

**First Quarter
Report**

December 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 Chairman and President...

Dear Fellow Shareholders:

We are pleased to present our first quarter report for the period ended December 31, 1997. For the Oakmark Family as a whole this quarter contained the full range of investment emotions. We were "elated" at the strong returns generated by Select and Oakmark, "content" with Small Cap and Equity and Income, and "frustrated" by the Asian contagion's effect on the International and International Small Cap Funds.



We are often asked the question, "Which Oakmark fund should I invest in now?" or, "Which fund will perform the best this year?" Now that we have a well-rounded family of six funds, our answer invariably is that there is some combination of Oakmark funds which can be selected to meet almost all investors' requirements regarding risk tolerance and volatility. It is very difficult to try to hit a home run every time at bat. For those investors that like simplicity and are particularly risk and volatility sensitive, we would highlight The Oakmark Equity and Income Fund. In this quarter's report, Clyde McGregor reviews and differentiates the Fund's asset allocation philosophy.

IRA season is approaching and those of you with existing IRA accounts will receive a "Summary Sheet" and "IRA Disclosure Statement Supplement" which review the changes in the 1997 law, including the new Roth IRA. We welcome new accounts and our IRA Information Kits are available to all.

Thank you for your continued support.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Victor Morgenstern".

VICTOR MORGENSTERN
Chairman

A handwritten signature in dark ink, appearing to read "Robert M. Levy".

ROBERT M. LEVY
President



The Oakmark Family of Funds

Summary Information

<i>Performance for Period Ended December 31, 1997</i>	The Oakmark Fund		The Oakmark Select Fund		The Oakmark Small Cap Fund	
<i>3 Months</i>	4.1%		8.3%		-0.3%	
<i>6 Months</i>	10.7%		24.9%		14.9%	
<i>1 Year</i>	32.6%		55.0%		40.5%	
<i>Average Annual Total Return for:</i>						
<i>3 Year</i>	27.4%		N/A		N/A	
<i>5 Year</i>	22.8%		N/A		N/A	
<i>Since inception</i>	30.1%		63.1%		38.6%	
<i>Value of \$10,000 from inception date</i>	\$54,132 (8/5/91)		\$17,704 (11/1/96)		\$20,290 (11/1/95)	
<i>Top Five Holdings as of December 31, 1997</i> <i>Company and % of Total Net Assets</i>	Philip Morris Companies, Inc.	6.9%	U.S. Industries, Inc.	10.4%	People's Bank of Bridgeport, CT	7.6%
	Banc One Corporation	6.2%	USG Corporation	10.0%	U.S. Industries, Inc.	7.1%
	Lockheed Martin Corporation	4.9%	Tele-Communications, Liberty Media, Class A	9.4%	Catellus Development Corporation	5.4%
	Tele-Communications, Inc., Class A	4.8%	PartnerRe Ltd.	8.3%	Cablevision Systems Corporation	5.4%
	Mellon Bank Corporation	4.5%	Cablevision Systems Corporation	5.6%	RenaissanceRe Holdings Ltd	4.9%

<i>Top Five Industries as of December 31, 1997</i> <i>Industries and % of Total Net Assets</i>	Other Consumer Goods & Services	17.6%	Other Consumer Goods & Services	13.0%	Insurance	13.5%
	Food & Beverage	16.8%	Diversified Conglomerates	10.4%	Other Industrial Goods & Services	13.4%
	Banks	10.6%	Building Materials & Construction	10.0%	Banks	10.3%
	Publishing	8.4%	TV Programming	9.4%	Other Consumer Goods & Services	9.7%
	Aerospace & Defense	6.9%	Broadcasting & Cable TV	8.6%	Commercial Real Estate	7.6%

<i>Performance for Period Ended December 31, 1997</i>	The Oakmark Equity and Income Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund			
<i>3 Months</i>	0.9%	-13.7%	-23.9%			
<i>6 Months</i>	11.3%	-11.5%	-26.9%			
<i>1 Year</i>	26.6%	3.3%	-19.9%			
<i>Average Annual Total Return for:</i>						
<i>3 Year</i>	N/A	12.7%	N/A			
<i>5 Year</i>	N/A	14.9%	N/A			
<i>Since inception</i>	20.3%	14.2%	-1.7%			
<i>Value of \$10,000 from inception date</i>	\$14,941 (11/1/95)	\$20,097 (9/30/92)	\$9,642 (11/1/95)			
<i>Top Five Holdings as of December 31, 1997</i>	Electronic Data Systems Corp	4.1%	Quilmes Industrial SA	5.4%	Lambert Fenchurch Group plc	5.6%
	Catellus Development		Sedgewick		Enix	

<i>Company and % of Total Net Assets</i>	Corporation	3.8%	Group plc	5.3%	Corporation	5.0%
	Chrysler Corporation	3.5%	Tomkins plc	4.8%	JCG Holdings Ltd.	4.8%
	Tele- Communications, Liberty Media, Class A	3.2%	Tate & Lyle PLC	4.7%	Elevadores Atlas, SA	4.6%
	U.S. Industries, Inc.	3.1%	AB Volvo	3.9%	Solution 6 Holdings Ltd	4.2%
<i>Top Five Industries as of December 31, 1997</i> <i>Industries and % of Total Net Assets</i>	U.S. Government Bonds	23.1%	Food & Beverage	21.7%	Other Industrial Goods & Services	15.5%
	Banks	10.6%	Banks	8.3%	Other Financial	12.1%
	Automotive	7.2%	Consumer Non- Durables	7.8%	Household Products	11.2%
	Other Consumer Goods & Services	6.7%	Other Industrial Goods & Services	6.6%	Other Consumer Goods & Services	8.5%
	Insurance	5.6%	Marketing Services	5.9%	Production Equipment	6.6%

The Oakmark Fund

Report from Robert J. Sanborn, Portfolio Manager



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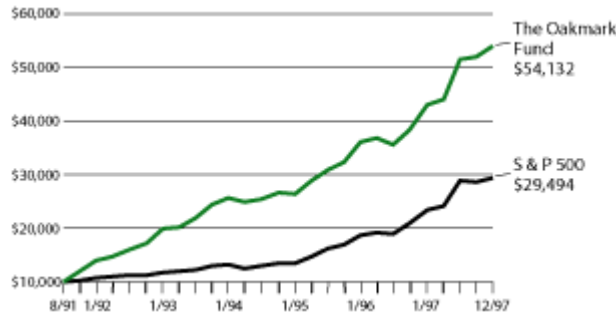
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK FUND FROM ITS INCEPTION (8/5/91) TO PRESENT (12/31/97) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX



12/31/97 NAV \$40.41

Average Annual
Total Return*
Through 12/31/97
From Fund
Inception
8/5/91

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/97 From Fund Inception 8/5/91
The Oakmark Fund	4.1%	30.1%
Standard & Poor's 500 Stock Index w/inc**	2.9%	18.4%
Dow Jones Industrial Average w/inc**	0.0%	19.2%
Value Line Composite Index**	-2.8%	10.4%

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

**Each of the three indexes or averages is an unmanaged group of stocks whose composition is different from the Fund. The S&P 500 is a broad market-weighted average dominated by blue-chip stocks. The Dow Jones Average includes only 30 big companies. The Value Line Index is an unweighted average of more than 1,000 stocks. Past performance is no guarantee of future results.

NIKE, INC.

As many of you know, our investment philosophy rests on the premise that a stock is an ownership piece of a business, not merely a piece of paper. We are true long-term investors, tend to make major changes infrequently, and our portfolio turnover is far less than that of the average equity fund. During the "typical" year, I may add only a couple new names to your Fund's ten largest holdings. When we find one and accumulate our position, I like to tell you about it and so I want to discuss our newest holding, one which our Bill Jacobs recommended

and follows: Nike, Inc.

The three pillars of our analysis of any investment are the business, the management, and, most important, valuation. Let's discuss each of these in turn.

Nike is one of the best businesses and one of the best-managed businesses in the marketplace. The proof is in the numbers. In 1984, NKE had revenues of only \$919 million and net income of \$40 mm. In 1997, NKE had revenues of over \$9 billion and net of almost \$800 mm. These represent extraordinary annual growth rates of 19 percent and 26 percent. During this time period, NKE developed a full international presence (a platform which should produce significant future growth), spent a fortune reinforcing its brand name, and greatly expanded its product offerings. Despite all this investment spending by NKE, it earned a phenomenal 22.5 percent return on its assets during this period. Even more remarkable, NKE achieved this without issuing any debt or equity! NKE is a great business.

Nike Founder and CEO Phil Knight may be one of the most underrated businesspeople ever. Reading his excellent letters in the company's annual reports reveals a visionary leader who exemplifies all that we look for in a company's management: strong identification with shareholders and the stock price, competitiveness, a profound understanding of his business, running the business for long-term value growth and not for the Wall Street fad du jour (in fact, I can cite no other CEO who so colorfully and accurately debunks Wall Street conventional wisdom). NKE management is first-rate.

During the last few years, NKE's lofty valuation kept us from making an investment in the company. However, NKE's dramatic stock underperformance over the past year finally gave us an opportunity to buy the stock at an attractive price. What caused this underperformance was an unexpected pause in NKE's growth rate. Extrapolating the last few years growth led to an over-estimation of sales and a subsequent build-up of inventory that NKE needs to work off. NKE experienced this before, in 1987 and 1993. It is part of the business. As Knight wrote in the 1988 Annual Report: "This business involves a fast-moving market with a much slower development process. This combination dictates against steady annual earnings increases...it doesn't mean it is not a good business to be in, but it causes periodic earnings downturns." At current prices, NKE sells at 9.5 times next year's pre-tax economic earnings and 1.2 times revenues. These represent significant discounts to the overall market and attractive valuations to us.

Please allow a digression, for we had previously owned NKE in your Fund in 1993, when NKE had experienced a similar inventory build-up. The stock traded at a very modest valuation, similar to that bestowed on footwear companies, which the market correctly regards as a lousy business. The stock did well, and we sold it as a fully-priced footwear company. However, we had a queasy feeling that we were mis-framing NKE as a footwear company, when, in fact, it was a dominant consumer brand company (and, thus, deserving of a premium valuation). Since that time, we have followed the company intensively and reconsidered our thinking. Now, we do regard the company as a great consumer brand business, albeit one with pronounced cycles, the most recent one having provided us an opportunity to again initiate an investment in NKE.

The biggest misconception about this business is that it is a fashion business. What differentiates Nike from, say, Polo or Calvin Klein is its connections with sports and fitness, and its identification with an ever-renewable stable of athletes who use, wear, and endorse the company's products. Out goes Bo Jackson, in comes Michael Jordan. Out goes Nolan Ryan, in comes the Brazilian soccer star, Ronaldo. Then Tiger Woods. And so on. Because of the worldwide ubiquity of its brand and its market dominance, NKE has a competitive advantage over its competition in aligning itself with those athletes who will convey what the

Swoosh means in the future.

I am very excited about the long-term (the short-term is far more uncertain) potential of this investment. As I write this, it is your Fund's fourth largest investment. Globally, NKE has only scratched the surface. I agree with Nike's statement in the 1997 Annual Report: "The 'Swooshification of the world' should more appropriately be deemed the Sportsification of the world. We will mature with the inexorable penetration of sports into the global psyche." Long term, NKE the stock should benefit both from growth in operating earnings per share (and volumes and revenues) that are greater than the average company and from the market's placing a premium valuation on these parameters. The road will be bumpy, but the long term—which is all that matters to us—should be rewarding.

Robert J. Sanborn

ROBERT J. SANBORN

Portfolio Manager

rsanborn@oakmark.com

January 8, 1998

THE OAKMARK FUND

Schedule of Investments—December 31, 1997 (Unaudited)

Shares Held Market Value

Common Stocks—89.7%

Food & Beverage—16.8%

Philip Morris Companies Inc.	11,110,700	\$503,453,594
Anheuser-Busch Companies Inc.	5,955,400	262,037,600
H.J. Heinz Company	4,007,250	203,618,391
Nabisco Holdings Corporation	3,572,100	173,023,594
Gallaher Group Plc (a)(b)	3,835,500	81,983,812
		<hr/>
		1,224,116,991

Apparel—3.7%

Nike, Inc., Class B	6,975,000	\$273,768,750
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Retail—0.7%

Carson Pirie Scott & Company (a)	1,000,000	\$50,125,000
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Other Consumer Goods & Services—17.6%

The Black & Decker Corporation	8,203,300	\$320,441,406
Columbia/HCA Healthcare Corporation	9,210,000	272,846,250
Polaroid Corporation	4,552,400	221,644,975
Mattel, Inc.	5,332,200	198,624,450
Brunswick Corporation	3,578,800	108,482,375
Fortune Brands, Inc.	2,560,500	94,898,531
First Brands Corporation	1,070,400	28,833,900
Juno Lighting, Incorporated	1,085,000	18,987,500
GC Companies, Inc. (a)	397,000	18,807,875
Arctic Cat, Inc.	118,000	1,143,125
		<hr/>
		1,284,710,387

Banks—10.6%

Banc One Corporation	8,273,226	\$449,339,587
Mellon Bank Corporation	5,356,100	324,713,563
		<hr/>
		774,053,150

Insurance—1.4%

Old Republic International Corporation	2,748,620	\$102,214,306
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Other Financial—5.5%

Fannie Mae	3,557,500	\$202,999,844
AMBAC, Inc.	4,389,800	201,930,800
		<hr/>
		404,930,644

Broadcasting & Cable TV—4.8%

Tele-Communications, Inc., Class A (a)	12,425,000	\$347,123,437
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TV Programming—1.3%

Tele-Communications, Liberty Media, Class A (a)	2,657,741	\$96,343,111
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Publishing—8.4%

Dun & Bradstreet Corporation	8,150,800	\$252,165,375
Knight-Ridder, Inc.	4,650,000	241,800,000
ACNielsen Corporation	4,764,000	116,122,500
		<hr/>
		610,087,875

Telecommunications—4.0%

U.S. West Media Group (a)	10,085,400	\$291,215,925
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Managed Care Services—1.0%

Foundation Health Systems, Inc. (a)	3,323,510	\$74,363,536
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Medical Products—1.0%

Sybron International Corporation (a)	1,567,800	\$73,588,613
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Aerospace & Defense—6.9%

Lockheed Martin Corporation	3,625,000	\$357,062,500
The Boeing Company	2,938,000	143,778,375
		<hr/>
		500,840,875

Other Industrial Goods & Services—2.5%

SPX Corporation	875,200	\$60,388,800
Bandag Incorporated, Class A (a)	1,104,100	52,858,788
Fort James Corporation	1,225,100	46,860,075
The Geon Company	971,600	22,711,150
		<hr/>
		182,818,813

Foreign Securities—3.5%

DeBeers Consolidated Mines Limited ADR (b)	6,046,000	\$123,565,125
Unilever NV (b)	1,904,000	118,881,000
European Vinyls Corporation International N.V.	547,700	12,155,204
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Total Common Stocks (Cost: \$4,485,740,322)	6,544,902,742
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<i>Principal Value</i>	<i>Market Value</i>
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Short Term Investments—10.4%

U.S. Government Bills—1.9%

United States Treasury Bills, 4.89%-5.18% due 1/8/1998-4/30/1998	\$140,000,000	\$138,972,783
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Commercial Paper—8.3%

American Express Credit Corp., 5.55% - 6.65% due 1/2/1998- 1/14/1998	\$225,000,000	\$225,000,000
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Ford Motor Credit Corp., 5.71%-5.95% due 1/5/1998-1/12/1998	170,000,000	170,000,000
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General Electric Capital Corporation, 5.71% - 6.50% due 1/2/1998- 1/14/1998	215,000,000	215,000,000
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Total Commercial Paper (Cost: \$610,000,000)	610,000,000
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Repurchase Agreements—0.2%

State Street Repurchase Agreement, 6.00% due 1/2/1998	\$12,522,000	\$12,522,000
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Total Repurchase Agreements (Cost: \$12,522,000)	12,522,000
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Total Short Term Investments (Cost: \$761,500,894)	761,494,783
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Total Investments (Cost \$5,247,241,216)— 100.1%	7,306,397,525
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Other Liabilities in Excess of Other Assets —(0.1)%	(5,036,617)
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Total Net Assets— 100%	\$7,301,360,908
	<hr/> <hr/>

(a) Non-income producing security.

(b) American Depository Receipt.

The Oakmark Select Fund

Report from Bill Nygren, Portfolio Manager



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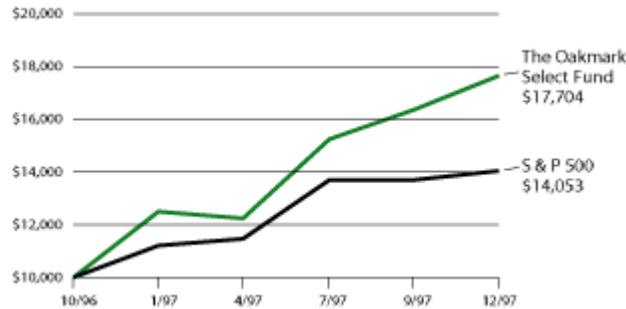
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/97) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX



12/31/97 NAV \$17.52

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/97 From Fund Inception 11/1/96
The Oakmark Select Fund	8.3%	63.1%
Standard & Poor's 500 Stock Index w/inc**	2.9%	33.9%
Standard & Poor's MidCap 400 Index w/inc**	0.8%	33.3%
Value Line Composite Index**	-2.8%	22.9%

The Oakmark Select Fund

8.3%

63.1%

Standard & Poor's 500 Stock Index w/inc**

2.9%

33.9%

Standard & Poor's MidCap 400 Index w/inc**

0.8%

33.3%

Value Line Composite Index**

-2.8%

22.9%

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

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

PERFORMANCE UPDATE

In the quarter ended December 31, The Oakmark Select Fund gained 8.3% compared to 2.9% for the S&P 500 and 0.8% for the S&P Midcap. Continued strength in our cable holdings was the biggest reason for superior performance. For calendar year 1997, your Fund gained 55%, far above the benchmark indices. In fact, that 1997 performance had your Fund ranked number one among over 800 mutual funds tracked by Lipper that have growth in capital as

their primary objective. In some ways, I hated to see 1997 end!

Several of you have told me that The Oakmark Select Fund's continuing outstanding performance is undermining credibility in my quarterly attempt to reduce expectations to reasonable levels. I would love to tell you that we expect to repeat our 1997 performance, but I know better and so do you. Our firm's long-term success has come from a few homeruns, fewer strikeouts, and a lot of singles and doubles. By focusing on limiting our downside, we expect to deliver above-average performance more often than below-average performance. But while our approach has only occasionally led to top-rated short-term performance, it has allowed us to consistently achieve excellent long-term results. Excellent long-term performance is our goal, and long-term performance with annual returns a few percentage points above the market indices has been achieved by only a handful of competing funds.

GUCCI NEVER GOES ON SALE!

One of last quarter's most frequently asked questions was, "What did you do when the market declined in October?" The answer was that we did the same thing we do every other day: opportunistically add to our existing holdings and try to identify new stock ideas that are more attractive than the stocks we already own. When negative psychology is pushing the market down, slightly negative news often creates major stock price declines. Such appears to have been the case with your Fund's newest holding, Gucci.

All along Michigan Avenue, the signs in the windows show each store's sale-dejour and the percentage markdown being offered. Many value-oriented shoppers wisely time their purchases to take advantage of these sales. But shoppers quickly learn that the strongest brands don't need to play the markdown game. Walking past the Gucci store I overheard one bargain hunter's lament, "It's too bad, but Gucci never goes on sale!"

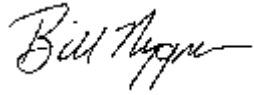
Fortunately for The Oakmark Select Fund, that's not the case in the stock market. A little over a year ago, investors, recognizing the world-wide strength of Gucci's brand name, priced Gucci stock at \$80. That price, at 20 times then-expected 1998 earnings per share of \$4.00, wasn't cheap, but it certainly wasn't ridiculous relative to the overall market. Last quarter, analysts lowered their estimates of 1998 earnings to about \$3.00 because of the recent turmoil in Asian economies and the popularity of Gucci products in Asia. How did the market react to a 25% reduction in 1998 earnings estimates? In October, Gucci stock hit a low of \$29, down 64%! Predictably, most analysts who recommended Gucci at \$80 removed their buy recommendations. You can't buy Gucci products at 60% off, but we could buy the company there! Like many other successful investors, we believe that the knowledge we have as consumers can be useful for making investment decisions.

In a meeting with Gucci's CFO, I was able to confirm that management's largest incentives are stock options, and that unlike many of their free-spending competitors, Gucci quantitatively evaluates each capital expenditure opportunity and selects only those expected to achieve returns well above their cost-of-capital. Further, the company is taking advantage of the recent stock-price weakness by using its cash to reduce the number of outstanding shares. The rebound in Gucci's price helped your Fund last quarter, and although the short-term results are hard to predict, I expect the long-term performance of Gucci to be also excellent.

LONG-TERM?

In all the communication to our shareholders and potential shareholders, The Oakmark Family of Funds stresses our long-term time frame and encourages our investors to use a similar long-term approach to their investments. Because short-term traders are disruptive and increase fund expenses, we discourage them from becoming shareholders in our funds. Last

month, I was talking to an "investor" who had been in and out of The Oakmark Select Fund several times within the last year, and I was explaining why we weren't allowing them back into the Fund. When I said we didn't want short-term traders in the Fund, the reply was, "But, I am a long-term investor—once I held a fund for three months!" Investors measure the long term in years, not months! From your notes and e-mails, I'm glad to know that unlike that trader, most of our shareholders are following a well thought-out long-term investment plan. Thanks for your continuing support.



BILL NYGREN
 Portfolio Manager
 bnygren@oakmark.com
 January 5, 1998

THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 1997 (Unaudited)

	<i>Shares Held</i>	<i>Market Value</i>
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<i>Common Stocks—91.6%</i>		
<i>Other Consumer Goods & Services—13.0%</i>		
Polaroid Corporation	765,900	\$37,289,756
Ralston Purina Group	351,000	32,621,063
Brunswick Corporation	966,900	29,309,156
Armstrong World Industries, Inc.	384,700	28,756,325
		<hr/>
		127,976,300
 <i>Banks—3.5%</i>		
People's Bank of Bridgeport, Connecticut	901,000	\$34,238,000
 <i>Insurance—8.3%</i>		
PartnerRe Ltd.	1,753,000	\$81,295,375
 <i>Aerospace & Defense—4.2%</i>		
Lockheed Martin Corporation	415,900	\$40,966,150

Broadcasting & Cable TV—8.6%

Cablevision Systems Corporation (a)	573,600	\$54,922,200
U.S. West Media Group (a)	1,009,000	29,134,875
		<hr/>
		84,057,075

TV Programming—9.4%

Tele-Communications, Liberty Media, Class A (a)	2,535,700	\$91,919,125
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Publishing—6.5%

ACNielsen Corporation	1,406,100	\$34,273,688
Dun & Bradstreet Corporation	959,500	29,684,531
		<hr/>
		63,958,219

Medical Products—3.6%

Amgen, Inc. (a)	655,000	\$35,451,875
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Building Materials & Construction—10.0%

USG Corporation (a)	2,005,200	\$98,254,800
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Oil & Natural Gas—3.4%

Union Texas Petroleum Holdings, Inc.	1,600,000	\$33,300,000
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Other Industrial Goods & Services—7.0%

Premark International, Inc.	1,317,000	\$38,193,000
General Signal Corporation	735,000	31,007,812
		<hr/>
		69,200,812

Diversified Conglomerates—10.4%

U.S. Industries, Inc.	3,387,600	\$102,051,450
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Foreign Securities—3.7%

Gucci Group (b)	880,000	\$36,850,000
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Total Common Stocks (Cost: \$745,796,259)		899,519,181
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Principal Market

Short Term Investments—8.1%

U.S. Government Bills—1.5%

United States Treasury Bills, 4.94%-5.185% due 1/8/1998-4/30/1998	\$15,000,000	\$14,894,825
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Commercial Paper—6.2%

Ford Motor Credit Corp., 5.80%-5.95% due 1/2/1998-1/7/1998	\$17,000,000	\$17,000,000
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American Express Credit Corp., 5.75%-6.65% due 1/2/1998-1/5/1998	25,000,000	25,000,000
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General Electric Capital Corporation, 5.79%-6.50% due 1/2/1998-1/8/1998	19,000,000	19,000,000
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Total Commercial Paper (Cost: \$61,000,000)		61,000,000
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Repurchase Agreements—0.4%

State Street Repurchase Agreement, 6.00% due 1/2/1998	\$3,309,000	\$3,309,000
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Total Repurchase Agreements (Cost: \$3,309,000)		3,309,000
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Total Short Term Investments (Cost: \$79,204,122)		79,203,825
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Total Investments (Cost \$825,000,381)—99.7%		978,723,006
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Other Assets in Excess of Other Liabilities—0.3%		2,895,581
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Total Net Assets—100%		\$981,618,587
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(a) Non-income producing security.

(b) American Depository Receipt.

First Quarter

Report

December 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

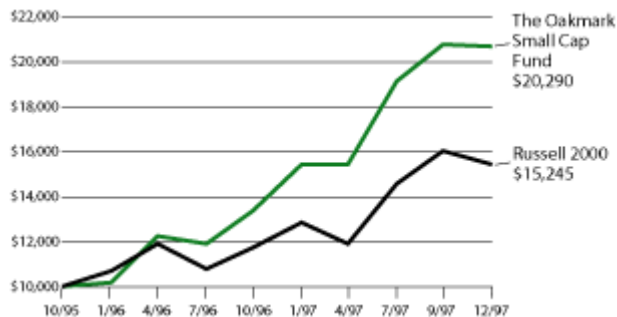
TRUSTEES
& OFFICERS

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 (12/31/97) AS COMPARED TO THE RUSSELL 2000 INDEX



12/31/97 NAV \$19.42

	Average Annual Total Return* Through 12/31/97 From Fund Inception 11/1/95
Total Return Last 3 mos.	

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/97 From Fund Inception 11/1/95
The Oakmark Small Cap Fund	-0.3%	38.6%
Lipper Small Cap Fund Index**	-5.4%	16.1%
Russell 2000 w/inc**	-3.4%	21.5%
S&P Small Cap 600 w/inc**	-3.1%	24.5%

*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 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.

HAPPY NEW YEAR!!!

December 31, 1997 marked the end of The Oakmark Small Cap Fund's first fiscal quarter. During the quarter the Fund declined 0.25%, which was less than the decline of the relevant indices. For the calendar year your Fund gained in excess of 40%. This surpassed the relevant indices by a significant margin. As a shareholder, I am pleased to note that The Oakmark Small Cap Fund is ranked by Lipper as the #5 fund out of 362 small cap funds over the last 2

years.

Notwithstanding this recent short-term success, as investors we should maintain a long-term investment horizon. Looking back at the September 30, 1997 report to shareholders, I committed a bit of a faux pas with the comment, "During the latter part of the fiscal year, the shares of small companies performed better than the shares of large companies." Well, this astute observation marked the end of that short-lived trend, probably deservedly so. The flaw in the observation I made last September is that it was a mere glimpse at a short-term event. As investors, we should evaluate the results of our investments over several years as opposed to several months. Investing is a marathon, not a sprint. The businesses we invest in are not created overnight, but over multi-year periods of developing the products or services that customers demand. Looking back on 1997, your Fund performed very well and we are delighted to be able to share the success of this past year with you. Happy New Year!!!

MUTUAL FUND INVESTING AND INVESTMENT PHILOSOPHY

I am frequently quizzed by shareholders, advisors, and consultants regarding a multitude of quantitative and qualitative attributes of The Oakmark Small Cap Fund. While it is important to be aware of the number of holdings in the portfolio or the cash position, nothing is more important than understanding the Fund's investment philosophy. The investment philosophy of The Oakmark Small Cap Fund is universally shared by the entire Oakmark Family of Funds and has been the foundation of Harris Associates for over twenty years. Our objective is to invest in the shares of companies that are selling at a significant discount to their economic value. We define economic value as what a rational business person would be willing to pay to own the entire company, the key word being rational. To that end, our internal staff of investment professionals is constantly looking at transactions of public and private companies or divisions of companies to determine benchmarks for valuing the companies in which we invest. This is complemented by a significant commitment of time which allows us to meet with managements of companies in which we invest, as well as their competitors. In this way, we gain greater insight into valuations of businesses as well as enhance our understanding of the industry.

We pay close attention to the managers of the companies in which we invest. These are people that are owner-oriented and have their incentives aligned with ours as shareholders. Very often their most significant personal asset is ownership in the shares of the company which they manage. This kind of alignment focuses management on allocating the financial capital of the company in the most economic and rational manner, which ultimately grows the value per share of the company. We believe that qualitative assessment of management and a company by company focus is far more valuable in making investment decisions than the predictions of various gurus looking at interest rates, the stock market, or the economy.

In regard to managing the portfolio, our long-term investment horizon should minimize the high costs of turnover, which include commissions, price impacts, and taxes. Unfortunately, we do not control stock prices and, at some point, the price of a company's shares will converge with its value per share. When this happens we will sell the shares and redeploy the proceeds in other more attractive investments. Another tenet of our style of investing is to avoid being overdiversified. The Oakmark Small Cap Fund has less than half the number of holdings of the average small cap fund. Last, and most important, is that our actions be consistent with our investment philosophy and we do not deviate from it.

UGLY DUCKLING...AN UGLY DUCKLING OR A BEAUTIFUL SWAN???

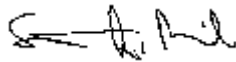
One of the more recent investments in your Fund is Ugly Duckling Corp. (the Duck). The Duck is a retailer and financier of used cars. During 1997, this industry experienced radical

change, including the bankruptcy of several large competitors of the Duck. This upheaval caused even strong companies like the Duck to experience significant share price declines. Our analysis concluded that the fundamentals of the Duck's business and the industry were intact. After a meeting with management at their headquarters in Phoenix, my colleague, Jim Benson, and I concluded that despite near-term volatility, the long-term outlook was favorable. Several shareholders have noticed that our initial purchases of the shares were at prices higher than the current share price. We are convinced that the value per share has not declined, thus we continued to buy more shares during the quarter. This is a prime example of a relatively unknown industry and company that have fallen out of favor with both Wall Street and the Duck's investment bankers in Arlington, Virginia. It is reminiscent of the depressed bank and thrift stock prices of the early nineties. We believe the long-term prospects for this investment are very attractive. Some day the Duck will fly again.

OUTLOOK

As you know, we don't make predictions regarding the stock market or share prices. It is reasonable to expect that some companies will be affected by cross currents in the economy. We try to take advantage of the volatility of share prices in our endeavor to do better than the market. If we don't, we can use this year's universal scapegoat. El Niño.

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
January 8, 1998

THE OAKMARK SMALL CAP FUND

Schedule of Investments—December 31, 1997 (Unaudited)

Shares Held Market Value

Common Stocks—94.3%

Food & Beverage—6.1%

Ralcorp Holdings, Inc. (a)	3,000,000	\$ 50,812,500
International Multifoods Corporation	1,084,900	30,716,231
M & F Worldwide Corp. (a)	917,600	9,003,950
		90,532,681

Retail—3.5%

Cole National Corporation (a)	1,250,000	\$37,421,875
Ugly Duckling Corporation (a)	1,750,000	14,875,000
		<hr/>
		52,296,875

Other Consumer Goods & Services—9.7%

Triarc Companies, Inc. (a)	1,750,000	\$47,687,500
First Brands Corporation	1,000,000	26,937,500
Scotsman Industries, Inc.	1,041,500	25,451,656
GC Companies, Inc. (a)	310,000	14,686,250
Standard Motor Products, Inc.	511,400	11,538,462
Barry (R.G.) Corporation (a)	650,000	7,556,250
Libbey, Inc.	190,000	7,196,250
Justin Industries	207,400	2,825,825
P.H. Glatfelter Company	55,300	1,029,963
		<hr/>
		144,909,656

Banks—10.3%

People's Bank of Bridgeport, Connecticut	3,000,000	\$114,000,000
BankAtlantic Bancorp, Inc., Class A	926,700	15,116,794
Northwest Savings Bank	590,000	8,333,750
Pocahontas Federal Savings and Loan Association	140,000	6,230,000
PennFed Financial Services, Inc.	130,000	4,485,000
Harbor Federal Savings Bank	45,000	2,981,250
Savings Bank of the Finger Lakes	94,000	2,914,000
		<hr/>
		154,060,794

Insurance—13.5%

RenaissanceRe Holdings Limited.	1,650,000	\$72,806,250
Financial Security Assurance Holdings Ltd.	871,700	42,059,525
PXRE Corporation	1,186,000	39,360,375

Highlands Insurance Group, Inc. (a)	1,150,000	32,631,250
Chartwell Re Corporation	432,200	14,586,750
		<hr/>
		201,444,150

Other Financial—0.8%

Duff & Phelps Credit Rating Company	296,800	\$12,057,500
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Broadcasting & Cable TV—7.2%

Cablevision Systems Corporation (a)	834,700	\$79,922,525
Ascent Entertainment Group, Inc. (a)	1,915,000	19,868,125
Granite Broadcasting Corporation (a)	800,000	7,250,000
		<hr/>
		107,040,650

Publishing—1.0%

Lee Enterprises, Inc.	500,000	\$14,781,250
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Telecommunications—0.2%

ROHN Industries, Inc.	500,000	\$2,578,125
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Data Storage—1.9%

Imation Corporation (a)	1,800,000	\$28,800,000
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Automotive—1.6%

Stoneridge, Inc. (a)	1,500,000	\$24,000,000
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Aerospace & Defense—2.5%

Tracor, Inc. (a)	1,236,000	\$37,543,500
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Machinery & Metal Processing—5.6%

The Carbide/Graphite Group, Inc. (a)	800,000	\$27,000,000
DT Industries, Inc.	462,000	15,708,000
Matthews International Corporation, Class A	300,000	13,200,000
Northwest Pipe Company (a)	520,000	12,480,000
Atchison Casting Corporation (a)	710,400	11,544,000

Wolverine Tube, Inc. (a)	140,800	4,364,800
		<hr/>
		84,296,800

Building Materials & Construction—0.3%

Triangle Pacific Corporation (a)	146,100	\$4,949,138
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Oil & Natural Gas—2.0%

Titan Exploration, Inc. (a)	3,100,000	\$29,450,000
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Other Industrial Goods & Services—13.4%

MagneTek, Inc. (a)	2,500,000	\$48,750,000
SPX Corporation	700,000	48,300,000
Gardner Denver Machinery, Inc. (a)	1,249,200	31,620,375
Zurn Industries, Inc.	668,000	21,000,250
Columbus McKinnon Corporation	808,400	19,603,700
Ferro Corporation	775,000	18,842,187
Binks Sames Corporation	247,000	10,435,750
Binks Sames Corporation, Restricted Shares	28,000	1,041,040
		<hr/>
		199,593,302

Commercial Real Estate—7.6%

Catellus Development Corporation (a)	4,000,000	\$80,000,000
Castle & Cooke, Inc. (a)	1,423,300	24,018,187
Wellsford Real Properties Inc. (a)	466,900	7,295,313
Trammell Crow Company (a)	60,000	1,545,000
		<hr/>
		112,858,500

Diversified Conglomerates—7.1%

U.S. Industries, Inc.	3,500,000	\$105,437,500
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Total Common Stocks (Cost: \$1,137,244,707)		1,406,630,421
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Principal Market Value Value

Short Term Investments—5.4%

U.S. Government Bills—0.6%

United States Treasury Bills, 4.94% 5.14% due 1/8/1998 5/1998	\$10,000,000	\$9,950,747
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Commercial Paper—4.5%

American Express Credit Corp., 6.00% 6.65% due 1/2/1998 1/6/1998	\$32,000,000	\$32,000,000
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Ford Motor Credit Corp., 5.80% 5.95% due 1/2/1998 1/7/1998	20,000,000	20,000,000
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General Electric Capital Corporation, 5.81%- 5.83% due 1/6/1998- 1/9/1998	15,000,000	15,000,000
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Total Commercial Paper (Cost: \$67,000,000)		67,000,000
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Repurchase Agreements—0.3%

State Street Repurchase Agreement, 6.00% due 1/2/1998	\$4,560,000	\$4,560,000
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Total Repurchase Agreements (Cost: \$4,560,000)		4,560,000
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Total Short Term Investments (Cost: \$81,510,222)		81,510,747
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Total Investments (Cost \$1,218,754,929)—99.7%		1,488,141,168
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Other Assets in Excess of Other Liabilities—0.3%		4,018,264
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Total Net Assets—100%		\$1,492,159,432
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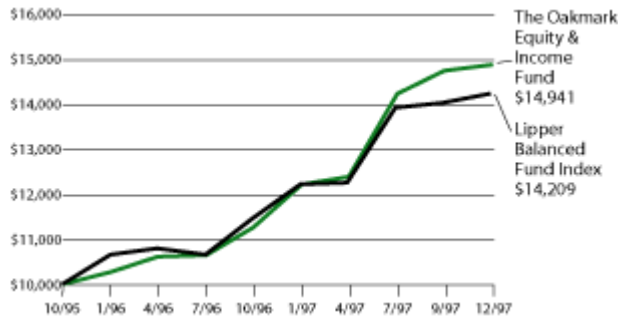
(a) Non-income producing security.

The Oakmark Equity and Income Fund

Report from Clyde S. McGregor, Portfolio Manager



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/97) AS COMPARED TO THE LIPPER BALANCED FUND INDEX



12/31/97 NAV \$13.76

Average Annual
Total Return*
Through
12/31/97
From Fund
Inception
11/1/95

	Total Return Last 3 mos.	Average Annual Total Return* Through 12/31/97 From Fund Inception 11/1/95
The Oakmark Equity & Income Fund	0.9%	20.3%
Lipper Balanced Fund Index**	1.5%	17.6%
Lehman Govt./Corp. Bond**	3.2%	7.3%
S&P 500 w/inc**	2.9%	29.2%

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

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

RESULTS

The Equity and Income Fund turned in another positive result in the December quarter. The total return of 0.9% contributed to a gain of 26.6% for the calendar year which placed the Fund fourth out of 350 funds in its category according to Lipper Analytical Services. 1997

was a period in which both The Fund's equities and fixed income holdings shone. I am most pleased that the fixed income segment of the portfolio earned a return which exceeded that which long term bond indices realized even though that segment was always invested primarily in Treasury notes with intermediate maturity. But in a year where the S&P 500 return tripled that which bonds earned, the real story, which accounts for The Fund's excellent calendar year result, was the stock segment.

ASSET ALLOCATION PHILOSOPHY

A recent article in the Wall Street Journal questioned the wisdom of investing one's assets in a 60% stock 40% fixed income ratio. Since that has been the average asset allocation of your Fund, the article quickly grabbed my attention. The author of this piece argues that investors are either "stock investors" or "bond investors" depending on their life situation and that they should orient their portfolios heavily (80-90%) to the appropriate category. I discussed asset allocation at length in The Fund's second report, but since most of you have become shareholders since that time, a brief review is in order.

The two primary reasons for using a 60:40 asset allocation are that this structure mediates effectively between the needs for current income and long term growth and that it has proven able to handle some of the frailties of human nature. Many trustees have the problem of administering trusts for two groups of beneficiaries with divergent interests. One group needs income while the second desires a larger pool of capital in the future. Over many decades trustees in this position have gravitated to 60:40 because it does a good job of meeting both objectives. One does not have to be a trustee, however, to have investment objectives which conflict.

Perhaps more important is the point that 60:40 asks very little of human nature. For an asset mix to be effective, it must prove itself in times of stress. After the 1987 Crash, my partners and I observed several charitable fund investment committees which had previously embraced equity-oriented asset allocations flee that asset class entirely. Precisely at the moment when their asset allocation could have provided the most value, it was abandoned. Experience has demonstrated that investors who maintain a 60:40 asset allocation are unlikely to panic when times are tough. In fact, the discipline of this approach leads one to lean against the prevailing trend, adding funds to stocks when they are down and pulling back when they are up.

The Wall Street Journal writer correctly points out that in periods with unexpected significant increases in the rate of inflation such as the 1970's the 60:40 asset mix did not provide a perfect shield. Conditions are far different today, however; unexpected deflation seems more probable, and 60:40 offers many advantages in that environment.

I will close this section by noting that I do not think of Oakmark Equity and Income as a 60:40 fund. Rather, I maintain a core position in US Treasury Notes and build the rest of the portfolio from there. When I find plentiful opportunities in high yield bonds and preferred stocks, the portfolio will have an allocation of as much as 20% in that sector (currently 10%). The equity allocation also develops from the bottom up: when we have a sufficient pool of attractive ideas, stocks will gravitate toward their maximum of 65% of the portfolio. In essence the asset allocation is an outcome of our search for value.

DIFFERENCES

Some investors have asked how Oakmark Equity and Income differs from other funds in its category. Aside from the unique stamp which Harris Associates' style of value investing places on the portfolio, the basic difference is that The Fund is more eclectic. Most competing funds shun high yield securities. Others will only hold equities which pay dividends. And,

few hold any small capitalization issues.

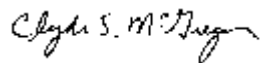
We invest all of our portfolios by going wherever value takes us within the guidelines for that portfolio. This has the following outcomes for The Equity and Income Fund:

- The Fund owns high yield bonds and preferred issues (where we can identify value) and does not own investment grade debt (where we cannot).
- The Fund is invested in stocks of small-cap, mid-cap, and large-cap companies as well as foreign-domiciled concerns.
- The Fund owns stocks with above average dividend yields and stocks which pay no dividend at all.

We believe that outstanding investment opportunities are comparatively scarce. Not only does this lead to our rejecting the kinds of limitations mentioned above, but also to the Fund being considerably more concentrated than its peers. Generally, The Fund's 10 largest equity holdings will comprise at least 30% of The Fund's assets.

A final differentiating point which is true for all of the funds in the Oakmark group is that the managers invest a significant portion of their net worth in their funds. In the case of Oakmark Equity and Income, the McGregor Family is by far the largest shareholder group.

Happy belated New Year! Please feel free to E-mail me with your questions or comments.



CLYDE S. MCGREGOR
Portfolio Manager
mcgregor@oakmark.com
January 8, 1998

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 1997 (Unaudited)

	<i>Shares Held</i>	<i>Market Value</i>
<hr/>		
<i>Equity and Equivalents—57.9%</i>		
<i>Food & Beverage—1.8%</i>		
Philip Morris Companies Inc.	16,100	\$729,531
<i>Office Equipment—2.4%</i>		
Lexmark International Group, Inc., Class A (a)	26,000	\$988,000
<i>Other Consumer Goods & Services—6.1%</i>		
Juno Lighting, Incorporated	61,300	\$1,072,750

Armstrong World Industries, Inc.	9,600	717,600
National Presto Industries, Inc.	17,000	672,563
		<hr/>
		2,462,913
 <i>Banks—4.3%</i>		
Banc One Corporation	17,022	\$924,507
Mellon Bank Corporation	13,400	812,375
		<hr/>
		1,736,882
 <i>Insurance—5.2%</i>		
PartnerRe Ltd.	25,000	\$1,159,375
Old Republic International Corporation	25,500	948,281
		<hr/>
		2,107,656
 <i>TV Programming—3.1%</i>		
Tele-Communications, Liberty Media, Class A (a)	35,200	\$1,276,000
 <i>Publishing—5.1%</i>		
Dun & Bradstreet Corporation	35,000	\$1,082,812
Lee Enterprises, Inc.	33,900	1,002,169
		<hr/>
		2,084,981
 <i>Computer Services—4.1%</i>		
Electronic Data Systems Corporation	38,000	\$1,669,625
 <i>Data Storage—2.9%</i>		
Imation Corporation (a)	72,200	\$1,155,200
 <i>Automotive—7.2%</i>		
Chrysler Corporation	40,000	\$1,407,500
Borg-Warner Automotive, Inc.	15,000	780,000
Lear Corporation	15,000	712,500
		<hr/>

2,900,000

Aerospace & Defense—1.7%

The Boeing Company 14,300 \$699,806

Machinery & Metal Processing—2.4%

General Signal Corporation 23,000 \$970,313

Other Industrial Goods & Services—2.3%

Premark International, Inc. 31,500 \$913,500

Commercial Real Estate—3.8%

Catellus Development
Corporation (a) 77,728 \$1,554,560

Diversified Conglomerates—3.1%

U.S. Industries, Inc. 41,750 \$1,257,719

Foreign Securities—2.0%

DeBeers Consolidated Mines
Limited ADR (b) 40,000 \$817,500

**Total Equity and Equivalents (Cost:
\$18,649,627) 23,495,186**

Convertible Preferred Stock—0.4%

Insurance—0.4%

American Heritage Life
Investment Corporation,
Convertible Preferred, 8.50% 3,000 \$171,000

**Total Convertible Preferred Stock
(Cost: \$150,000) 171,000**

*Principal
Value Market
Value*

Fixed Income—34.3%

Preferred Stock—6.3%

Banks—6.3%

BBC Capital Trust 1,

Preferred, 9.50%	28,000	\$735,000
PennFirst Capital Trust 1, Preferred, 8.625%	70,000	700,000
Pennfed Capital Trust I, Preferred, 8.90%	27,500	697,812
RBI Capital Trust I, Preferred, 9.10%	42,500	440,938
		<hr/>
		2,573,750

**Total Preferred Stock (Cost:
\$2,535,738)** **2,573,750**

Corporate Bonds—4.1%

Other Consumer Goods & Services—0.6%

Samsonite Corporation, 11.125% due 7/15/2005, Senior Subordinated Note Series B	\$200,000	\$224,250
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Aerospace & Automotive—0.5%

Coltec Industries, Inc., 9.75% due 4/1/2000	\$150,000	\$159,188
Coltec Industries, Inc., 9.75% due 11/1/1999	25,000	26,406
		<hr/>
		185,594

Building Materials & Construction—0.4%

USG Corporation, 9.25% due 9/15/2001, Senior Notes Series B	\$150,000	\$161,437
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Utilities—0.4%

Midland Funding Corporation, 11.75% due 7/23/2005	\$150,000	\$175,875
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Other Industrial Goods & Services—2.2%

Scotsman Industries, Inc., 8.625% due 12/15/2007, Senior Subordinated Note	\$565,000	\$567,119
UCAR Global Enterprises Inc., 12.00% due 1/15/2005, Senior Subordinated Note	300,000	338,250
		<hr/>

905,369

**Total Corporate Bonds (Cost:
\$1,614,057) 1,652,525**

Government and Agency Securities—23.9%

U.S. Government Bonds—23.1%

United States Treasury Notes, 7.125% due 9/30/1999	\$3,300,000	\$3,378,276
United States Treasury Notes, 7.875% due 11/15/2004	2,750,000	3,074,142
United States Treasury Notes, 7.50% due 5/15/2002	2,750,000	2,933,783
		<hr/>
		9,386,201

U.S. Government Agencies—0.8%

Federal Home Loan Bank, 6.405% due 4/10/2001, Consolidated Bond	\$300,000	\$304,146
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**Total Government and Agency
Securities (Cost: \$9,490,022) 9,690,347**

Total Fixed Income (Cost: \$13,639,817) 13,916,622

Short Term Investments—6.3%

Commercial Paper—5.1%

Ford Motor Credit Corp., 5.80% due 1/2/1998	\$750,000	\$750,000
American Express Credit Corp., 6.00% 6.65% due 1/2/1998 1/5/1998	950,000	950,000
General Electric Capital Corporation, 5.79% 6.08% due 1/5/1998 1/6/1998	350,000	350,000
		<hr/>

**Total Commercial Paper (Cost:
\$2,050,000) 2,050,000**

Repurchase Agreements—1.2%

State Street Repurchase

Agreement, 6.00% due 1/2/1998	\$503,000	\$503,000
		<hr/>
Total Repurchase Agreements (Cost: \$503,000)		503,000
Total Short Term Investments (Cost: \$2,553,000)		2,553,000
Total Investments (Cost \$34,842,444)—98.5%		39,964,808
Other Assets in Excess of Other Liabilities—1.5%		601,441
		<hr/>
Total Net Assets—100%		\$40,566,249
		<hr/> <hr/>

(a) Non-income producing security.

LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
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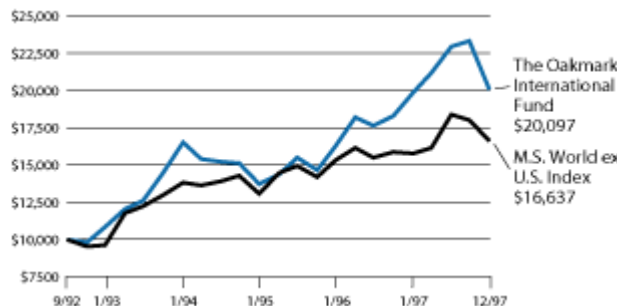
TRUSTEES
& OFFICERS

The Oakmark International Fund

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



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/97) COMPARED TO THE MORGAN STANLEY WORLD EX U.S. INDEX



12/31/97 NAV \$12.83

Average Annual
Total Return*
Through
12/31/97
From Fund
Inception
9/30/92

Total
Return
Last 3
mos.

Index	Total Return Last 3 mos.	Average Annual Total Return*
The Oakmark International Fund	-13.7%	14.2%
Morgan Stanley World ex U.S. w/inc.**	-7.7%	10.2%
Morgan Stanley EAFE w/inc**	-7.8%	10.0%
Lipper Analytical International Fund Index**	-7.7%	12.3%

*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 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 Index includes 30 mutual funds that invest in securities whose primary markets are outside the United States. Past performance is no guarantee of future results.

FELLOW SHAREHOLDERS:

Our performance for the fiscal first quarter 1998 was down -13.7% which compares with the Morgan Stanley EAFE index return of -7.8%. More important, over the longer term your

Fund has achieved an annualized return of 14.2% since inception, compared to a 10.0% return for Morgan Stanley EAFE and a 12.3% return for the Lipper International Index of diversified international funds.

PERFORMANCE ANALYSIS

As part of our calendar year-end exercise, we want to discuss the investments that have helped and hurt the Fund the most over the last twelve months. These are the stocks that had the biggest absolute dollar impact on the Fund's performance (as opposed to the biggest percentage price movement).

THE WINNERS . . .

Our discipline and long-term orientation paid off with our investment in **Telmex**, up over 50 percent for the Fund. We sold our entire position earlier in the year after the stock hit our sell price target. The success of Telmex two years after Mexico's devaluation is a good lesson to remember in light of the current confusion in the Asian markets. As investors and the media continue to be dominated by widespread after-the-fact-bearishness from Wall Street strategists on the future, we must point out that it sounds very similar to what these people had to say in the first quarter of 1995 about Latin America. With most Asian markets down over 50 percent (some down over 80 percent!!) sometimes you have to wonder if strategists ever factor price into their buy/sell recommendations.

Guinness was involved in a significant corporate action in 1997 and proved a profitable investment for the Fund, up 25 percent. **Diageo**, the new moniker for the merged UK giants Guinness and Grand Metropolitan, possesses a powerful portfolio of global brands, dominant market shares, and strong, shareholder-oriented management. **Nestle** also had good price performance in 1997, up 50 percent, as a weaker Swiss franc helped highlight to the market the Company's significantly undervalued portfolio of consumer brands.

The share price of **Banco Espirito Santos** surged along with the profitability of the Portuguese financial sector. The shares returned over 75 percent in US dollars for the Fund as a number of international investors warmed up to big cap stocks in the Portuguese market.

YPF Sociedad, the Argentinean oil giant, was another example of the benefits of long-term value investing. The shares returned over 35 percent this year before hitting our sell target of US\$33. We significantly added to our position around \$20 while most investors were still worried about short-term problems in Latin America. Good management and an attractive asset base gave us confidence in the long-term value of the Company.

AND THE LOSERS . . .

A number of stocks cut into the Fund's performance this year. The worst was Malaysian cellular telecom provider **Technology Resources**, down nearly 70 percent in 1997 in US dollars, similar to the performance of the devastated Kuala Lumpur market. Despite the short-term problems Malaysia now faces, we believe the Company remains undervalued and have added to the Fund's position at these lower prices. It remains at a significant discount to global comparable companies while having more attractive growth prospects.

In Italy, **Fila Holdings** was another poor performer for the Fund, dropping 65 percent. The Company continues to improve its product mix, rebounding from last year's poor product lineup, with an emphasis on performance rather than fashion. We have been actively buying shares at current prices and are convinced of substantial long-term value.

One Latin American investment that did not fare well in 1997 was Brazilian steel giant

Usiminas, down 30 percent. Worries about a slowing domestic economy and weak product prices caused share price weakness. Currently at a PE of 5 and with a 7 percent dividend yield, the share price for this high-quality, low-cost producer with bright long-term growth prospects is trading substantially below its economic value.

Another steel stock that performed poorly this year was **Avesta-Sheffield** of Sweden, down 35 percent. Management has been disappointing in the task of restructuring the cost side of the business. We sold the entire position before the end of the quarter.

Japan was one of the developed world's poorest performers in 1997 (-20 percent), and our investment in **Sankyo** was unfortunately true to that trend. The Fund's investment was down 50 percent, including the 11 percent decline in the value of the Yen. We continue to believe that this cash-rich, high return business is undervalued.

PROSPECTS FOR 1998

As calendar year 1998 begins, we continue to find interesting value throughout the world. One of our favorite markets is the United Kingdom, which at 26.2 percent of assets, remains the Fund's largest single country weighting due to the excellent values we have found. We also continue to find good value in selected situations in continental Europe.

In Latin America, we see great value in our Brazilian investments and in **Quilmes**, a brewer based in Argentina. While we continue to look in Mexico, it has become more difficult to find values since the market run-up over the past eighteen months.

Over the past few months we have spent a great deal of time sifting through the wreckage of the Asian markets looking for long-term values, and we think we have found quite a few, and this will certainly continue as 1998 progresses.

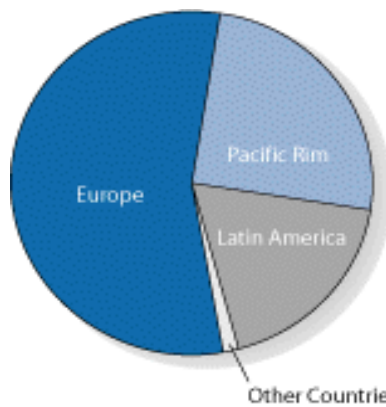


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January 8, 1998

THE OAKMARK INTERNATIONAL FUND
International Diversification—December 31, 1997



	% of Fund Net Assets		% of Fund Net Assets
Europe	52.6%	Pacific Rim	23.8%
Great Britain	26.2%	Hong Kong	8.3%
France	9.7%	New Zealand	6.4%
Italy	4.2%	Japan	3.2%
Sweden	3.9%	Korea	1.7%
Switzerland	3.9%	Australia	1.5%
Netherlands	3.2%	Malaysia	1.4%
Finland	1.0%	Singapore	1.1%
Germany	0.3%	Thailand	0.2%
Spain	0.2%		
Latin America	17.5%	Other Countries	1.3%
Brazil	10.0%	Israel	1.3%
Argentina	5.4%		
Panama	2.1%		

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 1997 (Unaudited)

<i>Description</i>	<i>Shares Held</i>	<i>Market Value</i>
<i>Common Stocks—95.2%</i>		
<i>Consumer Non-Durables—7.8%</i>		
Fila Holding S.p.A. (Italy), (b)	Athletic Footwear Manufacturing	1,937,600 \$38,994,200
Chargeurs International Sa (France), (a)	Wool Production Holding Company	614,249 36,741,653
Yue Yuen Industrial Holdings (Hong Kong)	Athletic Footwear Manufacturing	4,700,600 9,948,360
Gucci Group (Netherlands), (b)	Apparel Manufacturer	225,000 9,421,875
BYC Co. Ltd. (Korea)	Textile Manufacturer	33,540 1,474,177

96,580,265

Food & Beverage—21.7%

Quilmes Industrial SA (Argentina),(b)	Brewer	4,889,200	\$66,920,925
Tate & Lyle PLC (Great Britain)	Sugar Producer & Distributor	6,972,700	57,492,352
Lion Nathan Limited (New Zealand)	New Zealand Brewer	21,462,700	48,104,539
Pernod Ricard (France)	Manufactures Wines, Spirits, & Fruit Juices	652,579	38,383,811
Nestle SA (Switzerland)	Producer of Foods & Drinks	16,800	25,167,807
Montedison S.p.A. (Italy)	Agro-industrial & Agricultural Services	14,941,000	13,420,717
Diageo plc (Great Britain)	Distiller & Brewer	1,025,000	9,402,697
Bongrain SA (France)	Dairy Products	8,812	3,718,947
Lotte Confectionery Company (Korea)	Confection Manufacturer	65,270	3,581,186
Lotte Chilsung Beverage Company (Korea)	Manufacturer of Soft Drinks, Juices, & Sport Drinks	84,770	2,355,556
			<hr/>
			268,548,537

Household Products—1.8%

Amway Japan Limited (Japan)	Marketing of Household Products	1,116,700	\$21,381,250
Amway Japan Limited (Japan), (b)	Marketing of Household Products	152,400	1,409,700
			<hr/>
			22,790,950

Retail—1.7%

Giordano International Limited (Hong Kong)	East Asian Clothing Retailer & Manufacturer	60,799,000	\$20,988,169
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Other Consumer Goods & Services—3.0%

Sankyo Company	Pachinko Machine		
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Ltd. (Japan)	Manufacturer	1,117,800	\$16,351,366
Mandarin Oriental International Limited (Singapore)	Hotel Management	19,870,000	13,312,900
Hongkong and Shanghai Hotels, Limited (Hong Kong)	Hotel Operator	9,293,000	7,675,210
			<hr/>
			37,339,476

Telecommunications—5.8%

Telecomunicacoes Brasileiras S/A (Brazil)	Telecommunications	223,100,000	\$22,688,813
Technology Resources Industries Berhad (Malaysia)	Telecommunications	29,010,000	17,154,647
Bezeq (Israel)	Telephone Company	5,826,471	16,087,900
Asia Satellite Telecommunications Holdings Ltd. (Hong Kong), (b)	Telecommunications	753,000	12,659,813
Sk Telecom Co. Ltd. (Korea)	Telecommunications	10,093	2,649,785
			<hr/>
			71,240,958

Transportation—3.9%

AB Volvo (Sweden)	Automobiles and Trucks	1,812,600	\$48,625,776
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Transportation Services—1.9%

Danzas Holding AG (Switzerland), (a)	Freight Distributor	118,600	\$23,294,689
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Banks—8.3%

Uniao de Bancos Brasileiros S.A. (Brazil), (a)(c)	Major Brazilian Bank	1,326,500	\$42,696,719
Banco Latinoamericano de Exportaciones, S.A. Class E (Panama), (b)	Multinational Bank	628,300	25,995,913
Uniao de Bancos Brasileiros S.A.— units (Brazil), (a)	Major Brazilian Bank	291,912,500	19,878,455

Compagnie Financiere de Paribas (France)	French Financial Services Group	135,000	11,731,328
Banco Popular Espanol SA (Spain)	Large Spanish Bank	25,972	\$1,815,568
			<hr/>
			102,117,983

Other Financial—5.3%

Sedgwick Group plc (Great Britain)	Insurance Broker, Financial Services	28,335,000	\$65,621,736
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Marketing Services—5.9%

Saatchi & Saatchi plc (Great Britain), (a)	Advertising Services	20,297,578	\$36,672,649
Cordiant Communications Group plc (Great Britain)	Advertising Services	20,297,578	36,339,262
			<hr/>
			73,011,911

Broadcasting & Publishing—1.4%

Europe 1 Communication (France)	Television Production	74,020	\$16,222,046
Woongjin Publishing Company (Korea)	Publisher	78,410	1,105,604
			<hr/>
			17,327,650

Aerospace—5.0%

Rolls-Royce plc (Great Britain)	Jet Engines	10,138,552	\$38,300,915
Hong Kong Aircraft Engineering Company Ltd. (Hong Kong)	Commercial Aircraft Overhaul & Maintenance	9,521,000	23,959,156
			<hr/>
			62,260,071

Chemicals—5.0%

Fernz Corporation Ltd. (New Zealand)	Agricultural & Industrial Chemical Producer	12,141,800	\$31,373,103
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European Vinyls Corporation International N.V. (Netherlands)	Western European PVC Manufacturer	1,367,785	30,355,498
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			61,728,601

Components—2.1%

Varitronix International Limited (Hong Kong)	Liquid Crystal Displays	15,250,000	\$26,174,345
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Mining and Building Materials—1.9%

Pioneer International (Australia)	Concrete Products, Aggregates	6,585,176	\$17,983,009
Keumkang Ltd. (Korea)	Building Materials	360,000	3,313,274
Siam City Cement Public Company Limited (Thailand)	Cement Producer	1,997,149	2,156,838
			<hr/>
			23,453,121

Other Industrial Goods & Services—6.6%

Tomkins plc (Great Britain)	Industrial Management Company	12,595,000	\$58,751,897
Kone Corporation (Finland)	Elevators	103,870	12,576,560
Legris Industries (France)	Europe's Leading Crane Manufacturer	195,097	6,774,989
Buderus AG (Germany), (a)	Industrial Manufacturing Firm	7,600	3,405,098
			<hr/>
			81,508,544

Steel—3.2%

Usiminas (Brazil), (a)	Steel Production	6,561,370	\$38,802,063
Pohang Iron & Steel Company Ltd. (Korea)	Manufactures Steel Products	14,000	379,115
			<hr/>
			39,181,178

Diversified Conglomerates—2.9%

Securicor plc (Great Britain)	Diversified Consumer Services Company	4,534,500	\$21,338,280
Compagnie Generale des Eaux (France)	Industrial Services	50,000	6,978,483
Tae Young Corporation (Korea)	Heavy Construction	373,000	5,831,563
Lamex Holdings Ltd. (Hong Kong)	Hong Kong's Largest Office Furniture Supplier	14,040,000	1,811,847
			<hr/>
			35,960,173

Total Common Stocks (Cost: \$1,286,000,031) 1,177,754,133

Principal Value Market Value

Short Term Investments—1.5%

Commercial Paper—1.5%

Ford Motor Credit Corp., 5.71%—5.80% due 1/2/1998—1/5/1998	\$13,000,000	\$13,000,000
General Electric Capital Corporation, 5.79% due 1/6/1998	5,000,000	5,000,000
		<hr/>
		18,000,000

Repurchase Agreements—0.0%

State Street Repurchase Agreement, 6.00% due 1/2/1998	\$473,000	\$473,000
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Total Short Term Investments (Cost: \$18,473,000) 18,473,000

Total Investments (Cost \$1,304,473,031)—96.7%		1,196,227,133
Foreign Currencies (Proceeds \$7,011,721)—0.5%		6,914,614
Other Assets in Excess of Other Liabilities—2.8%		34,430,582
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Total Net Assets—100%

\$1,237,572,329

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

The Oakmark International Small Cap Fund

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



LETTER &
SUMMARY
INFORMATION

OAKMARK
FUND

OAKMARK
SELECT
FUND

OAKMARK
SMALL CAP
FUND

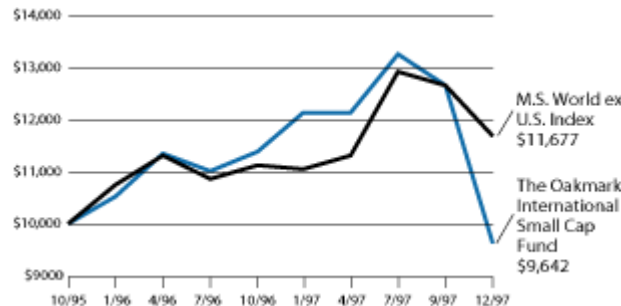
OAKMARK
EQUITY AND
INCOME FUND

OAKMARK
INTERNATIONAL
FUND

OAKMARK
INT'L SMALL
CAP FUND

TRUSTEES
& OFFICERS

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/97) AS COMPARED TO THE MORGAN STANLEY WORLD EX U.S. INDEX



12/31/97 NAV \$8.09

Average Annual
Total Return*
Through
12/31/97
From Fund
Inception
11/1/95

	Total Return Last 3 mos.	Average Annual Total Return*
The Oakmark International Small Cap Fund	-23.9%	-1.7%
Morgan Stanley World ex U.S. w/inc.**	-7.7%	7.4%
Lipper Analytical International Small Cap Fund Average**	-9.1%	7.0%
Micropal International Small Co. Fund Index**	-10.0%	7.2%

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

**Each of the three indexes or averages is an unmanaged group of indexes or funds whose composition is different from the Fund. The Morgan Stanley World ex U.S. Index includes 19 country sub-indexes. The Lipper International Small Cap Fund Average includes 48 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:

December 31, 1997 marked the end of a trying year for international mutual funds,

particularly international small-cap funds. In general, European large cap stocks outperformed small caps while the world witnessed the Asian markets tumble. Keeping in mind these factors, coupled with the fact that Asian holdings comprise 37 percent of The Small Cap Fund's portfolio, The Oakmark International Small Cap Fund, was down 19.9 percent for the calendar year 1997.

ASIAN TURBULENCE

The collapse of confidence in Asia was the big story of 1997. Given our weighting in the region, performance of the Fund suffered accordingly. While Australia and New Zealand held up relatively well, currency and equity markets of emerging Asia plunged. The declines in the second half of the year in some of these markets were unprecedented: Indonesia, -75 percent, Thailand, -63 percent, the Philippines, -55 percent, and Korea, -72 percent, all in U.S. dollars terms.

The developed markets of Asia were also big global underperformers. Japanese small caps, one of the Fund's biggest weightings, were down 40 percent for the year, as measured by the JASDAQ and Nikkei OTC markets, significantly underperforming Japanese large caps which were down 20 percent. Hong Kong, another large weighting in the Fund, was down 28 percent for the period.

Asia will continue to be volatile in 1998, but now that markets have collapsed, the real question investors should be asking is: Are all the negatives factored into current share prices? For the companies your Fund owns, we believe the answer is a resounding "YES".

We want to review 1997 by detailing the specific investment ideas which had the biggest impact on the performance of the Fund—The year's biggest winners and losers.

THE WINNERS . . .

Our discipline and long-term orientation paid off with our investment in Grupo Herdez, up over 150% for the Fund. We purchased shares of Grupo Herdez as low as 1.8 Mexican Pesos in mid-1995 while Mexico was still out of favor with most investors. The Fund's position was sold earlier in the year at around 6.0 Mexican Pesos after having hit our sell price target.

The success of Grupo Herdez two years after Mexico's devaluation is a good lesson to remember in light of the current disarray in Asian markets. In 1995 Wall Street strategists were uniformly bearish about the medium and long-term prospects for Mexico (and Argentina as well); both markets have come roaring back. It is important to remember that the pendulum of sentiment swings too far from reality on both the positive and the negative extremes—this is a phenomenon that helps create undervalued opportunities for long-term investors.

Another winner was **Tower Semiconductor** of Israel, which rebounded strongly from a poor 1996. The investment returned over 30% for the Fund before reaching its sell target earlier in the year.

The share price of **Taittinger** surged 100% in 1997. The market awakened to the undervaluation of this French holding company with interests in hotels, real estate, and champagne. For the past few years the lack of sell-side analyst coverage contributed to a wide gap between underlying asset value and market value. This gap was largely closed during the year.

Techtronic Industries performed well, returning over 40% for the Fund in a difficult Hong Kong market. The shares have reached their price target and have been sold.

In the UK, **Vardon** did well both operationally and from a share price perspective in 1997, up 45% for the Fund.

Surprisingly, a Korean company provided the Fund's largest positive price movement, **Daehan Flour Mills**. Up 150% before being sold, Daehan is a perfect example of the potential in overseas small cap markets to exploit inefficiencies using independent research and due diligence.

AND THE LOSERS . . .

A number of stocks cut into the Fund's performance this year, all of them located in Asia. Two of the worst were from Korea, **Woon Jin Publishing** and **Chosun Brewery**, down 70% and 80%, respectively, including the 50% decline in the value of the Korean Won. Woon Jin, a publisher of mainly educational materials, remains one of our favorite ideas for its strong free cash flow, modern management and extremely cheap valuation. Chosun Brewery has a dominant market position and brand-new production facilities, and would make an ideal partner for any foreigner wanting to enter the newly-opened Korean market.

In Japan, discount liquor retailer **Daimon** was a very poor performer, dropping over 60% for the Fund in US dollar terms. Trading as high as 6,000 Yen last year, we started to buy around 650 Yen when its market value was at a slight premium to the net cash on the Company's balance sheet. As it sometimes happens when buying out-of-favor shares, we were early. Daimon currently trades at a discount to its net cash, has attractive long-term growth potential and remains extremely undervalued by any measure. We have continued to add to our position.

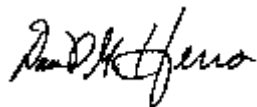
Hong Kong consumer financier **JCG Holdings** was down 55%, punished along with the entire financial sector on fears of a devaluation of the HK Dollar, followed by fears of emerging credit problems due to higher than historical interest rates. The Company is extremely well-placed to weather any short-term economic slowdown due to its overcapitalized balance sheet and proactive, shareholder-oriented management.

We met with a great number of Thai companies this year on three separate trips. To date, because of heavy debt loads and still too high share prices, we have not found many companies that we think give us a proper return in light of the risk. The one exception is **Matichon**, the dominant Thai language newspaper group, which was down 60 percent from our first purchases in January. We continued to purchase this stock throughout the year. With a sound balance sheet, conservative management, and an excellent franchise, we remain enthusiastic that the company will be a rewarding investment over the medium- to long-term.

PROSPECTS FOR 1998

Looking at the geographic allocation of the Fund as we enter 1998, Europe remains a large regional weighting with a number of undervalued situations, especially in the United Kingdom. Even though German large caps have had an excellent two year run, we still find value in the smaller caps in our portfolio.

The Pacific Rim makes up most of the rest of the Fund's assets, with large weightings in Australia, New Zealand, Japan, Hong Kong and Korea. We will continue in 1998 to devote analytical resources to finding undervalued companies in these depressed markets.



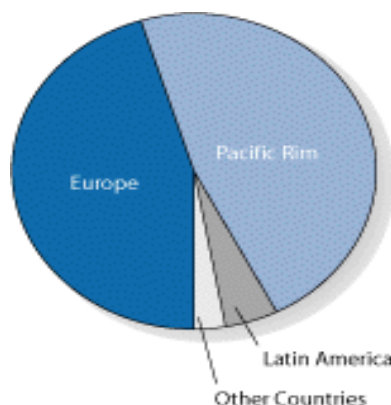
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 January 8, 1998

THE OAKMARK INTERNATIONAL SMALL CAP FUND

International Diversification—December 31, 1997



	% of Fund Net Assets		% of Fund Net Assets
Pacific Rim	46.2%	Europe	44.2%
Japan	12.7%	Great Britain	18.3%
New Zealand	9.0%	Germany	5.3%
Hong Kong	7.6%	Italy	4.7%
Australia	6.8%	Turkey	4.4%
Korea	5.5%	Netherlands	4.1%
Thailand	2.7%	France	3.8%
Philippines	1.9%	Ireland	3.6%
Latin America	4.6%	Other	2.8%
Brazil	4.6%	Canada	2.8%

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 1997 (Unaudited)

<i>Description</i>	<i>Shares Held</i>	<i>Market Value</i>
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Common Stocks—97.8%

Consumer Non-Durables—3.1%

Designer Textiles (NZ) Limited (New Zealand)	Knit Fabrics	2,960,000	\$996,860
Altinyildiz Mensucat ve Konfeksiyon Fabrikalari A.S. (Turkey)	Textiles	4,982,000	546,878
			<hr/>
			1,543,738

Food & Beverage—5.9%

Matthew Clark plc (Great Britain)	Spirits & Drinks	587,000	\$1,576,381
Alaska Milk Corporation (Philippines), (a)	Milk Producer	24,439,000	941,354
Chosun Brewery Company (Korea)	Korean Brewer	110,010	454,319
			<hr/>
			2,972,054

Household Products—11.2%

Enix Corporation (Japan)	Entertainment Software	130,200	\$2,492,916
Eczacibasi Yapi Gerecleri Sanayi ve Ticaret A.S. (Turkey), (a)	Ceramic Bath Products	56,367,200	1,659,059
WMF (Germany)	Tableware and Kitchenware	9,361	1,457,005
			<hr/>
			5,608,980

Retail—4.3%

Daimon (Japan)	Liquor Retailer & Distributor	577,200	\$1,149,360
Somerfield plc (Great Britain)	Food Retailer	292,000	1,004,783
			<hr/>

Other Consumer Goods & Services—8.5%

Fyffes plc (Ireland)	Distributor of Fresh Fruit, Flowers and Produce in Europe	1,195,024	\$1,785,920
Vardon plc (Great Britain)	Bingo Clubs	570,000	1,268,585
CeWe Color Holding AG (Germany)	Photo Equipment & Supplies	5,800	1,209,039
			<hr/>
			4,263,544

Telecommunications—0.4%

Sk Telecom Co. Ltd. (Korea)	Telecommunications	780	\$204,811
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Pharmaceutical—3.3%

Recordati (Italy)	Pharmaceuticals	206,500	\$1,680,950
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Banks—0.5%

Shinhan Bank (Korea)	Commercial Bank	45,490	\$202,625
Kookmin Bank (Korea)	Commercial Bank	6,795	35,879
			<hr/>
			238,504

Investment Companies—1.7%

Direct Capital Partners Limited (New Zealand)	Investment Fund for Unlisted New Zealand Companies	2,237,000	\$844,294
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Other Financial—12.1%

Lambert Fenchurch Group plc (Great Britain)	Insurance Broker	1,583,000	\$2,821,084
JCG Holdings Ltd. (Hong Kong)	Investment Holding Company	5,578,000	2,393,451
Ichiyoshi Securities (Japan)	Stock Broker	610,000	840,928
			<hr/>

Computer Systems—4.2%

Solution 6 Holdings Ltd. (Australia), (a)	Systems Design & Consulting	3,750,884	\$2,126,835
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Marketing Services—5.0%

Saatchi & Saatchi plc (Great Britain), (a)	Advertising Services	702,500	\$1,269,242
Cordiant Communications Group plc (Great Britain)	Advertising Services	702,500	1,257,703
			<hr/>
			2,526,945

Broadcasting & Publishing—5.7%

Woongjin Publishing Company (Korea)	Publisher	106,216	\$1,497,677
Matichon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	1,409,900	1,317,663
Matichon Public Company Limited (Thailand)	Newspaper Publisher	70,400	38,015
			<hr/>
			2,853,355

Chemicals—4.1%

European Vinyls Corporation International N.V. (Netherlands)	PVC Manufacturer	93,600	\$2,077,282
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Machinery & Metal Processing—1.2%

Denyo Co., Ltd. (Japan)	Welding Machines & Power Generators	114,000	\$580,608
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Mining and Building Materials—2.9%

Parbury Limited (Australia)	Building Products	4,144,712	\$1,269,618
Asia Cement Manufacturing Company Ltd. (Korea)	Cement	36,150	172,752
			<hr/>
			1,442,370

Other Industrial Goods & Services—15.5%

Elevadores Atlas, SA (Brazil)	Elevators	198,500	\$2,312,172
Sanford Ltd. (New Zealand)	Fisheries	1,363,940	2,059,127
Yip's Hang Cheung Ltd. (Hong Kong)	Paints & Solvents	19,602,000	1,416,585
Fukuda Denshi (Japan)	Medical Products Manufacturer and Distributor	79,000	804,702
Irce SpA (Italy)	Wire Manufacturer	140,000	680,611
Nishio Rent All Co (Japan)	Construction Equipment Rental	59,000	510,607
			<hr/>
			7,783,804

Production Equipment—6.6%

NSC Groupe (France)	Manufacturer of Textile Equipment	14,465	\$1,896,301
Skyjack Inc. (Canada), (a)	Producer of Elevating Platforms & Lifts	118,700	1,416,210
			<hr/>
			3,312,511

Steel—1.6%

Steel & Tube Holdings Ltd. (New Zealand)	Produces and Distributes Steel	515,400	\$643,424
Pohang Iron & Steel Company Ltd. (Korea)	Manufactures Steel Products	6,580	178,184
			<hr/>
			821,608

Total Common Stocks (Cost:

\$68,169,272)	49,091,799
Total Investments (Cost \$68,169,272) —97.8%	49,091,799
Foreign Currencies (Proceeds \$509,212)—1.0%	502,894
Other Assets in Excess of Other Liabilities—1.2%	583,867
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Total Net Assets—100%	\$50,178,560
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(a) Non-income producing security.

THE OAKMARK FAMILY OF FUNDS

Trustees and Officers

**First Quarter
Report**
December 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

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—*Chairman*
Robert M. Levy—*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—*Vice President—
Finance*
Anita M. Nagler—*Secretary*
Ann W. Regan—*Vice President—
Shareholder Operations and Assistant
Secretary*
Kristi L. Rowsell—*Treasurer*

Other Information

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Chicago, Illinois 60602-3790

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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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