

**Third Quarter
Report**
July 31, 1997

LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
FUND

OAKMARK
SMALL CAP
FUND

OAKMARK
EQUITY AND
INCOME FUND

OAKMARK
INTERNATIONAL
FUND

OAKMARK
INT'L SMALL
CAP FUND

TRUSTEES
& OFFICERS

Letter from the President...

Dear Fellow Shareholders,

I am pleased to present the third quarter report, for the period ending July 31, 1997, for The Oakmark Family of Funds. In general terms our four domestic funds, Oakmark, Select, Small Cap and Equity and Income (formerly the Balanced Fund) enjoyed quarterly returns that would be quite respectable as annual returns! The Oakmark International and International Small Cap Funds' quarterly performance was also robust and generally matched half-year expectations. To give further perspective to the recent overall market advances, a 20 percent decline from current levels (The S & P 500 at 960 as of this writing) would only take us back to the market levels in May of this year!

Obviously, it is not realistic to expect a continuation of this rapid rate of appreciation. As we have cautioned in the past, equities can and will decline in value in any short-term period, and in owning stocks one should be prepared to accept a potential significant decline at some point. Mirroring the recent run-up, a rational expectation might be a 20 percent decline in equity prices and one should periodically review one's risk tolerance against this benchmark.

In this regard, I would like to highlight the name change for The Oakmark Equity and Income Fund (formerly The Oakmark Balanced Fund). This is our most conservative equity fund and with its holdings of U. S. Treasury Notes, it should be the least volatile of our Funds.

And, another change, effective this September we are changing the Funds' fiscal year to September 30th from October 31st. This change will align our fiscal quarters with the calendar quarters with which most fund investors are familiar. This will facilitate comparing our results with the standard benchmarks while still allowing us the cost savings and other efficiencies associated with non-calendar year audits.

Thanks for your support and confidence in us.

Very truly yours,



Victor A. Morgenstern

*Summary Information**

*Performance
for Period*

The Oakmark
Fund

The Oakmark Select
Fund

The Oakmark
Small Cap

<i>Ended July 31, 1997</i>					Fund	
<i>3 Months</i>	16.8%		24.8%		23.5%	
<i>6 Months</i>	19.7%		22.3%		23.4%	
<i>Performance for: 1 Year</i>	45.1%		N/A		58.3%	
<i>3 Years</i>	26.8%**		N/A		N/A	
<i>5 Years</i>	26.5%**		N/A		N/A	
<i>Since inception Value of \$10,000 from inception date</i>	31.5%** \$51,606 08/05/91		52.9% \$15,290 11/01/96		43.1%** \$18,730 11/01/95	
<i>Top Five Holdings as of July 31, 1997</i>						
<i>Company and % of Total Net Assets</i>	Banc One Corporation	7.4%	Tele- Communications, Liberty Media, Class A	15.1%	U.S. Industries, Inc.	6.5%
	Philip Morris Companies Inc.	7.4%	U.S. Industries, Inc.	14.7%	People's Bank of Bridgeport, CT	6.0%
	Mellon Bank Corp.	5.8%	USG Corporation	8.8%	Catellus Dev. Corp.	5.2%
	The Black & Decker Corp.	4.7%	PartnerRe Ltd.	7.1%	Ralcorp Holdings, Inc.	4.6%
	Polaroid Corporation	4.0%	Cablevision Systems Corp.	4.5%	RenaissanceRe Holdings Ltd.	4.2%
<i>Top Five Industries as of July 31, 1997</i>						
<i>Industries and % of Total Net Assets</i>	Food & Beverage	17.9%	TV Programming	15.1%	Other Industrial Goods & Services	15.4%
	Other Consumer Goods & Services	13.9%	Diversified Conglomerates	14.7%	Insurance	11.2%
	Broadcasting &		Broadcasting &			

	Publishing	13.5%	Cable TV	10.1%	Banks	8.1%
	Banks	13.2%	Building Materials & Construction	8.8%	Machinery & Metal Processing	7.8%
	Foreign Securities	5.4%	Other Consumer Goods & Services	7.9%	Broadcasting & Publishing	7.3%

<i>Performance for Period Ended July 31, 1997</i>	The Oakmark Equity & Income Fund	The Oakmark International Fund	The Oakmark Int'l Small Cap Fund			
<i>3 Months</i>	15.0%	8.6%	9.1%			
<i>6 Months</i>	16.6%	15.3%	9.2%			
<i>Performance for: 1 Year</i>	34.0%	30.2%	20.1%			
<i>3 Years</i>	N/A	14.7%**	N/A			
<i>5 Years</i>	N/A	N/A	N/A			
<i>Since inception Value of \$10,000 from inception date</i>	22.6%** \$14,289 11/01/95	18.8%** \$22,960 09/30/92	17.5%** \$13,253 11/01/95			
<i>Top Five Holdings as of July 31, 1997</i>	Premark International, Inc.	3.4%	Cordiant plc	4.7%	Lambert Fenchurch Group plc	5.5%
<i>Company and % of Total Net Assets</i>	U.S. Industries, Inc.	3.3%	Tomkins plc	4.3%	Enix Corporation	4.6%
	Catellus Dev. Corp.	3.3%	AB Volvo	3.6%	JCG Holdings Ltd.	3.9%
	Banc One Corporation	3.3%	Sedgewick Group plc	3.6%	Solution 6 Holdings Ltd.	3.3%
	PartnerRe					

	Ltd.	3.3%	Usiminas	3.5%	Recordati	3.2%
<i>Top Five Industries as of July 31, 1997</i>	U.S. Government Bonds	25.1%	Food & Beverage	18.7%	Other Industrial Goods & Services	13.4%
	Other Consumer Goods & Services	17.8%	Banks	9.8%	Other Consumer Goods & Services	11.5%
	Broadcasting & Publishing	8.8%	Telecommunications	9.8%	Food & Beverage	10.1%
	Other Industrial Goods & Services	8.7%	Consumer Non-Durables	6.6%	Other Financial	9.4%
	Banks	8.2%	Other Industrial Goods & Services	6.4%	Household Products	9.0%

*The Oakmark Fund's average annual total returns for the twelve months ended June 30, 1997 and for the period August 5, 1991 (inception) through June 30, 1997 were 29.9% and 30.8%, respectively. The Oakmark Select Fund's total return for November 1, 1996 (inception) through June 30, 1997 was 41.8%. The Oakmark Small Cap Fund's average annual total returns for the twelve months ended June 30, 1997 and for the period November 1, 1995 (inception) through June 30, 1997 were 41.6% and 40.7%, respectively. The Oakmark Equity & Income Fund's average annual total returns for the twelve months ended June 30, 1997 and for the period November 1, 1995 (inception) through June 30, 1997 were 21.7% and 19.4%, respectively.

The Oakmark International Fund's average annual total returns for the twelve months ended June 30, 1997 and for the period September 30, 1992 (inception) through June 30, 1997 were 23.5% and 18.8%, respectively. The Oakmark International Small Cap Fund's average annual total returns for the twelve months ended June 30, 1997 and for the period November 1, 1995 (inception) through June 30, 1997 were 13.9% and 18.0%, respectively. 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.

**Annualized.

LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
FUND

OAKMARK
SMALL CAP
FUND

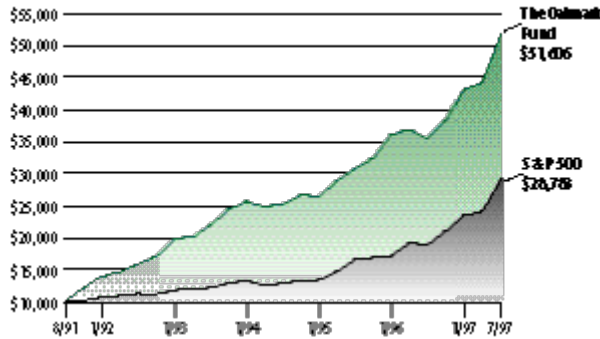
OAKMARK
EQUITY AND
INCOME FUND

OAKMARK
INTERNATIONAL
FUND

OAKMARK
INT'L SMALL
CAP FUND

TRUSTEES
& OFFICERS

**THE VALUE OF A \$10,000 INVESTMENT IN
THE OAKMARK FUND FROM ITS INCEPTION
(8/5/91) TO PRESENT (7/31/97) AS COMPARED
TO THE STANDARD & POOR'S 500 INDEX**



7/31/97 NAV \$40.89

Total
Return
Last 3
mos.

Average Annual Total
Return*
Through 7/31/97
From Fund Inception
8/5/91

	Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Fund Inception 8/5/91
THE OAKMARK FUND	16.8%	31.5%
Standard & Poor's 500 w/inc Stock Index**	19.6%	19.3%
Dow Jones Industrial Average w/inc**	17.8%	21.3%
Value Line Composite Index**	18.7%	10.8%

*Total return includes change in share prices and in each case, except for the Value Line Index, includes reinvestment of any dividends, interest 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.

**PORTFOLIO UPDATE...
AND A NOTE ON CASH**

Wow! What a quarter, we're going to the moon, Alice!

A half-point decline in long-term interest rates, powered by the continuation of subdued inflation, is the primary reason for the 19.6 percent advance in the Standard & Poor's 500. The Oakmark Fund returned about 17 percent, and our stocks alone were up over 20 percent.

In general, the companies in our portfolio are performing well. However, more of our holdings are approaching their sell targets than are approaching their buy targets. With our having limited success finding new investments that meet our criteria, cash continues to be at a historically high percentage. I want to reiterate that this is not a market-timing decision. It reflects simply that we will not own stocks that do not offer us acceptable risk-adjusted expected returns.

Personally, I find the case for even lower interest rates to be compelling. With inflation at less than 2 percent (and overstated at that!) and the long bond yielding close to 6.5

percent, one can earn a real spread that is much higher than the historical average. With the bond market very sensitive to any hint that the Fed is less vigilant to resisting inflation and with increasingly global labor and supplier markets, the case for continued low inflation and a diminution of real spreads over time strikes me as a strong one.

However, it is important for you to realize that we never ever invest your money based on my or any of my colleagues' speculations about the future directions of interest rates or "the market." We believe that it is nearly impossible to add value over the long term acting on such speculations, and leave this activity to others.

There were very few substantive changes in the portfolio since last quarter. We have substantially increased our position in long-time holding Lockheed Martin due to our positive assessment of its merger with Northrop Grumman. Also, some of you may notice that Banc One's acquisition of First USA was completed during the quarter. I have decided to retain Banc One shares in the Fund.

... AND FROM YOURS TRULY: OOPS!

Each of the funds in The Oakmark Family invests in companies with owner-oriented managements. We specifically prefer managements whose financial incentives, preferably in outright stock ownership but more often in the form of stock options, are aligned with those of outside investors like ourselves.

We also expect the shareholders in our funds to hold us to the same owner-orientation standard. Consequently, we pay annual firm-wide bonuses in the form of fund shares and the fund trustees receive partial compensation in the form of fund shares. All the individual fund managers have very significant investments in the funds which they manage, and in The Oakmark Fund Family in general.

In any event, a colleague reminded me that three years ago in a report to shareholders I said that I would not buy individual stocks but would only invest in mutual fund shares. Well, I had forgotten that statement, and the fact of the matter is that since then I have purchased shares in three companies, which were also owned by the Fund. The Fund had already completed all of the purchases of those shares that it was contemplating. I intend to hold these investments indefinitely, and under our code of ethics I cannot sell them until after the Fund has completed any sales that it is contemplating.

I continue to maintain a very large investment in The Oakmark Fund (and in our other funds), have never sold a share, and continue to make regular additional investments. Like that weekly hoops game at the Y, I'm calling this one on myself.

MISCELLANY

The "Forbes" magazine list of the 400 richest Americans offers a lot of insight into America, most particularly the dynamism of our economy. I have written that what separates the US economy is our prodigious ability to generate new technologies, new services, and new wealth. The 1996 "Forbes 400" highlights this.

Only 39 of the 400 are wealthy via inheritance, down from 85 on the 1982 list. More than 90 percent of the richest Americans achieved this wealth on their own, generally through equity in successful companies that employ increasing numbers of people. Is there any other country on earth where one can achieve so much in one generation?

The most significant changes in categories between 1982 and 1996 are the large decrease in those whose wealth was generated by natural resources, and the large increase in software and computer entrepreneurs. Wealth can be very ephemeral.

The recent policy discussions on the capital gains tax, unfortunately, focused on the direct "winners and losers" from a cut. Those opposed argued how "fair" can a tax cut be when the biggest "winner" would be, say, Bill Gates. This sort of argument tends to resonate with the public.

However, such static analysis ignores the effects on the system as a whole. If, for example, you tax capital more, you will have less of it. The less capital per worker employed in the

economy, the less production we will have, and consequently, wages will be lower.

Robert J. Sanborn



ROBERT J. SANBORN

Portfolio Manager

rsanborn@oakmark.com

August 3, 1997

THE OAKMARK

Book Club

It's time again for another episode in the Oakmark Book Club, which I note was started long before Oprah's!

Here are the books that I have read that those of you who are interested in investing, finance, business, and economics might find stimulating:

The One Best Way: Frederick Winslow Taylor and the Enigma of Efficiency, by Robert Kanigel (Viking Penguin, 1997); an exhaustive study of the father of the assembly line and "efficiency";

The Truth About the National Debt: Five Myths and One Reality, by Francis X. Cavanaugh (Harvard Business School Press, 1996); the bottom line: our obsession with the national debt is wholly misplaced, and what should be our obsession is the relative efficacy of government spending vs. private spending;

Monster, by John Gregory Dunne (Random House, 1997); a mordant look inside the movie industry from a screenwriter's perspective, specifically how a project dealing with the self-abusive, grim life of Jessica Savitch morphed over time into the feel-good Pfeiffer-Redford fluff vehicle "Up Close and Personal"; the Armani-clad suits provide great humor, such as one who wants to do "Odyssey", "... based on the epic poem";

A Zebra in Lion Country, by Ralph Wanger, (Simon & Schuster, 1997); a very accessible and well-written investment guide by an ex-colleague;

Showing America a New Way Home, by James Johnson (Jossey-Bass, 1996); the CEO of Oakmark holding Fannie Mae gives a thorough overview of the US housing market, and how Fannie Mae meets its charter of making home ownership attainable for most Americans;

Creating Shareholder Value: the New Standard for Business Performance, by Alfred Rappaport (The Free Press, 1986); an academic look at the corporate mission: not necessarily to increase earnings, but to increase shareholder value.

The Oakmark Fund

Schedule of Investments--July 31, 1997 (Unaudited)

*Common Stocks—
86.4%*

*Food & Beverage—
17.9%*

Philip Morris Companies Inc.	10,260,700	\$ 463,014,087
H.J. Heinz Company	4,007,250	185,084,859
Anheuser-Busch Companies Inc.	3,988,200	171,243,338
Nabisco Holdings Corporation	3,572,100	151,814,250
CPC International, Inc.	868,100	83,283,344
Gallager Group Plc (a) (b)	3,835,500	68,799,281
M&F Worldwide Corp. (a)	300,000	2,681,250
		<hr/>
		1,125,920,409

Retail—0.5%

Carson Pirie Scott & Company (a)	1,000,000	\$ 33,187,500
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*Other Consumer Goods
& Services—13.9%*

The Black & Decker Corporation	7,034,200	\$ 296,315,675
Polaroid Corporation	4,262,400	253,612,800
Brunswick Corporation	3,578,800	115,416,300
Fortune Brands, Inc.	2,560,500	90,737,719
Whitman Corporation	957,500	24,176,875
First Brands Corporation	1,070,400	22,679,100
Mattel, Inc.	541,700	18,824,075
Juno Lighting, Incorporated	1,085,000	17,224,375
GC Companies, Inc. (a)	397,000	16,376,250
Arctic Cat, Inc.	957,500	10,053,750
Justin Industries	601,500	8,270,625
		<hr/>
		873,687,544

Banks—13.2%

Banc One Corporation	8,273,226	\$ 464,334,832
Mellon Bank Corporation	7,213,100	363,810,731
		<hr/>
		828,145,563

Insurance—1.5%

Old Republic International Corporation	2,748,620	\$ 96,201,700
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Other Financial—5.3%

AMBAC, Inc.	2,194,900	186,978,043
Fannie Mae	3,157,500	149,389,219

336,367,262

Broadcasting & Publishing—13.5%

Knight-Ridder, Inc.	4,650,000	\$ 231,046,875
Tele-Communications, Inc., Class A (a)	13,379,179	229,118,440
Dun & Bradstreet Corporation	6,841,300	184,715,100
ACNielsen Corporation	4,764,000	102,426,000
Tele-Communications, Liberty Media, Class A (a)	3,657,741	93,501,004
TCI Satellite Entertainment, Inc., Class A (a)	1,217,917	8,297,060

849,104,479

Telecommunications—3.5%

U.S. West Media Group (a)	10,085,400	\$ 222,509,138
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Managed Care Services—1.6%

Foundation Health Systems, Inc. (a)	3,148,910	\$ 101,945,961
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Medical Products—1.0%

Sybron International Corporation (a)	1,567,800	\$ 64,181,813
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Aerospace & Defense—4.6%

Lockheed Martin Corporation	1,833,800	\$ 195,299,700
McDonnell Douglas Corporation	1,220,000	93,330,000

288,629,700

Other Industrial Goods & Services—4.5%

James River Corporation of Virginia	3,094,100	\$ 127,438,244
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Bandag Incorporated, Class A (a)	1,104,100	56,999,162
SPX Corporation	875,200	45,510,400
The Geon Company	971,600	18,703,300
UCAR International, Inc. (a)	303,500	13,543,688
Premark International, Inc.	328,400	10,365,125
W.R. Grace & Company	122,800	7,552,200
		<hr/>
		280,112,119

*Foreign Securities—
5.4%*

DeBeers Consolidated Mines Limited ADR (b)	3,246,000	\$ 116,856,000
YPF Sociedad Anonima (b)	3,276,500	106,076,687
Unilever NV (b)	476,000	103,768,000
European Vinyls Corporation International N.V	547,700	12,732,909
		<hr/>
		339,433,596

Total Common Stocks (Cost: \$3,424,278,512) 5,439,426,784

*Principal
Value Market Value*

*Short-Term
Investments—
13.6%*

*U.S. Government Bills
—2.8%*

United States Treasury Bills, 4.97% due 8/21/1997	\$25,000,000	\$ 24,930,972
United States Treasury Bills, 5.36% due 9/18/1997	25,000,000	24,821,333
United States Treasury Bills, 5.40% due 10/16/1997	25,000,000	24,714,736
United States Treasury Bills, 5.07% due 10/16/1997	20,000,000	19,785,934

United States Treasury Bills, 5.34% due 10/23/1997	20,000,000	19,753,536
United States Treasury Bills, 5.16% due 11/13/1997	20,000,000	19,701,867
United States Treasury Bills, 5.17% due 11/28/1997	20,000,000	19,658,205
United States Treasury Bills, 5.11% due 1/8/1998	20,000,000	19,545,778

Total U.S. Government Bills (Cost: \$172,912,361) 172,912,361

*Commercial Paper—
8.8%*

American Express Credit Corp., 5.47% 5.54% due 8/5-8/27/97	\$190,000,000	\$ 190,000,000
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Ford Motor Credit Corp.,

5.48% 5.54% due 8/4-8/25/97	170,000,000	170,000,000
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General Electric Capital Corporation,

5.49% 5.85% due 8/1-9/5/97	195,000,000	195,000,000
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Total Commercial Paper (Cost: \$555,000,000) 555,000,000

Repurchase Agreements—2.0%

State Street Repurchase Agreement, 5.76% due 8/1/1997		\$ 126,065,000
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Total Repurchase Agreements (Cost: \$126,065,000) 126,065,000

Total Short-Term Investments (Cost: \$853,977,361) 853,977,361

Total Investments (Cost \$4,278,255,873)—100.0%		\$ 6,293,404,145
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Other assets in excess of other liabilities—0.0%		912,957
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Total Net Assets—

100%

\$6,294,317,102

Notes:

(a) Non-income producing security.

(b) Represents an American Depositary Receipt.

The Oakmark Select Fund

Report from Bill Nygren, Portfolio Manager

RESULTS FROM FUND INCEPTION (11/1/96) THROUGH 7/31/97

7/31/97 NAV \$15.29

	Total Return Last 3 mos.	Total Return* Through 7/31/97 From Fund Inception 11/1/96
The Oakmark Select Fund	24.8%	52.9%
Standard & Poor's 500 w/inc Stock Index**	19.6%	37.1%
Standard & Poor's MidCap 400 w/inc Index**	22.9%	31.3%
Value Line Composite Index**	18.7%	24.8%

*Total return includes change in share prices and in each case, except for the Value Line Index, includes reinvestment of any dividends, interest and capital gain distributions.

**Each of the three indexes or averages is an unmanaged group of stocks whose composition is different from the Fund. The S&P 500 is a broad market-weighted average dominated by blue-chip stocks. The S&P 400 consists of 400 domestic stocks chosen for market size, liquidity, and industry group representation. The Value Line Index is an unweighted average of more than 1,000 stocks. Past performance is no guarantee of future performance.

The Oakmark Select Fund had another excellent quarter, increasing in value by 24.8%. The market averages also had a strong quarter, led by the S&P MidCap 400 which gained 22.9%. For the nine months since inception, The Oakmark Select Fund's return is 52.9%. Were I a betting man, you could have won money from me by predicting that two of your Fund's first three quarters would show gains of 25%. Although it has been enjoyable, we need to remember that these results are historically very unusual. How long can the good times continue? As Yogi Berra once said, "I wish I had an answer to that, because I'm getting tired of answering that question." Anyway, it's summer in Chicago, the Bulls are again atop the NBA and the stock market is at a record high. All's well with the world.

Over the past year, I've had many opportunities to speak to investors, advisors and the financial media about how we invest for The Oakmark Select Fund. Although many of these people knew of The Oakmark Family of Funds, few understood how we find investment opportunities. Most people have the misperception that the fund manager is discovering all of our new stocks.

The truth is that we have eight analysts (including myself) who spend their time looking for U.S.-based companies that have growing business values, owner-oriented managements and current share prices that are well below intrinsic business value. One of our most important strengths as an organization is that our investment philosophy is consistent across all of our funds and all of our investment professionals. Many firms ask an analyst to cover a specific industry and supply investment ideas that fit several different investment philosophies. We ask each of our analysts to apply a consistent investment philosophy across many different industries. Their goal is simply to find stocks that they think will make money. By giving our analysts a great deal of freedom, an office full of like-minded investors, and strong economic incentives, we have been able to attract and retain the highest caliber people in the investment business.

But unlike the NBA, where the stars are out on the court, in the investment business the stars are on the sidelines. Having been an analyst for the last fifteen years, I understand the

frustration our analysts feel when they see the media giving me credit for their ideas. Next time you read an article about a successful fund manager, remember who is on the sidelines making it possible.

The analysts who've made me look smart this year are: Jim Benson (People's Bank), Henry Berghoef (SPX, ACNielsen, Dun & Bradstreet), Kevin Grant (Brunswick, Premark), Bill Jacobs (General Signal), John Raitt (McDonnell Douglas, Titan Exploration, Union Texas Petroleum), Steve Reid (First USA, US Industries) and Ed Studzinski (PartnerRe, Polaroid). Lastly, my good friend and Harris Associates' President, Bob Levy, deserves special mention not only for the many hours he's spent helping me to see investment issues more clearly, but also for his work over the last six years co-following your fund's largest holding, Liberty Media. I want to say thank you to this group of individuals; they are the Michael Jordans and Scottie Pippens of their profession. They are, as in the Tina Turner song, "Simply the Best."

One of the stocks which made last quarter so successful for The Oakmark Select Fund was PartnerRe. PartnerRe is a property catastrophe reinsurer (insures insurance companies against natural disasters such as hurricanes and earthquakes). We own PartnerRe because it is a leader in a very high return business that has significant barriers to entry yet it has a stock price that is much cheaper than most companies. Using prices from recent reinsurer acquisitions as an estimate of intrinsic business value, PartnerRe's stock price is at a large discount to the value implied by its earnings and equity. During the quarter, we had the pleasure of having the PartnerRe CEO, Herbert Haag, in our office. For an insurance executive, Herbert has a unique view on how to manage his business. He told us that he compares the use of capital for writing new insurance policies to using that same capital for share repurchase. Whichever one increases per share business value the most is the path they will pursue. This exemplifies the owner-oriented managements we look for in all our investments. Nothing affects Herbert's net worth more than a change in PartnerRe's stock price. Keep up the good work Herbert!

Thank you for your continuing support.



BILL NYGREN
Portfolio Manager
Bnygren@oakmark.com
August 4, 1997

The Oakmark Select Fund

Schedule of Investments--July 31, 1997 (Unaudited)

<i>Shares Held</i>	<i>Market Value</i>
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Common Stocks—91.4%

Other Consumer Goods & Services—7.9%

Polaroid Corporation	266,000	\$15,827,000
Brunswick Corporation	445,900	14,380,275
		<hr/>
		30,207,275

Banks—4.1%

People's Bank of Bridgeport, Connecticut	558,500	\$15,777,625
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Insurance—7.1%

PartnerRe Ltd.	663,000	\$27,431,625
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Broadcasting & Cable TV—10.1%

Cablevision Systems Corporation (a)	291,100	\$17,284,062
U.S. West Media Group (a)	519,000	11,450,437
TCI Satellite Entertainment, Inc., Class A (a)	1,485,000	10,116,563
		<hr/>
		38,851,062

TV Programming—15.1%

Tele-Communications, Liberty Media, Class A (a)	2,267,200	\$57,955,300
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Publishing—7.0%

ACNielsen Corporation	666,000	\$14,319,000
Dun & Bradstreet Corporation	472,000	12,744,000
		<hr/>
		27,063,000

Data Storage—3.2%

Imation Corporation (a)	504,400	\$12,389,325
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Building Materials & Construction—8.8%

USG Corporation (a)	718,500	\$33,769,500
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Oil & Natural Gas—5.8%

Union Texas Petroleum Holdings, Inc.	712,600	\$14,830,988
Titan Exploration, Inc. (a)	780,000	7,507,500
		<hr/>
		22,338,488

Other Industrial Goods & Services—7.6%

Premark International, Inc.	475,000	\$14,992,187
General Signal Corporation	290,000	14,264,375
		<hr/>
		29,256,562

Diversified Conglomerates—14.7%

U.S. Industries, Inc. (a)	1,402,700	\$56,546,344
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**Total Common Stocks (Cost:
\$295,420,165) 351,586,106**

*Principal
Value* *Market
Value*

Short-Term Investments—9.2%

U.S. Government Bills—1.6%

United States Treasury Bills, 4.93% due 8/21/1997	2,000,000	\$1,994,522
United States Treasury Bills, 5.04% due 10/9/1997	2,000,000	1,980,680
United States Treasury Bills, 5.07% due 10/16/1997	2,000,000	1,978,594
		<hr/>

**Total U.S Government Bills (Cost:
\$5,953,795) 5,953,796**

Commercial Paper—5.2%

Ford Motor Credit Corp., 5.55% 5.56% due 8/58/6/1997	7,000,000	\$7,000,000
American Express Credit Corp., 5.65% due 8/4/1997	5,000,000	5,000,000
General Electric Capital Corporation, 5.50% 5.85% due 8/1/1997	8,000,000	8,000,000
		<hr/>

**Total Commercial Paper (Cost:
\$20,000,000) 20,000,000**

Repurchase Agreements—2.4%

State Street Repurchase Agreement, 5.76% due 8/1/97	9,314,000	\$9,314,000
		<hr/>

Total Repurchase Agreements (Cost: \$9,314,000)	9,314,000
Total Short-Term Investments (Cost: \$35,267,795)	35,267,796
Total Investments (Cost \$330,687,960) —100.6%	\$386,853,902
Other liabilities in excess of other assets—(0.6)%	(2,228,302)
	<hr/>
Total Net Assets—100%	\$384,625,600
	<hr/> <hr/>

Notes:

(a) Non-income producing security.

The Oakmark Small Cap Fund

Report from Steven J. Reid, Portfolio Manager

LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
FUND

OAKMARK
SMALL CAP
FUND

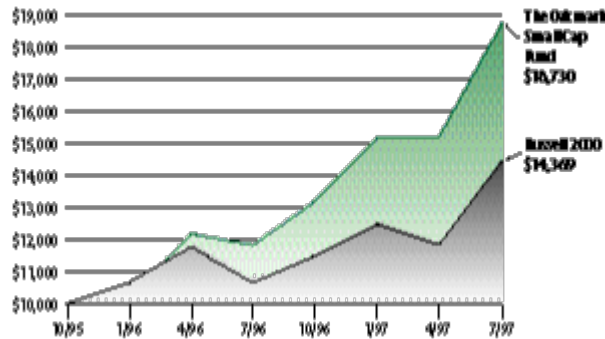
OAKMARK
EQUITY AND
INCOME FUND

OAKMARK
INTERNATIONAL
FUND

OAKMARK
INT'L SMALL
CAP FUND

TRUSTEES
& OFFICERS

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (7/31/97) AS COMPARED TO THE RUSSELL 2000



7/31/97 NAV \$18.73

Average Annual Total Return*
Through 7/31/97
From Fund Inception
11/1/95

Total Return
Last 3 mos.

	Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Fund Inception 11/1/95
The Oakmark Small Cap Fund	23.5%	43.1%
Lipper Small Cap Fund Index**	24.9%	18.3%
Russell 2000 w/inc**	21.3%	23.0%
S&P Small Cap 600 w/inc**	24.0%	27.0%

*Total return includes change in share prices and in each case includes reinvestment of any dividends, interest 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 Cap Fund Index is comprised of 30 Small Cap Funds. The Russell 2000 Index measures the performance of smaller companies, and represents approximately 10% of the total value of publicly traded companies in the U.S. The S&P 600 Index measures the performance of selected U.S. stocks with a small market capitalization. Past performance is no guarantee of future results.

THE QUARTER

The Oakmark Small Cap Fund's third fiscal quarter ended on July 31, 1997. The third quarter benefited from an unusually strong period for the overall stock market and particularly for small companies. During this period your Fund gained 23.5 percent. This is comparable to the relevant indices. For the nine month period, your Fund gained 42%. The indices to which your Fund is compared did not perform as well.

A number of unusual, but very significant events occurred during the quarter that are worth noting. In the early part of May, Logicon Inc., a producer of defense electronics, agreed to be acquired by Northrop Grumman Corp. in exchange for shares of Northrop. In early July, prior to the closing of the merger, Northrop agreed to be acquired by Lockheed Martin. In each case the acquirer paid a significant premium over the acquiree's most recent share price. An event such as this is not likely to be repeated, but as shareholders of the Fund it can be savored.

It is very rare that your Fund is a buyer of stock in the initial public offering (IPO) of a company's shares. In general we have found the shares of companies selling stock in an IPO to be unattractive for a variety of reasons. Essex International Inc., a manufacturer of wire and cable, is an exception. Essex possessed the same traits we look for in any company in which the Fund invests. We were able to purchase shares at an attractive valuation, in a company that is well managed and possesses a niche position within its industry. While Essex's business may seem to be mundane to many investors, its shares have risen from the IPO price of \$17 to slightly over \$33.

The Fund's best performing stock during the quarter was Cablevision Systems Corp. In the latter part of 1996 through the spring of this year companies that owned and operated cable TV systems and programming were the dogs of Wall Street. As long-term value investors, we make an effort not to follow the herd and think independently. However, we are very willing to visit those areas where the herd has been and since moved on. Such was the case with Cablevision. The Fund purchased shares at attractive prices when the herd was selling. Just at the point when the industry had been virtually written off by investors, several significant transactions were announced highlighting the undervaluation in the industry. Cablevision's shares rose over 85% in the quarter. We have to be thankful for the opportunities that other investors give us.

THE QUERIES

In March of this year we announced that steps might be taken to restrict the flow of money into The Oakmark Small Cap Fund. On June 20, 1997 such steps were taken (see prospectus for details). We have received numerous inquiries about what this means for the Fund and its shareholders.

Q: Why were steps taken to restrict the flow of money into the Fund?

A: The Fund has a limited universe in which to invest its assets. The decision to restrict inflows is based on both art and science. We continue to see opportunities in which to invest the assets of the Fund, but must be conscious of future growth which is not predictable. We chose not to shutter the Fund completely to new money due to the damage that can be caused by redemptions. During the difficult market period of March and April gross redemptions were over \$175 million; had the Fund not had inflows, the forced selling of stocks would have hurt shareholders who share our long-term investment horizon. Another reason to continue to allow some inflow of new money is to capitalize on the investment opportunities we see without forcing the premature sale of existing holdings. This helps to keep us on our toes seeking new investment opportunities.

Q: Has the Fund's investment philosophy or objectives changed?

A: No. The Fund is committed to its long-term value-oriented investment philosophy and will remain consistent with that philosophy. The investment objectives are also unchanged. The Oakmark Small Cap Fund is not overdiversified. Currently the Fund owns less than half the number of stocks of the average mutual fund. The Fund continues to invest in small capitalization stocks. As of the end of this quarter, the mean and median market cap of the Fund's portfolio is less than those of the S&P Small Cap 600 Index. However, as the holdings in the Fund appreciate, there will be an upward drift in market capitalization. We do not intend to sell the shares of companies based on market capitalization, but when we see the value per share and the share price converge, the shares will be sold. Keeping turnover as low as possible is in the best interest of shareholders.

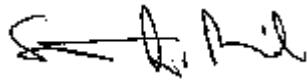
Q: Various queries have been made about my personal commitment to The Oakmark Small Cap Fund.

A: First, not only am I a significant shareholder of the Fund, but so are the many people that contribute to the success of The Oakmark Small Cap Fund. Our interests are aligned with all shareholders. Second, I have a great job and work with an outstanding group of investment professionals. With their help I intend to manage the Fund until just before advanced senility really sets in. Third, I don't know how to do anything else.

QUID PRO QUO

Congratulations to the Chicago Bulls on their fifth NBA Championship. Besides having perhaps the greatest player in the game in Michael Jordan, the Bulls have a cast of outstanding players and coaches that come together as a team. Their cohesiveness and teamwork have produced an outstanding success story. While The Oakmark Small Cap Fund does not have a Michael Jordan, nor the long-term record of the Bulls, we do employ a team approach and strive for consistency. Elsewhere in Chicago, on the southside of town, the White Sox pursued a completely different strategy. Trailing the Cleveland Indians by 3 1/2 games and with a good bit of the season left, the Sox traded away the heart of their pitching staff. This virtually ensures the Sox won't be a contender this year. Meanwhile, the Blackhawks continue to pursue their strategy to get close, but not too close to the path of greatness. The Cubs and Bears look like they're primed to repeat, unfortunately their past performances aren't the desired outcome. The mercurial nature of Chicago's sports teams make for an ever changing environment. This leads me to my quarterly comment on the weather. My advice is don't follow me. I recently bestowed myself upon New England and am taking full responsibility for the re-energizing of Tropical Storm Danny.

Once again, I would like to thank everyone involved, especially our shareholders, for your support.



STEVEN J. REID

Portfolio Manager
sreid@oakmark.com
August 5, 1997

THE OAKMARK SMALL CAP FUND

Schedule of Investments—July 31, 1997 (Unaudited)

	<i>Shares Held</i>	<i>Market Value</i>
<hr/>		
<i>Common Stocks—92.6%</i>		
<i>Food & Beverage—7.3%</i>		
Ralcorp Holdings, Inc. (a)	3,000,000	\$ 54,375,000
International Multifoods Corporation	816,700	23,071,775
M & F Worldwide Corp. (a)	917,600	8,201,050
		<hr/>
		85,647,825
 <i>Retail—4.3%</i>		
Cole National Corporation		

(a)	500,000	\$ 21,593,750
Carson Pirie Scott & Company (a)	511,500	16,975,406
Zale Corporation (a)	523,900	11,394,825
		<hr/>
		49,963,981

Other Consumer Goods & Services—7.3%

Triarc Companies, Inc. (a)	1,155,700	\$ 26,292,175
Scotsman Industries, Inc.	857,900	23,270,538
First Brands Corporation	1,000,000	21,187,500
USA Detergents, Inc. (a)	398,200	5,425,475
Barry (R.G.) Corporation (a)	309,800	4,027,400
Justin Industries	207,400	2,851,750
GC Companies, Inc. (a)	56,300	2,322,375
		<hr/>
		85,377,213

Banks—8.1%

People's Bank of Bridgeport, Connecticut	2,500,000	\$ 70,625,000
BankAtlantic Bancorp, Inc., Class A	611,500	9,860,438
Northwest Savings Bank	295,000	5,199,375
Harbor Federal Savings Bank	112,000	5,012,000
Pocahontas Federal Savings and Loan Association	140,000	3,080,000
Savings Bank of the Finger Lakes	94,000	1,645,000
		<hr/>
		95,421,813

Insurance—11.2%

RenaissanceRe Holdings Limited	1,145,400	\$ 49,466,962
PXRE Corporation	960,000	29,580,000
Chartwell Re Corporation	825,000	27,431,250
Highlands Insurance Group, Inc. (a)	1,100,000	24,681,250
		<hr/>
		131,159,462

Other Financial—3.4%

Financial Security

Assurance Holdings Ltd.	740,000	\$ 30,895,000
Duff & Phelps Credit Rating Company	296,800	9,052,400
		<hr/>
		39,947,400

Broadcasting & Publishing—7.3%

Cablevision Systems Corporation (a)	650,000	\$ 38,593,750
TCI Satellite Entertainment, Inc., Class A (a)	3,000,000	20,437,500
Lee Enterprises, Inc.	500,000	12,812,500
Granite Broadcasting Corporation (a)	800,000	9,300,000
Ascent Entertainment Group, Inc. (a)	403,000	4,886,375
		<hr/>
		86,030,125

Data Storage—0.3%

Imation Corporation (a)	150,000	\$ 3,684,375
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Aerospace & Defense—2.5%

Tracor, Inc. (a)	1,083,000	\$ 29,647,125
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Machinery & Metal Processing—7.8%

Gardner Denver Machinery, Inc. (a)	900,000	\$ 30,600,000
The Carbide/Graphite Group, Inc. (a)	800,000	23,200,000
Atchison Casting Corporation (a)	710,400	13,675,200
Matthews International Corporation, Class A	333,500	13,381,688
Northwest Pipe Company (a)	520,000	11,050,000
		<hr/>
		91,906,888

Building Materials & Construction—1.9%

NVR Inc. (a)	1,000,000	\$ 17,312,500
Triangle Pacific Corporation (a)	146,100	4,748,250
		<hr/>

Oil & Natural Gas—2.1%

Titan Exploration, Inc. (a)	2,525,000	\$ 24,303,125
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Other Industrial Goods & Services—15.4%

SPX Corporation	900,000	\$ 46,800,000
MagneTek, Inc. (a)	1,970,000	40,261,875
Essex International, Inc. (a)	948,000	31,521,000
Zurn Industries, Inc.	551,000	16,288,937
Columbus McKinnon Corporation	801,400	15,927,825
Dal-Tile International Inc. (a)	711,800	12,767,912
Binks Sames Corporation	222,000	9,546,000
Premark International, Inc.	225,000	7,101,563
Wynn's International, Inc.	34,600	1,038,000
		<hr/>
		181,253,112

Commercial Real Estate—7.2%

Catellus Development Corporation (a)	3,000,000	\$ 61,500,000
Castle & Cooke, Inc. (a)	1,423,600	22,777,600
		<hr/>
		84,277,600

Diversified Conglomerates—6.5%

U.S. Industries, Inc. (a)	1,900,000	\$ 76,593,750
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**Total Common Stocks (Cost:
\$872,933,354)**

1,087,274,544

*Principal
Value Market Value*

*Fixed Income—0.2%**Corporate Bonds—0.2%**Recreation & Entertainment—0.2%*

Harrah's Jazz Bonds, 14.25% due 11/15/2001 (b)	6,700,000	\$ 2,395,250
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Total Fixed Income (Cost: \$3,304,413)	2,395,250
---	------------------

Short-Term Investments—7.0%

U.S. Government Bills—1.2%

United States Treasury Bills, 5.04% due 10/9/1997	5,000,000	\$ 4,951,700
United States Treasury Bills, 5.34% due 10/23/1997	5,000,000	4,938,384
United States Treasury Bills, 5.17% due 11/28/1997	5,000,000	4,914,551

Total U.S. Government Bills (Cost: \$14,804,635)	14,804,635
---	-------------------

Commercial Paper—4.7%

American Express Credit Corp., 5.555.65% due 8/1- 8/4/1997	15,000,000	\$ 15,000,000
Ford Motor Credit Corp., 5.555.56% due 8/48/5/1997	15,000,000	15,000,000
General Electric Capital Corporation, 5.505.85% due 8/18/6/1997	25,000,000	25,000,000

Total Commercial Paper (Cost: \$55,000,000)	55,000,000
--	-------------------

Repurchase Agreements—1.1%

State Street Repurchase Agreement, 5.76% due 8/1/97	12,484,000	\$ 12,484,000
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Total Repurchase Agreements (Cost: \$12,484,000)	12,484,000
---	-------------------

Total Short-Term Investments (Cost: \$82,288,635)	82,288,635
--	-------------------

Total Investments (Cost \$958,526,402)—99.8%	1,171,958,429
Other assets in excess of other liabilities—0.2%	1,977,967

Total Net Assets—100%

\$1,173,936,396

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Notes:

(a) Non-income producing security.

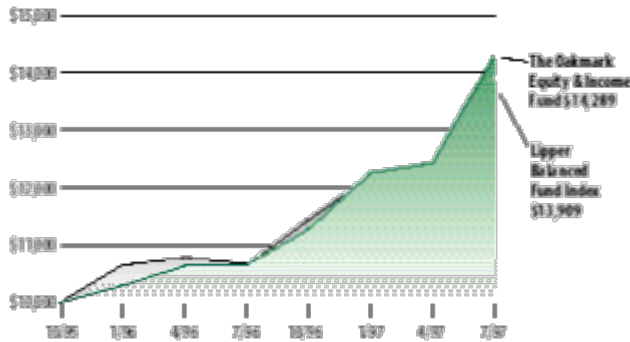
(b) This bond is currently in default and the fund is no longer accruing interest.

The Oakmark Equity & Income Fund

Formerly The Oakmark Balanced Fund

Report from Clyde S. McGregor, Portfolio Manager

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY & INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (7/31/97) AS COMPARED TO THE LIPPER BALANCED FUND INDEX



7/31/97 NAV \$13.98

Total
Return
Last 3
mos.

Average Annual Total
Return*
Through 7/31/97
From Fund Inception
11/1/95

	Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Fund Inception 11/1/95
The Oakmark Equity & Income Fund	15.0%	22.6%
Lipper Balanced Fund Index**	13.6%	20.7%
Lehman Govt./Corp. Bond**	5.3%	6.9%
S&P 500 w/inc**	19.6%	35.5%

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

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

note position, not the portfolio manager. When renaming the Fund, I considered other possible names (though "Airbag Fund" was not one of them) but kept returning to the realization that this Fund is basically the most conservative equity fund in The Oakmark Family but with an income orientation. So, we simply elected to put the two most descriptive words into the name.

WHAT'S IN A NAME?

This is the first quarterly letter I have written since the change of name for the Fund from Balanced to Equity & Income. It will also be the last quarterly letter that I write in August during my vacation, as we will switch to a calendar quarter reporting period beginning in September. Some shareholders have wondered why we at The Oakmark Funds have now gone through the bother of changing the names of two of our funds. The simple answer is that in both cases experience taught us that the original name was not effectively communicating the investment objectives and implementation strategy of the funds. Equity and Income is not an asset allocation fund as the former name "balanced" suggested. Rather, it is a fund which seeks to generate attractive rates of return through selection of equities and equity-equivalents while increasing income and moderating volatility with a core position in Treasury notes.

Our firm's Chairman Victor Morgenstern has described Equity and Income as "The Oakmark Fund with an airbag." Airbag refers to the Treasury

Please understand that nothing has changed with the Fund but the name. When I was young, everyone knew me by a nickname which my grandfather had called me. When I reached adulthood, however, I found that my nickname no longer fit. Something similar happened to The Equity and Income Fund.

QUARTER REVIEW

As you probably already know, the latest quarter continued the Fund's string of positive returns since inception. Somewhat more noteworthy is the fact that the nearly 15% return in the quarter was the highest in the Fund's history and exceeded the result for all of fiscal 1996. Declining interest rates supported the amazing rally in stock prices, but returns to stock market indices more than tripled bond market returns. As you would expect given the size of the advance, economic and political conditions in the quarter approached perfection from a stock investor's point of view.

Given the recent rally, the biggest problem for the securities markets today is complacency. With stocks at current valuation levels, investors will not tolerate negative surprises. High valuations themselves are not sufficient to produce price declines. They do, however, increase vulnerability and volatility. To sum up, stock prices are high, but *they should be* given the underlying fundamental picture.

WHAT'S A POOR INCOME MANAGER TO DO?

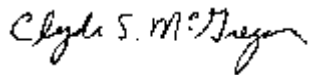
For at least the last four quarters I have found it difficult to maintain the Fund's income yield. Stock prices have risen far faster than dividends have grown. A recent report by Peter Canelo of Morgan Stanley Dean Witter (to whom I am also indebted for the title of this section) contrasted the dividend yield of issues in the S&P 500 in mid-1994 and mid-1997. In 1994 a manager could find a substantial number of equities with dividend yields in excess of 3%. In addition, a greater number of high-yielding convertible issues were available. Today one can find few issues with 3% or better yields that are not utilities or real estate investment trusts. The S&P 500 Index itself now yields 1.6%, a record low.

It is also harder to find yield today in the fixed income market. Creative minds on Wall Street have developed a new investing vehicle, the collateralized bond obligation, the successful marketing of which has increased the demand for high-yield debt. And, as I discussed in last quarter's letter, the long economic expansion has allowed many companies to call or tender for their higher interest paying obligations, reducing the supply.

So, what is a portfolio manager with the word "income" now in the name of his Fund to do? I will not change the asset allocation of the Fund merely for the purpose of enhancing income. Neither will I lower our quality standards to populate the portfolio with risky high yield issues. I will, however, continue to seek out unexploited or obscure areas of the investing universe where yield may still be obtained.

In the July quarter I noticeably increased the Fund's commitment to the preferred stock sector. In particular, I initiated the Fund's first two investments in an unusual instrument, the "trust preferred." These issues benefit from a quirk in the tax code which helps to make them relatively cheap sources of capital for financial institutions. The institution seeking capital creates a trust which then issues the preferred stock. The trust invests the proceeds from the preferred stock sale in a new issue of bonds from the financial institution. The advantage of this arrangement is that the institution can deduct the interest payment on the bonds for tax purposes (which reduces the effective rate of interest) while still counting the preferred stock as part of its capital base. Jim Benson, who recently joined our firm, has identified two attractive issues for use in the Fund, both of which yield more than 9%. One is an obligation of a bank which is held in The Oakmark Small Cap Fund.

The answer to the question which began this section is simply to keep looking but don't compromise standards. As always, I welcome your questions or comments.



CLYDE S. MCGREGOR

Portfolio Manager

mcgregor@oakmark.com

August 5, 1997

The Oakmark Equity & Income Fund

Schedule of Investments—July 31, 1997 (Unaudited)

	<i>Shares Held</i>	<i>Market Value</i>
<hr/>		
<i>Equity and Equivalents—59.3%</i>		
<i>Food & Beverage—2.5%</i>		
Philip Morris Companies Inc.	16,100	\$726,513
<i>Other Consumer Goods & Services—17.0%</i>		
Lexmark International Group, Inc., Class A (a)	26,000	\$846,625
Borg-Warner Automotive, Inc.	15,000	836,250
Juno Lighting, Incorporated	46,300	735,012
Armstrong World Industries, Inc.	9,600	708,600
National Presto Industries, Inc.	17,000	671,500
First Brands Corporation	31,000	656,812
Promus Hotel Corporation (a)	13,400	526,788
		<hr/>
		4,981,587
<i>Banks—5.5%</i>		
Banc One Corporation	17,022	\$955,368
Mellon Bank Corporation	13,400	675,862
		<hr/>
		1,631,230
<i>Insurance—6.3%</i>		

PartnerRe Ltd.	23,000	\$951,625
Old Republic International Corporation	25,500	892,500
		<hr/>
		1,844,125

Broadcasting & Publishing—8.8%

Dun & Bradstreet Corporation	33,000	\$891,000
Lee Enterprises, Inc.	33,900	868,688
Tele-Communications, Liberty Media, Class A (a)	31,700	810,331
		<hr/>
		2,570,019

Aerospace & Defense—2.9%

McDonnell Douglas Corporation	11,000	\$841,500
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Other Industrial Goods & Services—5.8%

Premark International, Inc.	31,500	\$994,219
Lear Corporation	15,000	718,125
		<hr/>
		1,712,344

Commercial Real Estate—7.2%

Catellus Development Corporation (a)	46,728	\$957,924
LaSalle Partners, Inc. (a)	20,000	597,500
Equity Office Properties Trust (a)	19,000	551,000
		<hr/>
		2,106,424

Diversified Conglomerates—3.3%

U.S. Industries, Inc. (a)	24,000	\$967,500
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Total Equity and Equivalents (Cost: \$12,988,160) 17,381,242

<i>Shares Held/ Principal Value</i>	<i>Market Value</i>
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Fixed Income—36.4%

Preferred Stock—6.7%

Banks—2.7%

RBI Capital Trust I, Preferred, 9.10%	42,500	\$425,000
BBC Capital Trust 1, Preferred, 9.50%	14,000	364,000
		<hr/>
		789,000

Insurance—0.7%

American Heritage Life Investment Corporation, Preferred, 8.50%	3,000	\$185,625
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Broadcasting & Cable TV—1.6%

Tele-Communications, Inc., Preferred Junior Class B, 6.00%	5,800	\$469,800
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Other Industrial Goods & Services—1.7%

James River Corporation of Virginia, Preferred Series O, 8.25%	20,000	\$505,000
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Total Preferred Stock (Cost: \$1,819,125)		1,949,425
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Corporate Bonds—3.6%

Other Consumer Goods & Services—0.8%

Samsonite Corporation, 11.125% due 7/15/2005, Senior Subordinated Note Series B	200,000	\$226,500
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Aerospace & Automotive—0.5%

Coltec Industries, Inc., 9.75% due 4/1/2000	150,000	\$160,500
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Building Materials & Construction—0.5%

USG Corporation, 9.25% due 9/15/2001, Senior Notes Series B	150,000	\$158,062
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Utilities—0.6%

Midland Funding Corporation, 11.75% due 7/23/2005	150,000	\$177,000
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Other Industrial Goods & Services—1.2%

UCAR Global Enterprises Inc., 12.00% due 1/15/2005, Senior Subordinated Note	300,000	\$342,000
--	---------	-----------

Total Corporate Bonds (Cost: \$1,028,497)		1,064,062
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Government and Agency Securities—26.1%

U.S. Government Bonds—25.1%

United States Treasury Notes, 7.50% due 5/15/2002	2,500,000	\$2,666,075
United States Treasury Notes, 7.125% due 9/30/1999	2,400,000	2,466,456
United States Treasury Notes, 7.875% due 11/15/2004	2,000,000	2,218,500
		<hr/>
		7,351,031

U.S. Government Agencies—1.0%

Federal Home Loan Bank, 6.405% due 4/10/2001, Consolidated Bond	300,000	\$303,540
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Total Government and Agency Securities		<hr/>
(Cost: \$7,494,114)		7,654,571

Total Fixed Income (Cost: \$10,341,736)		10,668,058
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Short-Term Investments—4.9%

U.S. Government Bills—1.7%

United States Treasury Bills, 5.04% due 10/9/1997	250,000	\$247,585
United States Treasury Bills, 5.07% due 10/16/1997	250,000	247,324
		<hr/>

Total U.S. Government Bills (Cost:		
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\$494,909) **494,909**

Commercial Paper—2.6%

General Electric Capital
Corporation, 5.50% 5.55% due
8/18/4/1997 750,000 \$750,000

**Total Commercial Paper (Cost:
\$750,000) 750,000**

Repurchase Agreements—0.6%

State Street Repurchase
Agreement, 5.76% due 8/1/97 168,000 \$168,000

**Total Repurchase Agreements (Cost:
\$168,000) 168,000**

**Total Short-Term Investments (Cost:
\$1,412,909) 1,412,909**

Total Investments (Cost
\$24,742,805)—100.6% \$29,462,209

Other liabilities in excess of
other assets—(0.6)% (161,376)

Total Net Assets—100% \$29,300,833

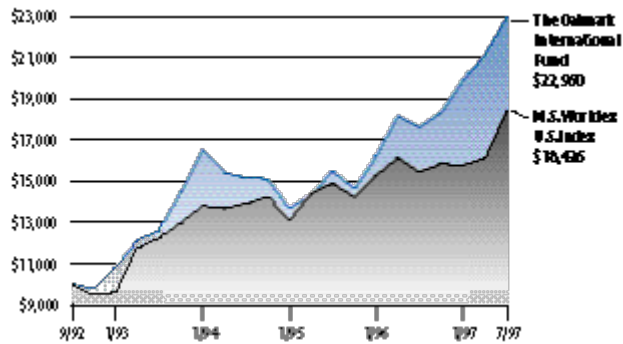
Notes:

(a) Non-income producing security.

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 (7/31/97) AS COMPARED TO THE MORGAN STANLEY WORLD EX U.S. INDEX



7/31/97 NAV \$18.51

Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Inception 9/30/92

Oakmark International	8.6%	18.8%
Morgan Stanley World ex U.S. w/inc**	14.4%	13.5%
Morgan Stanley EAFE w/inc**	14.2%	13.3%
Lipper Analytical International Fund		
Average**	14.2%	15.7%

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

**Each of the three indexes or averages is an unmanaged group of stocks or funds whose composition is different from the Fund. The 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 30 mutual funds that invest in securities whose primary markets are outside the United States. Past performance is no guarantee of future results.

FELLOW SHAREHOLDERS:

The performance of The Oakmark International Fund continues to be satisfactory. Average annual returns from inception have been 18.8 percent versus the Morgan Stanley EAFE of 13.3 percent and The Lipper Analytical 15.7 percent. Year-to-date, the Fund is up 18.1 percent versus 13.0 percent for Morgan Stanley EAFE and 17.6 percent for Lipper. The major influence on performance continues to be stock picking. However, the recent strength of the dollar versus its foreign counterparts has generally been a negative influence on returns over the shorter term.

OUR TOP HOLDINGS... WHY?

Given that we typically run a very concentrated portfolio, we think it is important for you to hear about the top holdings of your Fund. The top five stocks amount to close to 20 percent of assets. The thread that runs through the entire list is that all are substantially undervalued and are run by solid managements. Of note is that three out of the five are domiciled in the United Kingdom. This is pure coincidence, as we never specifically target geographical regions.

Cordiant plc (4.7% of portfolio)

— formerly called Saatchi and Saatchi plc, is run by advertising professionals with a renewed sense of purpose and enthusiasm. They have worked hard over the last two years to build a solid and financially sound advertising group of companies. The share price has rebounded

over 100 percent in local market terms since its low point in October of 1995. We still believe the group represents excellent value both on an absolute basis and relative to its peer group. In an act that we see unlocking underlying value and spurring agency competitiveness, the group will be split into two separately-listed agencies later this year.

Tomkins plc. (4.3%) — Tomkins is a position we added earlier this year. It is a company that very clearly represents our investment style in that it is undervalued relative to its true worth and managed by people that are good at both running businesses and allocating capital. Though Tomkins is a conglomerate, it is also a store of value. They have a proven record of making value-enhancing acquisitions and have soundly managed their purchases. Now that the company has critical mass in its key business areas, management will be using surplus cash (and this company makes a lot of it) for smaller acquisitions, as well as repurchasing shares.

Volvo (3.6%) — This Swedish maker of cars, trucks and buses has a strong franchise in its name and is leveraging it well across the globe. Furthermore, the company has radically restructured over the last three years. It turned itself into a company focused solely on motor vehicles from one that was an overdiversified owner of every business under the sun. The results have been excellent as management has divested non-related businesses at huge profits and is reinvesting the proceeds in their main motor vehicle business. At the same time, Volvo is returning capital to shareholders with higher dividends, stock buybacks and asset spin-offs.

Though we have owned the stock for several years and it has performed well, there is still plenty of upside. Margins on both the car and truck business should continue to expand and their brand continues to do well globally.

Sedgwick Group plc (3.6%) — Sedgwick is one of the top insurance brokerage firms in the world. It has a natural advantage being located in London where much of the world's insurance is underwritten. Though well-run and a leader in its field, it is selling at a substantial discount to its peer group. Yielding close to 7 percent and selling at under 10 times current earnings, this stock is a great value considering the company's attractive long-term business prospects. One of Sedgwick's major U.S. competitors sells at 23 times '97 earnings and yields under 2 percent. It is a perfect example of why we are so bullish on foreign stocks.

Usiminas (3.5%) — One of Latin America's largest steel makers, Brazil-based Usiminas is a low cost producer with an excellent reputation. Customers praise the company for its superior steel and extraordinary service—very important qualities in Latin America where just-in-time inventory systems are taking root. The company operates in an area of fast demand growth with little new supply on the horizon. Usiminas sells for under 10 times earnings and yields close to 6%.

DON'T CHANGE THIS CHANNEL...

Many foreign markets, especially in U.S. dollar terms, have underperformed the domestic market. Ideally, this should focus investor attention more on international opportunities. However, we have noticed since the Fund began nearly five years ago that during these periods in which international markets lag the U.S. or are weak, little new cash comes into the Fund and some shareholders actually sell shares of the Fund. We understand this tendency to buy high (when recent returns have been strong) and sell low (when recent returns have been weak). However, it is important to always remember the nature of the assets in which the Fund is invested: pieces of business enterprises which are very long-term in nature. With this in mind, the best strategy for investing in the Fund is the same as ours for investing in companies—for the long-term. If one wants to behave in a short-term manner and speculate,

our advice is to make a wager that is sound: The Green Bay Packers repeating as Super Bowl Champs this season!



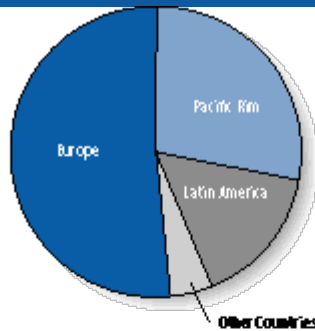
DAVID G. HERRO
 Portfolio Manager
 72242.772@compuserve.com



MICHAEL J. WELSH
 Co-Portfolio Manager
 102521.2142@compuserve.com
 August 5, 1997


THE OAKMARK INTERNATIONAL FUND

International Diversification—July 31, 1997



**% of Fund
Net Assets**

**% of Fund
Net Assets**

	Europe	49.0%
	Great Britain	21.8%
	France	7.1%
	Sweden	6.7%
	Italy	4.8%
	Switzerland	3.1%
	Netherlands	1.9%
	Portugal	1.3%
	Finland	1.2%
	Spain	0.7%
	Germany	0.4%

	Pacific Rim	26.4%
	Hong Kong	8.5%
	New Zealand	5.2%
	Japan	3.6%
	Australia	3.0%
	Korea	2.4%
	Malaysia	1.8%
	Indonesia	1.7%
	Thailand	0.2%
	Taiwan	0.0%

	Latin America	14.8%
	Brazil	8.2%
	Argentina	5.6%
	Panama	0.8%
	Mexico	0.2%

	Other Countries	4.2%
	Israel	4.2%

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—July 31, 1997 (Unaudited)

*Common Stocks—94.4%**Consumer Non-durables—6.6%*

Chargeurs International Sa (France), (a)	Wool Production Holding Company	663,669	\$ 39,030,861
Fila Holding S.p.A. (Italy), (b)	Athletic Footwear Manufacturing	1,148,600	37,544,862
Yue Yuen Industrial Holdings (Hong Kong)	Athletic Footwear Manufacturing	13,670,600	31,958,393
BYC Co. Ltd. (Korea)	Textile Manufacturer	37,070	4,165,169
			112,699,285

Food & Beverage—18.7%

Guinness plc (Great Britain)	Distiller & Brewer	5,910,000	\$ 56,731,625
Quilmes Industrial SA (Argentina)	Brewer	4,849,800	55,772,700
Lion Nathan Limited (New Zealand)	Brewer	21,462,700	55,764,400
Nestle SA (Switzerland)	Producer of Foods & Drinks	40,900	51,837,461
Tate & Lyle PLC (Great Britain)	Sugar Producer & Distributor	7,070,000	47,796,765
Pernod Ricard (France)	Manufactures Wines, Spirits, & Fruit Juices	652,579	32,280,125
Lotte Confectionery Company (Korea)	Confection Manufacturer	65,270	11,513,921
Lotte Chilsung Beverage Company (Korea)	Manufacturer of Soft Drinks, Juices, & Sport Drinks	44,770	5,784,888
			317,481,885

Household Products—3.6%

Amway Japan	Marketing of
-------------	--------------

Limited (Japan)	Household Products	1,036,700	\$ 32,410,560
Reckitt & Colman plc (Great Britain)	Household Cleaners & Air Fresheners	1,640,996	25,513,416
Amway Japan Limited (Japan), (b)	Marketing of Household Products	152,400	2,438,400
			<hr/>
			60,362,376

Retail—1.5%

Giordano International Limited (Hong Kong)	East Asian Clothing Retailer & Manufacturer	39,947,000	\$ 25,152,293
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Other Consumer Goods & Services—1.6%

Sankyo Company Ltd. (Japan)	Pachinko Machine Manufacturer	722,700	\$ 18,319,391
Heiwa Corp (Japan)	Pachinko Machine Manufacturer	434,000	8,067,595
			<hr/>
			26,386,986

Telecommunications—9.8%

Telecom Italia SpA (Italy)	Telecommunications	6,790,000	\$ 43,085,436
Bezeq (Israel) Technology Resources Industries Berhad (Malaysia)	Telephone Company Telecommunications	13,629,271	42,714,734
Asia Satellite Telecommunications Holdings Ltd. (Hong Kong), (a)	Telecommunications	21,390,000	30,980,019
Telecomunicacoes Brasileiras S/A (Brazil)	Telecommunications	841,300	25,239,000
		173,100,000	23,734,816
			<hr/>
			165,754,005

Transportation—3.6%

AB Volvo (Sweden)	Automobiles and Trucks	2,284,600	\$ 61,122,304
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Oil & Natural Gas—2.4%

YPF Sociedad Anonima (Argentina), (b)	Oil Exploration, Production and Marketing	1,231,200	\$ 39,860,100
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Banks—9.8%

Uniao de Bancos Brasileiros S.A. (Brazil), (a) (c)	Major Brazilian Bank	855,500	\$ 34,433,875
Compagnie Financiere de Paribas (France)	French Financial Services Group	446,000	31,978,538
Banco Espirito Santo e Comercial de Lisboa, SA (Portugal)	Portuguese Bank	851,480	22,890,479
Uniao de Bancos Brasileiros SA (Brazil)	Major Brazilian Bank	583,825,000	21,558,855
National Australia Bank Ltd. (Australia)	Largest Australian Bank	1,013,651	14,760,969
Banco Latinoamericano de Exportaciones, S.A. Class E (Panama), (b)	Multinational Bank	278,300	13,219,250
Svenska Handelsbanken Class A (Sweden)	Large Swedish Bank	417,650	12,927,100
Banco Popular Espanol SA (Spain)	Large Spanish Bank	52,493	11,616,736
Grupo Financiero Bancomer, S.A. de C.V.-L (Mexico), (a)	Large Mexican Financial Group	6,129,630	3,371,806
			<hr/>
			166,757,608

Other Financial—4.1%

Sedgwick Group plc (Great Britain)	Insurance Broker, Financial Services	30,325,000	\$ 60,209,920
Colonial Limited (Australia), (a)	Diversified Financial Services Group	3,725,000	9,771,715
			<hr/>

Marketing Services—4.7%

Cordiant plc (Great Britain), (a)	Global Advertising Agency	36,835,156	\$ 79,482,247
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Broadcasting & Publishing—0.3%

Europe 1 Communication (France)	Television Production	23,400	\$ 5,150,274
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Aerospace—3.5%

Hong Kong Aircraft Engineering Company Ltd. (Hong Kong)	Commercial Aircraft Overhaul & Maintenance	9,521,000	\$ 32,525,728
Rolls-Royce plc (Great Britain)	Jet Engines	7,061,085	27,170,408
			<hr/>
			59,696,136

Chemicals—3.9%

Fernz Corporation Ltd. (New Zealand)	Agricultural & Industrial Chemical Producer	9,645,000	\$ 32,890,784
European Vinyls Corporation International N.V. (Netherlands)	Western European PVC Manufacturer	1,395,665	32,446,367
			<hr/>
			65,337,151

Components—1.4%

Varitronix International Limited (Hong Kong)	Liquid Crystal Displays	14,977,000	\$ 24,566,729
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Forestry Products—1.7%

Asia Pulp & Paper Company Ltd (Indonesia), (a) (b)	Paper & Packaging Products in Asia	2,185,600	\$ 29,642,200
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*Mining and Building Materials—
2.9%*

Pioneer International (Australia)	Concrete Products, Aggregates	7,435,176	\$ 26,984,978
Keumkang Ltd. (Korea)	Building Materials	360,000	18,202,247
Siam City Cement Public Company Limited (Thailand)	Cement Producer	1,006,600	3,947,451
			<hr/>
			49,134,676

Other Industrial Goods & Services—6.4%

Tomkins plc (Great Britain)	Industrial Management Company	14,400,000	\$ 72,422,722
Kone Corporation (Finland)	Elevators	161,870	19,871,645
Legris Industries (France)	Europe's Leading Crane Manufacturer	195,097	8,487,467
Buderus AG (Germany), (a)	Industrial Manufacturing Firm	15,450	7,315,198
Tae Young Corporation (Korea)	Heavy Construction	20,000	887,640
			<hr/>
			108,984,672

Steel—5.8%

Usiminas (Brazil), (a)	Steel Production	5,046,370	\$ 58,900,334
Avesta Sheffield AB (Sweden)	Stainless Steel	3,575,000	38,975,076
Tung-Ho Steel Enterprise Corp. (Taiwan), (c)	Taiwanese Manufacturer of Steel Bars & H- Beams	1,700	16,929
			<hr/>
			97,892,339

*Shares
Held/*

	<i>Description</i>	<i>Principal Value</i>	<i>Market Value</i>
<i>Diversified Conglomerates—2.1%</i>			
Koor Industries Limited (Israel), (a) (b)	Israeli Holding Company	1,211,100	\$ 27,249,750
Lamex Holdings Ltd. (Hong Kong)	Hong Kong's Largest Office Furniture Supplier	14,040,000	4,080,077
Compagnie Generale des Eaux (France)	Industrial Services	25,000	3,154,028
Koor Industries Limited (Israel), (a)	Israeli Holding Company	5,660	641,310
			<hr/>
			35,125,165
Total Common Stocks (Cost: \$1,396,292,355)			1,600,570,066

Short-Term Investments—4.7%

U.S. Government Bills—1.2%

United States Treasury Bills, 5.34% due 10/23/1997		10,000,000	\$ 9,876,768
United States Treasury Bills, 4.97% due 8/21/1997		5,000,000	4,986,195
United States Treasury Bills, 5.47% due 10/16/1997		5,000,000	4,942,261
			<hr/>
			19,805,224

Commercial Paper—2.9%

American Express Credit Corp., 5.48%-5.55% due 8/58/13/1997		15,000,000	\$ 15,000,000
Ford Motor Credit Corp., 5.48% due 8/11-8/25/1997		15,000,000	15,000,000
General Electric Capital Corporation, 5.48% 5.85% due 8/18/11/1997		20,000,000	20,000,000
			<hr/>

50,000,000

Repurchase Agreements—0.6%

State Street Repurchase Agreement,
5.76% due 8/1/1997 9,487,000 \$ 9,487,000

**Total Short-Term Investments (Cost:
\$79,292,223) 79,292,224**

Total Investments (Cost \$1,475,584,578)-
99.1% \$1,679,862,290

Foreign Currencies (Proceeds
\$3,020,507)0.2% 2,996,230

Other assets in excess of other liabilities
(d)0.7% 12,814,453

Total Net Assets — 100% \$1,695,672,973

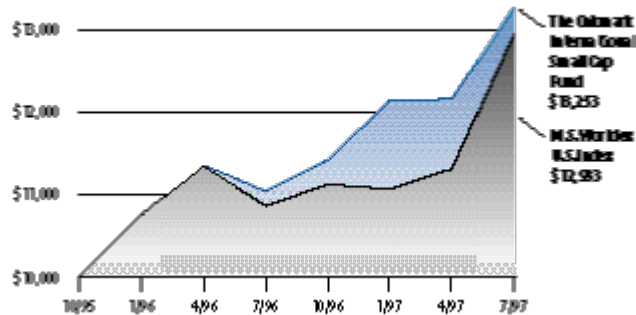
Notes:

- (a) Non-income producing security.
- (b) Represents an American Depositary Receipt.
- (c) Represents a Global Depositary Receipt.
- (d) Includes portfolio and transaction hedges.

The Oakmark Int'l Small Cap Fund

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

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (7/31/97) AS COMPARED TO THE MORGAN STANLEY WORLD EX U.S. INDEX



7/31/97 NAV \$12.76

	Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Inception 11/1/95
The Oakmark Int'l Small Cap Fund	9.1%	17.5%
Morgan Stanley World ex U.S. w/inc**	14.4%	15.8%
Lipper Analytical International Fund Average**	14.2%	21.2%
Micropal Int'l Small Co Fund Index**	11.1%	16.9%

	Total Return Last 3 mos.	Average Annual Total Return* Through 7/31/97 From Inception 11/1/95
The Oakmark Int'l Small Cap Fund	9.1%	17.5%
Morgan Stanley World ex U.S. w/inc**	14.4%	15.8%
Lipper Analytical International Fund Average**	14.2%	21.2%
Micropal Int'l Small Co Fund Index**	11.1%	16.9%

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

** Each of the three indexes or averages is an unmanaged group of stocks or funds whose composition is different from the Fund. The Morgan Stanley World ex U.S. Index includes 19 country sub-indexes. The Lipper International Fund Average includes 30 mutual funds that invest in securities whose primary markets are outside the United States. The Micropal Int'l Small Co Fund Index sector average is an unweighted index comprised of all funds within the International Small Company Fund sector. Past performance is no guarantee of future results.

FELLOW SHAREHOLDERS:

Since your Fund's inception, The Oakmark International Small Cap Fund has achieved an average annual return of 17.5 percent, compared to 15.8 percent and for the Morgan Stanley World ex US and 16.9% for the Micropal Intl Small Co. Fund indices, respectively. For the third quarter ended July 31, 1997, the Fund achieved a return of 9.1 percent, compared with returns of 14.3 percent for the Morgan Stanley World ex US and 11.1 percent for the Micropal International Small Cap indices.

This year has produced a nice rally for many bourses (stock exchanges) around the world, though small cap companies have not really participated to the same extent as the larger caps. While we think it's nearly impossible to predict the timing of when price and value will converge for these companies, we are confident in the attractiveness of their long-term prospects.

LONG-TERM BULLISH

When we open this letter by saying "Fellow Shareholders", we mean it. We, the portfolio managers, are among the largest

shareholders of The Oakmark International Small Cap Fund. We firmly believe that small cap stocks overseas can generate tremendous returns for the patient investor. When we are looking at potential investments for the Fund, we do so on a three to five year time horizon, and ask our fellow shareholders to do the same.

In many markets around the world a wide divergence in valuation has emerged between smaller and larger companies. Currently, Germany is a good example of a market in which

large caps have significantly outperformed small caps and where the current valuations of the DAX30 companies look rich relative to their smaller German counterparts.

In past quarterly letters for The Oakmark International Fund we've written about some of the inefficiencies we've found in foreign markets that we feel we can exploit as long-term investors. Some of these inefficiencies are even more apparent in the small cap area. Below are three characteristics of many overseas markets which create short-term inefficiencies.

Lack of Coverage by Sell-Side Analysts - Most brokerage firms limit analyst coverage to those companies in which investors have shown significant interest--usually companies with a large share turnover. This leaves the majority of small-cap companies with spotty, if any coverage. This lack of exposure sometimes allows big gaps between the current share price and underlying value. It is within this group of smaller names which fly under the broker's radar that we spend most of our time looking for attractive investments.

Lack of Information - Investors who rely upon databases and third-party sources for information have a hard time investing in many overseas small caps. Data can be incomplete, untimely, and often inaccurate. This is one reason why we believe it so important for our team to spend 30-40 percent of our time on the road. We don't like to rely on others, so we go directly to the source to get information. Not only do we discuss long-term strategic and financial plans with management but we also spend a good deal of our time talking to managers in order to gain a thorough understanding of the company's financial statements and accounting policies.

Top-Down Turbulence - When macro-oriented investors bail out of foreign markets, they typically sell everything -- good, bad, and indifferent. These investors usually sell because they believe that over the next few quarters the macroeconomic environment will not be conducive to attractive equity returns. They hope to buy back in later when things start looking better. The limited liquidity in some of these markets further exacerbates the selling pressure from these investors. We, on the other hand, are more concerned about the next 3 to 4 years rather than the next 3 to 4 quarters, and we think our patience gives us an edge. When we see good companies being beaten down for short-term macroeconomic reasons, we see potential long-term buying opportunities.

TOP THREE HOLDINGS

The best evidence of the value we are finding around the world is in our top holdings. As you know, we believe in making our most undervalued ideas very substantial portfolio positions. This way they have maximum impact on the Fund's NAV. Here are brief summaries of your Fund's top three holdings as of July 31, 1997:

Lambert-Fenchurch (5.5% of portfolio) - This company is a medium size, specialty insurance broker based in the United Kingdom. The company's dividend yield of 8.2% exceeds its 1997 price-earnings ratio of 7 times. Lambert-Fenchurch should be able to grow both earnings and dividends further as they take advantage of their recent combination of businesses. Further, as in the case of Sedgwick, a holding in The Oakmark International Fund, the insurance brokerage business is near a cyclical bottom.

Enix (4.6% of portfolio) - This Japanese software developer was given a lengthy feature in our last quarterly letter. In sum, it is an extremely cash generative, high return business managed by fellow shareholders. Enix is currently trading in the market at a significant discount to its intrinsic value.

JCG Holding (3.9% of portfolio) - This Hong Kong based consumer finance company is soundly managed and has moderate loan growth, high capital ratios and extremely low default

rates (no repo man needed here!). It has recently gotten into the taxi financing business, which should provide additional growth. At 10 times this year's earnings it represents a bargain.

The beauty of all of this is that we believe we have a portfolio full of such undervalued companies and we should be able to find more. Clearly, we expect that the patient investor will prosper!

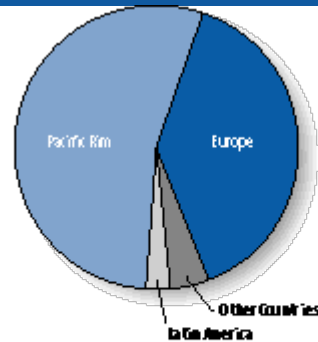


DAVID G. HERRO
 Portfolio Manager
 72242.772@compuserve.com



MICHAEL J. WELSH
 Co-Portfolio Manager
 102521.2142@compuserve.com
 August 5, 1997

The Oakmark Int'l Small Cap Fund *International Diversification—July 31, 1997 (Unaudited)*



	% of Fund Assets	% of Fund Assets	
Pacific Rim	50.6%	Europe	35.9%
Hong Kong	11.5%	Great Britain	11.5%
Japan	9.4%	Italy	5.4%
New Zealand	9.1%	France	5.2%
Australia	6.7%	Germany	4.5%
Korea	6.4%	Ireland	3.5%
Indonesia	4.0%	Turkey	3.1%
Thailand	2.4%	Netherlands	2.7%
Philippines	1.1%		
Other Countries	4.1%	Latin America	2.4%
Israel	2.0%	Mexico	2.4%
Canada	1.6%		
India	0.5%		

The Oakmark Int'l Small Cap Fund

Schedule of Investments—July 31, 1997 (Unaudited)

	<i>Description</i>	<i>Shares Held</i>	<i>Market Value</i>
<hr/>			
<i>Common Stocks—93.0%</i>			
<i>Consumer Non-Durables—5.3%</i>			
Designer Textiles (NZ) Limited (New Zealand)	Manufactures Knit Fabrics	2,960,000	\$1,538,135
PT Polysindo Eka Perkasa (Indonesia)	Integrated Textile Manufacturer	2,652,000	1,419,809
Altinyildiz Mensucat ve Konfeksiyon Fabrikalari A.S.(Turkey)	Textile Manufacturer	6,051,000	775,478
			<hr/>
			3,733,422
 <i>Food & Beverage—10.1%</i>			
Taittinger (France)	Producer of Wine & Spirits	4,077	\$1,914,886
Grupo Herdez S.A. Class B (Mexico)	Manufacturer and Distributor of Bottled and Canned Food	2,309,000	1,707,307
DB Group Ltd. (New Zealand)	Producer of Beer, Wine, & Liquor	1,008,750	1,507,038
Chosun Brewery Company (Korea)	Korean Brewer	52,010	1,221,359
Alaska Milk Corporation (Philippines), (a)	Milk Producer	12,600,000	811,525
			<hr/>
			7,162,115
 <i>Household Products—9.0%</i>			
Enix Corporation (Japan)	Entertainment Software	123,900	\$3,245,374
WMF	Tableware and		

(Germany)	Kitchenware	9,561	1,661,248
Eczacibasi Yapi Gerecleri Sanayi ve Ticaret A.S. (Turkey), (a)	Ceramic Sanitary Producer	46,338,000	1,433,940
			<hr/>
			6,340,562

Retail—2.5%

Daimon (Japan)	Liquor Retailer & Distributor	292,700	\$1,780,684
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Other Consumer Goods & Services—11.5%

Vardon plc (Great Britain)	Bingo Clubs	1,225,000	\$2,201,061
Innovative International Holdings (Hong Kong)	Auto Parts & Equipment	3,530,000	1,595,738
Fyffes plc (Ireland)	Distributor of Fresh Fruit, Flowers and Produce in Europe	1,103,133	1,558,404
CeWe Color Holding AG (Germany)	Photo Equipment & Supplies	6,300	1,539,339
PT Steady Safe (Indonesia)	Transportation	1,213,862	1,241,713
			<hr/>
			8,136,255

Telecommunications—2.1%

Tadiran Ltd. (Israel), (a)	Telecommunication Equipment	44,584	\$1,426,231
Sk Telecom Co. Ltd. (Korea)	Telecommunications	130	64,416
			<hr/>
			1,490,647

Pharmaceutical—3.2%

Recordati (Italy)	Pharmaceuticals	309,000	\$2,283,226
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Banks—0.1%

Kookmin Bank (Korea)	Korean Commercial Bank	6,795	\$88,564
Shinhan Bank (Korea)	Korean Commercial Bank	490	5,285
			<hr/>

Other Financial—9.4%

Lambert Fenchurch Group plc (Great Britain)	Insurance Broker	1,810,000	\$3,861,036
JCG Holdings Ltd. (Hong Kong)	Investment Holding Company	2,924,000	2,756,887
			<hr/>
			6,617,923

Computer Systems—3.3%

Solution 6 Holdings Ltd. (Australia), (a)	Design Computer Systems/Consultants	3,437,500	\$2,305,616
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Marketing Services—3.0%

Cordiant plc (Great Britain), (a)	Global Advertising Agency	970,000	\$2,093,049
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Broadcasting & Publishing—6.5%

Woong Jin Publishing Company (Korea)	Publisher	30,556	\$1,709,763
Matichon Public Company Limited Foreign Shares (Thailand)	Newspaper Publisher	1,024,900	1,607,686
Moffat Communications Limited (Canada)	Owner and Operator of Television Stations and Cable Systems	42,800	833,143
Zee Telefilms Ltd. (India)	Broadcasting & TV	85,900	319,463
Matichon Public Company Limited (Thailand)	Newspaper Publisher	70,400	110,431
			<hr/>
			4,580,486

Chemicals—2.7%

European Vinyls Corporation International N.V. (Netherlands)	Western European PVC Manufacturer	83,600	\$1,943,530
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Components—1.2%

Barlo Group plc (Ireland)	Manufacturer of Radiators and Industrial Plastics	1,085,000	\$884,908
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Forestry Products—0.6%

Harmac Pacific, Inc. (Canada), (a)	Pulp Producer	25,700	\$265,016
Asia Pulp & Paper Company Ltd (Indonesia), (a) (b)	Paper & Packaging Products in Asia	10,500	142,406
			<hr/>
			407,422

Mining & Building Materials—2.8%

Asia Cement Manufacturing Company Ltd. (Korea)	Large Cement Manufacturer	36,150	\$1,279,466
Parbury Limited (Australia)	Manufactures Building Products	1,327,032	692,279
			<hr/>
			1,971,745

Other Industrial Goods & Services—13.4%

Sanford Ltd. (New Zealand)	Owns and Manages Fisheries	1,155,040	\$2,153,236
Yip's Hang Cheung Ltd. (Hong Kong)	Paint Company	14,632,000	2,078,812
Wattyl Limited (Australia)	Paint Company	349,091	1,758,681
Techtronic Industries Company (Hong Kong)	Manufactures Electric Hand Tools	6,740,000	1,706,219
Fukuda Denshi (Japan)	Medical Products Manufacturer and Distributor	81,000	1,587,833
Irce SpA (Italy)	Wire Manufacturer	37,500	200,799

9,485,580*Production Equipment—4.3%*

NSC Groupe (France)	Manufacturer of Textile Equipment	14,030	\$1,751,955
Danieli & Company (Italy)	Steel Mini-Mills Equipment	360,300	1,309,584
			<hr/> 3,061,539

Steel—2.0%

Steel & Tube Holdings Ltd. (New Zealand)	Produces and Distributes Steel	253,700	\$1,227,692
Pohang Iron & Steel Company Ltd. (Korea)	Manufactures Steel Products	2,580	163,787
			<hr/> 1,391,479

**Total Common Stocks (Cost:
\$62,222,655)** **65,764,037**

*Principal
Value* *Market
Value*

*Short-Term Investments—5.5%**Commercial Paper—2.8%*

American Express Credit Corporation, 5.65% due 8/4/1997	500,000	\$500,000
Ford Motor Credit Corp., 5.56% due 8/5/1997	500,000	500,000
General Electric Capital Corporation, 5.85% due 8/1/1997	1,000,000	1,000,000
		<hr/> 2,000,000

Repurchase Agreements—2.7%

State Street Repurchase Agreement, 5.76% due 8/1/1997	1,870,000	1,870,000
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**Total Short-Term Investments
(Cost: \$3,870,000)** **3,870,000**

Total Investments (Cost \$66,092,655)98.5%	\$69,634,037
Foreign Currencies (Proceeds \$453,118)0.6%	448,078
Other assets in excess of other liabilities(c)0.9%	616,806
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Total Net Assets—100%	\$70,698,921
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Notes:

- (a) Non-income producing security.
- (b) Represents an American Depositary Receipt.
- (c) Includes transaction hedges.

LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
FUND

OAKMARK
SMALL CAP
FUND

OAKMARK
EQUITY AND
INCOME FUND

OAKMARK
INTERNATIONAL
FUND

OAKMARK
INT'L SMALL
CAP FUND

TRUSTEES
& OFFICERS

THE OAKMARK FAMILY OF FUNDS

Trustees and Officers

Trustees

Michael J. Friduss
Thomas H. Hayden
Christine M. Maki
Victor A. Morgenstern
Allan J. Reich
Marv Rotter
Burton W. Ruder
Peter S. Voss
Gary Wilner, M.D.

Officers

Victor A. Morgenstern—*President*
Robert J. Sanborn—*Executive Vice
President*
David G. Herro—*Vice President*
Clyde S. McGregor—*Vice President*
William C. Nygren—*Vice President*
Steven J. Reid—*Vice President*
Michael J. Welsh—*Vice President*
Donald Terao—*Treasurer*
Anita M. Nagler—*Secretary*
Ann W. Regan—*Vice President—
Shareholder Operations and Assistant
Secretary*
Kristi L. Rowsell—*Assistant
Treasurer*

Other Information

Investment Adviser

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

Transfer Agent

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

Legal Counsel

Bell, Boyd & Lloyd
Chicago, Illinois

Independent Public Accountants

Arthur Andersen LLP
Chicago, Illinois

For More Information:

Please call 1-800-OAKMARK
(1-800-625-6275)

Website

www.oakmark.com

24-hour NAV hotline

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

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