (loss) on foreign currency transactions | (1,017,660) | (26,735,730) | (24,656) |
| Net change in unrealized appreciation (depreciation) of investments and foreign currencies | 176,382,416 | (120,637,092) | 296,393 |
| Net change in unrealized appreciation (depreciation) of forward currency exchange | | | |

| | | | |
|---|---|---|---|
| contracts | 5,165,941 | 17,767,564 | 0 |
| Net change in unrealized appreciation (depreciation)—other | (363,425) | (20,391) | (1,788) |
| Net increase (decrease) in net assets resulting from operations | 197,797,346 | (53,060,178) | 1,709,263 |
| **Distribution to shareholders from (International Fund only):** | | | |
| Net investment income | 0 | 0 | 0 |
| Net realized short-term gain (per share $.5020 in fiscal 1996 and $.6863 in fiscal 1995) | (29,886,815) | (56,722,392) | 0 |
| Net realized long-term gain (per share $.5413 in fiscal 1996 and $.3725 in fiscal 1995) | (32,229,556) | (30,791,949) | 0 |
| **Total distributions to shareholders** | (62,116,371) | (87,514,341) | 0 |
| **From Fund share transactions:** | | | |
| Proceeds from shares sold | 563,952,538 | 312,101,705 | 43,181,467 |
| Reinvestment of dividends | 57,852,161 | 81,810,540 | |
| Payments for shares redeemed | (404,450,022) | (719,598,750) | (5,138,689) |
| **Net increase in net assets from Fund share transactions** | 217,354,677 | (325,686,505) | 38,042,778 |
| **Total increase (decrease) in net assets** | 353,035,652 | (466,261,024) | 39,752,041 |
| **Net assets:** | | | |
| Beginning of period | 819,731,542 | 1,285,992,566 | 0 |
| End of period | $1,172,767,194 | $819,731,542 | $39,752,041 |
| Undistributed net investment income | $46,201,571 | $31,378,447 | $155,101 |

*See accompanying notes to financial statements.*

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# The Oakmark Family of Funds

## *Notes to Financial Statements*

### 1. Significant Accounting Policies

The following are the significant accounting policies of The Oakmark Fund ("Oakmark"), The Oakmark Small Cap Fund ("Small Cap"), The Oakmark Balanced Fund ("Balanced"), The Oakmark International Fund ("International"), and The Oakmark International Emerging Value Fund ("Int'l Emerging Value"), collectively referred to as "the Funds," each a series of the Harris Associates Investment Trust (a Massachusetts business trust). These policies are in conformity with generally accepted accounting principles ("GAAP"). The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates and assumptions.

***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.

***Foreign currency translations—***

Values of instruments 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 Funds do 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 gains 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 Funds' 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.

At October 31, 1996, only the International and Int'l Emerging Value funds had foreign currency transactions. "Net unrealized depreciation—other," includes the following components:

| | **International** | **Int'l Emerging Value** |
|---|---:|---:|
| Unrealized appreciation (depreciation) on open securities purchases & sales (net) | $(81,972) | $(2,268) |
| Unrealized appreciation (depreciation) on transaction hedge purchases | 82,950 | (90) |
| Unrealized appreciation (depreciation) on dividends and dividend reclaims receivable | 38,457 | 592 |
| Unrealized depreciation on transaction hedge sales | (227,924) | (1) |
| Other - net | (5,642) | (21) |
| Net Unrealized Depreciation—other | $(194,131) | $(1,788) |

***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 close 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.

***Forward foreign currency contracts—***

At October 31, 1996, International and Int'l Emerging Value had entered into forward foreign currency contracts under which they are obligated to exchange currencies at specified future dates. The Funds' 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 the contracts and from movements in currency values. The International Fund had the following outstanding contracts at October 31, 1996:

*Portfolio Hedges:*

| US Dollar Proceeds | Foreign Currency | Settlement Date | Unrealized Appreciation (Depreciation) at October 31, 1996 |
|---:|---|---|---:|
| $15,000,000 | 18,490,500 Swiss Francs | May 1997 | $101,883 |
| 10,039,417 | 1,273,500,000 Spanish Pesetas | February 1997 | 95,801 |
| 9,377,606 | 1,191,800,000 Spanish Pesetas | February 1997 | 75,970 |
| 14,792,659 | 1,894,200,000 Spanish Pesetas | March 1997 | 22,744 |
| 8,022,563 | 40,534,000 French Francs | February 1997 | 44,907 |
| 9,822,345 | 49,760,000 French Francs | March 1997 | 11,115 |
| 10,000,000 | 50,525,000 French Francs | May 1997 | 19,802 |
| 14,611,830 | 9,400,000 Pounds Sterling | January 1997 | (660,679) |
| 5,084,856 | 3,276,325 Pounds Sterling | March 1997 | (232,032) |
| 19,872,612 | 12,738,854 Pounds Sterling | March 1997 | (797,212) |
| 15,000,000 | 9,217,157 Pounds Sterling | May 1997 | 54,262 |
| 5,742,562 | 9,458,000 Netherlands Guilders | February 1997 | 126,366 |

| | | | |
|---|---|---|---|
| 28,419,355 | 47,574,000 Netherlands Guilders | March 1997 | 103,773 |
| 20,000,000 | 137,110,000 Swedish Krona | November 1996 | (853,888) |
| 11,710,601 | 78,810,000 Swedish Krona | December 1996 | (281,801) |
| 29,866,792 | 198,987,500 Swedish Krona | December 1996 | (423,883) |
| 16,996,843 | 113,595,000 Swedish Krona | January 1997 | (303,616) |
| | | | $(2,896,488) |

*Transaction Hedges:*
*Foreign Currency Purchases*

| US Dollar | Foreign Currency Proceeds | Settlement Date | Unrealized Appreciation (Depreciation) at October 31, 1996 |
|---|---|---|---|
| $1,591,033 | 2,406,914 German Deutsche Marks | November 1996 | $(1,681) |
| 141,497 | 722,342 French Francs | November 1996 | (208) |
| 399,654 | 247,725 Pounds Sterling | November 1996 | 3,544 |
| 498,701 | 309,656 Pounds Sterling | November 1996 | 5,296 |
| 101,184 | 61,932 Pounds Sterling | November 1996 | (384) |
| 507,907 | 312,174 Pounds Sterling | November 1996 | 189 |
| 10,149,797 | 65,250,000 Norwegian Krone | November 1996 | 76,194 |
| | | | $82,950 |

*Foreign Currency Sales*

| US Dollar Proceeds | Foreign Currency | Settlement Date | Unrealized Appreciation (Depreciation) at October 31, 1996 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| $3,136,185 | 2,483,859 Australian Dollars | November 1996 | $(2,021) |
| 47,892 | 18,952 Malaysian Ringgit | November 1996 | (4) |
| 201,693 | 118,965 Netherlands Guilder | November 1996 | 91 |
| 65,250,000 | 10,000,000 Norwegian Krone | November 1996 | (225,990) |
| | | | $(227,924) |

The Int'l Emerging Value Fund had the following outstanding transaction hedges on purchases of securities:

*Foreign Currency Purchases*

| US Dollar | Foreign Currency Proceeds | Settlement Date | Unrealized Appreciation (Depreciation) at October 31, 1996 |
|---|---|---|---|
| $36,223 | 84,326,640 Indonesian Rupiah | November 1996 | $(20) |
| 55,886 | 6,370,420 Japanese Yen | November 1996 | 66 |
| 48,650 | 5,538,788 Japanese Yen | November 1996 | (2) |
| 98,074 | 11,150,968 Japanese Yen | November 1996 | (134) |
| | | | $(90) |

*Foreign Currency Sales*

| US Dollar Proceeds | Foreign Currency | Settlement Date | Unrealized Appreciation (Depreciation) at October 31, 1996 |
|---|---|---|---|
| $57,341 | 80,736 Singapore Dollar | November 1996 | $20 |
| 56,699 | 84,116 Singapore Dollar | November 1996 | (21) |
| | | | $(1) |

At October 31, 1996, International and Int'l Emerging Value Funds each 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 Funds elect to be taxed as "regulated investment companies" and make such distributions to their shareholders as to be relieved of all Federal income taxes under provisions of current Federal tax law.

## 2. Transactions with Affiliates

Each Fund has an investment advisory agreement with Harris Associates L.P. ("the Adviser"). For management services and facilities furnished, the Funds pay the Adviser monthly fees at annual rates as follows. Oakmark pays 1% on the first $2.5 billion of net assets, .95% on the next $1.25 billion of net assets, .90% on the next $1.25 billion of net assets and .85% on the excess of $5 billion of net assets. International pays 1% on the first $2.5 billion of net assets, .95% on the next $2.5 billion of net assets and .90% on the excess of $5 billion of net assets as determined at the end of each calendar month. Small Cap pays 1.25% of net assets, Balanced pays .75% of net assets and Int'l Emerging Value pays 1.25% of net assets. Each monthly fee is calculated on the total net assets as determined at the end of the preceding calendar month. The Trust believes that the most restrictive expense limitation of any state is 2.5% of the first $30 million of a Fund's average net assets, 2% of the next $70 million and 1.5% thereafter. The Adviser has voluntarily agreed to reimburse each of Small Cap Fund, Balanced Fund and International Emerging Fund to the extent that the Fund's annual ordinary operating expenses exceed 2.5% of its average net assets through October 31, 1997, subject to earlier termination by the Adviser on 30 days' notice to the Fund. For the year ended October 31, 1996, the Adviser has reimbursed $14,245 of expenses for Balanced and $35,441 for Int'l Emerging Value.

In connection with the organization of the Funds, expenses of approximately $146,500 and $47,000 were advanced to Oakmark and International and approximately $7,283 each to Small Cap, Balanced and Int'l Emerging Value by the Adviser. These expenses are being amortized on a straight line basis through September, 1997 for International and October, 2000 for Small Cap, Balanced and Int'l Emerging Value. Oakmark has fully amortized all organization expenses at October 31, 1996. Registration expenses of approximately $56,751, $56,811 and $56,726 were advanced to Small Cap, Balanced and Int'l Emerging Value, respectively, by the Adviser. Registration expenses have been fully amortized at October, 1996.

During the year ended October 31, 1996, the Funds incurred brokerage commissions of $2,863,961, $2,804,611, $404,602, $19,797 and $198,847 of which $1,192,641, $82,872, $132,729, $14,487 and $6,128 were paid by Oakmark, International, Small Cap, Balanced and Int'l Emerging Value, respectively, 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):

**Year Ended October 31, 1996**

| | Oakmark | Small Cap | Balanced | Int'l | Int'l Emerging Value |
|---|---|---|---|---|---|
| Shares sold | 59,070 | 18,656 | 1,466 | 39,590 | 3,943 |
| Shares issued in reinvestment of dividends | 3,733 | 0 | 0 | 4,757 | 0 |
| Less shares redeemed | (40,632) | (2,102) | (244) | (28,966) | (460) |
| Net increase in shares outstanding | 22,171 | 16,554 | 1,222 | 15,381 | 3,483 |

| | Year Ended October 31, 1995 | |
|---|---|---|
| | Oakmark | International |
| Shares sold | 54,044 | 24,062 |
| Shares issued in reinvestment of dividends | 4,782 | 6,472 |
| Less shares redeemed | (26,065) | (56,012) |
| Net increase in shares outstanding | 32,761 | (25,478) |

Small Cap and Int'l Emerging Value withheld $156,963 and $34,552, respectively, in redemption fees for shares redeemed within six months of purchase.

## 4. Investment Transactions

Transactions in investment securities (excluding short-term securities) were as follows (in thousands):

| | Oakmark | Small Cap | Balanced | Int'l | Int'l Emerging Value |
|---|---|---|---|---|---|
| Purchases | $1,382,109 | $212,132 | $18,686 | $567,709 | $43,027 |
| Proceeds from sales | 808,074 | 20,995 | 6,430 | 408,936 | 6,310 |

The market values (in thousands) of securities on loan to broker-dealers at October 31, 1996 are shown below. Security loans are required to be secured at all times by collateral at least equal to the market value of securities loaned. The Funds receive income from lending securities by investing the collateral and continue to earn income on the loaned securities. Security loans are subject to the risk of failure by the borrower to return the loaned securities in which case the Funds could incur a loss.

| | **Oakmark** | **Small Cap** | **Balanced** | **Int'l** | **Int'l Emerging Value** |
|---|---|---|---|---|---|
| Market Value of Securities Loaned | n/a | $9,794 | $1,079 | $149,521 | $3,566 |
| Collateral (Cash and U.S. Treasuries) | n/a | 10,440 | 1,120 | 164,784 | 3,805 |

## 5. Shareholder Meeting (Unaudited)

On January 30, 1996 the Funds held a meeting of shareholders to approve or disapprove a new investment advisory agreement for each Fund with the Adviser with the same terms as the Funds' prior advisory agreements. For shareholders of Oakmark only, approval was requested to amend Oakmark's fundamental investment restrictions and permit investments in repurchase agreements and lending of portfolio securities. A tabulation of results is shown below.

| **(in thousands)** | **Oakmark** | **Small Cap** | **Balanced** | **Int'l** | **Int'l Emerging Value** |
|---|---|---|---|---|---|
| Advisory Agreement | | | | | |
| For | 73,642 | 372 | 38,262 | 475 | |
| Against | 1,441 | 11 | 1 | 573 | 6 |
| Abstentions | 1,977 | 26 | 1 | 715 | 5 |
| Repurchase Agreements | | | | | |
| For | 51,570 | | | | |
| Against | 4,304 | | | | |
| Abstentions | 2,240 | | | | |
| Broker non-votes | 18,946 | | | | |
| Securities Lending | | | | | |
| For | 49,663 | | | | |
| Against or withheld | 5,985 | | | | |
| Abstentions | 2,467 | | | | |
| Broker non-votes | 18,946 | | | | |

# The Oakmark Fund

## *Financial Highlights*

*For a share outstanding throughout each period*

| | Year Ended October 31, | | | | | Period Ended October 31, 1991 (a) |
|---|---|---|---|---|---|---|
| | **1996** | **1995** | **1994** | **1993** | **1992** | |
| Net Asset Value, Beginning of Period | $28.47 | $25.21 | $24.18 | $17.11 | $12.10 | $10.00 |
| Income From Investment Operations: | | | | | | |
| Net Investment Income (Loss) | 0.34 | 0.30 | 0.27 | 0.17 | (0.03) | (0.01) |
| Net Gains or Losses on Securities (both realized and unrealized) | 4.70 | 4.66 | 1.76 | 7.15 | 5.04 | 2.11 |
| Total From Investment Operations: | 5.04 | 4.96 | 2.03 | 7.32 | 5.01 | 2.10 |
| Less Distributions: | | | | | | |
| Dividends (from net investment income) | (0.28) | (0.23) | (0.23) | (0.04) | 0.00 | 0.00 |
| Distributions (from capital gains) | (0.84) | (1.47) | (0.77) | (0.21) | 0.00 | 0.00 |
| Total Distributions | (1.12) | (1.70) | (1.00) | (0.25) | 0.00 | 0.00 |
| Net Asset Value, End of Period | $32.39 | $28.47 | $25.21 | $24.18 | $17.11 | $12.10 |
| Total Return | 18.07% | 21.55% | 8.77% | 43.21% | 41.40% | 87.10% |
| Ratios/Supplemental Data: | | | | | | |
| Net Assets, End of Period ($million) | $3,933.9 | $2,827.1 | $1,677.3 | $1,107.0 | $114.7 | $4.8 |
| Ratio of Expenses to Average Net Assets | 1.18% | 1.17% | 1.22% | 1.32% | 1.70% | 2.50%(b)* |

| | | | | | | |
|---|---|---|---|---|---|---|
| Ratio of Net Income (Loss) to Average Net Assets | 1.13% | 1.27% | 1.19% | 0.94% | -0.24% | -0.66%(c)* |
| Portfolio Turnover Rate | 23.7% | 18.0% | 29.3% | 18.0% | 34.0% | 0.0% |
| Average Commission Rate Paid(d) | $0.0530 | | | | | |

*Ratios 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) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share for security trades on which commissions are charged. This amount may vary from period to period and fund to fund depending on the mix of trades executed in various markets where trading practices and commission rate structures may differ.

# The Oakmark Small Cap and Balanced Funds

### *Financial Highlights*

*For a share outstanding throughout each period*

| | **Small Cap Fund Year Ended October 31, 1996** | **Balanced Fund Year Ended October 31, 1996** |
|---|---|---|
| Net Asset Value, Beginning of Period | $10.00 | $10.00 |
| Income From Investment Operations: | | |
| Net Investment Income (Loss) | (0.02) | 0.10 |
| Net Gains or Losses on Securities (both realized and unrealized) | 3.21 | 1.19 |
| Total From Investment Operations: | 3.19 | 1.29 |
| Less Distributions: | | |
| Dividends (from net investment income) | 0.00 | 0.00 |
| Distributions (from capital gains) | 0.00 | 0.00 |
| Total Distributions | 0.00 | 0.00 |
| Net Asset Value, End of Period | $13.19 | $11.29 |
| Total Return | 31.94% | 12.91% |

| | | |
|---|---|---|
| Ratios/Supplemental Data: | | |
| Net Assets, End of Period ($million) | $218.4 | $13.8 |
| Ratio of Expenses to Average Net Assets | 1.61% | 2.50% (a) |
| Ratio of Net Income (Loss) to Average Net Assets | (0.29)% | 1.21% (a) |
| Portfolio Turnover Rate | 23.15% | 66.35% |
| Average Commission Rate Paid | $0.0520 | $0.0581 |

a) If the Fund had paid all of its expenses and there had been no expense reimbursement by the Adviser, the ratio of expenses to average net assets would have been 2.64% and the ratio of net income (loss) to average net assets would have been 1.08%.

# The Oakmark International Fund

***Financial Highlights***

*For a share outstanding throughout each period*

| | **Year Ended October 31,** | | | | **Period Ended October 31, 1992 (a)** |
|---|---|---|---|---|---|
| | **1996** | **1995** | **1994** | **1993** | |
| Net Asset Value, Beginning of Period | $12.97 | $14.50 | $14.09 | $9.80 | $10.00 |
| Income From Investment Operations: | | | | | |
| Net Investment Income (Loss) | 0.09 | 0.30 | 0.21 | 0.06 | 0.26 |
| Net Gains or Losses on Securities (both realized and unrealized) | 2.90 | (0.77) | 0.43 | 4.48 | (0.46) |
| Total From Investment Operations: | 2.99 | (0.47) | 0.64 | 4.54 | (0.20) |
| Less Distributions: | | | | | |
| Dividends (from net investment income) | 0.00 | 0.00 | (0.08) | (0.25) | — |
| Distributions (from capital gains) | (1.04) | (1.06) | (0.15) | (0.0) | — |
| Total Distributions | (1.04) | (1.06) | (0.23) | (0.25) | — |
| Net Asset Value, End of Period | $14.92 | $12.97 | $14.50 | $14.09 | $9.80 |
| Total Return | 24.90% | (3.06)% | 4.62% | 47.49% | (22.81)% |
| Ratios/Supplemental Data: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Net Assets, End of Period ($million) | $1,172.8 | $819.7 | $1,286.0 | $815.4 | $23.5 |
| Ratio of Expenses to Average Net Assets | 1.32% | 1.40% | 1.37% | 1.26% | 2.04%* |
| Ratio of Net Income (Loss) to Average Net Assets | 1.45% | 1.40% | 1.44% | 1.55% | 37.02%* |
| Portfolio Turnover Rate | 42% | 26% | 55% | 21% | 0% |
| Average Commission Rate Paid(b) | $0.0158 | | | | |

*Ratios 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.
(b) For fiscal years beginning on or after September 1, 1995, a fund is required to disclose its average commission rate per share for security trades on which commissions are charged. This amount may vary from period to period and fund to fund depending on the mix of trades executed in various markets where trading practices and commission rate structures may differ.

# The Oakmark Int'l Emerging Value Fund

## *Financial Highlights*

*For a share outstanding throughout the period*

| | **Year Ended October 31, 1996** |
|---|---|
| Net Asset Value, Beginning of Period | $10.00 |
| Income From Investment Operations: | |
| Net Investment Income (Loss) | 0.04 |
| Net Gains or Losses on Securities (both realized and unrealized) | 1.37 |
| Total From Investment Operations: | 1.41 |
| Less Distributions: | |
| Dividends (from net investment income) | 0.00 |
| Distributions (from capital gains) | 0.00 |
| Total Distributions | 0.00 |
| Net Asset Value, End of Period | $11.41 |
| Total Return | 14.15% |

| Ratios/Supplemental Data: | |
|---|---|
| Net Assets, End of Period ($million) | $39.8 |
| Ratio of Expenses to Average Net Assets | 2.50% (a) |
| Ratio of Net Income (Loss) to Average Net Assets | 0.65% (a) |
| Portfolio Turnover Rate | 27.44% |
| Average Commission Rate Paid | $0.0036 |

(a) If the Fund had paid all of its expenses and there had been no expense reimbursement by the Adviser, the ratio of expenses to average net assets would have been 2.65% and the ratio of net income (loss) to average net assets would have been .50%.

# The Oakmark Family Of Funds

## *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, The Oakmark Small Cap Fund, The Oakmark Balanced Fund, The Oakmark International Fund, and The Oakmark International Emerging Value Fund (each a series of Harris Associates Investment Trust), including the schedules of investments on pages 7-10, 13-15, 18-20, 24-27, and 31-33, as of October 31, 1996, 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, 1996, 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, The Oakmark Small Cap Fund, The Oakmark Balanced Fund, The Oakmark International Fund, and The Oakmark International Emerging Value Fund of the Harris Associates Investment Trust as of October 31, 1996, 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 6, 1996

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# The Oakmark Family Of Funds

## *Trustees and Officers*



**OTHER INFORMATION**

***Transfer Agent***
State Street Bank and Trust Company
Attention: The Oakmark Family of Funds
P.O. Box 8510
Boston, Massachusetts 02266-8510

***Investment Adviser***
Harris Associates L.P.

***Legal Counsel***
Bell, Boyd & Lloyd

Chicago, Illinois

***Independent Public Accountants***
Arthur Andersen LLP
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 hotline***
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 unles s 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.

**HARRIS ASSOCIATES L.P.**
**2 NORTH LASALLE STREET**
**CHICAGO, IL 60602-3790**