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Fellow Shareholders:

We are pleased to present the Annual Report for The Oakmark Family of Funds. The past year has been a difficult period and we draw small comfort from the fact that previous letters have encouraged all shareholders to be realistic in their return expectations and asset mix. More importantly, as shareholders and investment managers, we are confident that the current market volatility will not prove to be a long-term deterrent to meeting our investment goals.



Our confidence is based on several factors. Harris Associates, investment adviser to The Oakmark Family of Funds, was founded in 1976. The investment professionals of our firm have implemented the same risk-averse value approach from the inception of the firm. In other difficult periods, our reaction has been straightforward and successful. Our people, process and philosophy remain constant and portfolio changes are made carefully and not emotionally. Our long-term results and experience reinforce our belief that this is the appropriate course of action to meet our financial goals.

The broad market weakness of the last several months has presented significant investment opportunities to each of our Funds. Our optimism is strengthened by the quality and upside potential of the securities that we hold and have added to our Funds. It is encouraging that our internal buy list is longer than it has been in several years. The attractiveness of the stocks in our universe is further confirmed by our decision to re-open our Small Cap Fund to new investors.

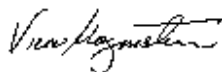
The final source of our confidence is a result of the atmosphere at our firm. In our internal meetings, we note an edginess that reflects our competitive spirit. Complacency is the biggest threat to investment success—it is not tolerated at our firm. We are well positioned to benefit from the inevitable rebound in stock prices and we appreciate your continued confidence in our efforts.

As the millennium approaches, we have received a number of questions about our readiness. Our internal Y2K committee has been active for an extended period.

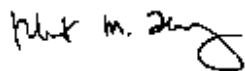
We are on schedule in determining that our internal systems and outside vendors are Y2K compliant. At this time, we expect no business disruptions to occur when we enter the next century.

In addition, we are well prepared for the Euro conversion in the international markets. Though less publicized, this currency change also requires substantial internal planning and vendor contact. We similarly expect that conversion to a common currency in Europe will not cause operational problems for our international funds.

We look forward to better times ahead.



VICTOR MORGENSTERN
Chairman



ROBERT M. LEVY
President



The Oakmark Family of Funds

Summary Information

<i>Performance for Period Ended September 30, 1998</i>	The Oakmark Fund		The Oakmark Select Fund		The Oakmark Small Cap Fund	
<i>3 Months</i>	-13.8%		-17.2%		-26.8%	
<i>6 Months</i>	-16.2%		-15.7%		-31.1%	
<i>1 Year</i>	-4.1%		3.6%		-26.4%	
<i>Average Annual Total Return for:</i>						
<i>3 Year</i>	15.0%		N/A		N/A	
<i>5 Year</i>	16.7%		N/A		N/A	
<i>Since inception</i>	25.2%		31.7%		14.9%	
<i>Value of \$10,000 from inception date</i>	\$49,899 (8/5/91)		\$16,936 (11/1/96)		\$14,976 (11/1/95)	
<i>Top Five Holdings as of September 30, 1998</i>	Phillip Morris Companies, Inc.	9.2%	Cablevision Systems Corporation, CI A	13.8%	People's Bank of Bridgeport, CT	7.9%

<i>Company and % of Total Net Assets</i>	Nike, Inc. C1 B	6.1%	USG Corporation	9.7%	U.S. Industries, Inc.	7.8%
	Mattel, Inc.	5.4%	U.S. Industries, Inc.	9.2%	Cablevision Systems Corporation, CI A	4.8%
	Banc One Corporation	5.4%	PartnerRe Ltd.	8.2%	First Brands Corporation	4.4%
	Lockheed Martin Corporation	5.3%	Gucci Group	8.2%	Ralcorp Holdings, Inc.	4.0%
<i>Top Five Industries as of September 30, 1998</i>	Other Consumer Goods & Services	20.1%	Broadcasting & Cable TV	13.8%	Other Consumer Goods & Services	13.0%
	Food & Beverage	15.2%	Building Materials & Construction	9.7%	Banks & Thrifts	11.5%
	Banks & Thrifts	14.0%	Diversified Conglomerates	9.2%	Food & Beverage	11.2%
	Aerospace & Defense	9.1%	Insurance	8.2%	Other Industrial Goods & Services	10.3%
	Apparel	6.1%	Retail	8.2%	Automotive	7.9%
<i>Industries and % of Total Net Assets</i>						

<i>Performance for Period Ended March 31, 1998</i>	The Oakmark Equity and Income Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
<i>3 Months</i>	-6.9%	-19.4%	-17.0%
<i>6 Months</i>	-6.4%	-29.0%	-28.2%
<i>1 Year</i>	2.6%	-29.9%	-35.2%
<i>Average Annual Total Return for:</i>			
<i>3 Year</i>	N/A	1.7%	N/A
<i>5 Year</i>	N/A	4.0%	N/A

<i>Since inception</i>	15.4%		8.5%		-6.5%	
<i>Value of \$10,000 from inception date</i>	\$15,191 (11/1/95)		\$16,322 (9/30/92)		\$8,211 (11/1/95)	
<i>Top Five Holdings as of September 30, 1998</i> <i>Company and % of Total Net Assets</i>	Imation Corp.	4.0%	Tomkins plc	5.6%	Enix Corporation	5.4%
	Chrysler Corporation	3.5%	Cordiant Communications Group plc	5.3%	Cordiant Communications Group plc	5.0%
	Tele-Communications Liberty Media, Class A	3.4%	Quilmes Industrial SA	5.1%	Lambert Fenchurch Group plc	4.8%
	Amlis Residential Properties Trust	3.3%	Fernz Corporation Limited	4.5%	Haw Par Corporation Ltd.	4.6%
	The Dun & Bradstreet Corporation	3.3%	Rolls-Royce plc	4.2%	Elevadores Atlas, SA	4.6%
<i>Top Five Industries as of September 30, 1998</i> <i>Industries and % of Total Net Assets</i>	U.S. Government Bonds	25.7%	Other Industrial Goods & Services	13.7%	Other Industrial Goods & Services	11.6%
	Banks & Thrifts	9.8%	Food & Beverage	10.1%	Retail	11.3%
	Automotive	6.5%	Marketing Services	9.5%	Other Financial	11.0%
	Other Consumer Goods & Services	6.4%	Banks	8.2%	Food & Beverage	9.6%
	Commercial Real Estate	6.2%	Other Consumer Goods & Services	6.8%	Computer Software	7.5%

The Oakmark Fund

Report from Robert J. Sanborn, Portfolio Manager



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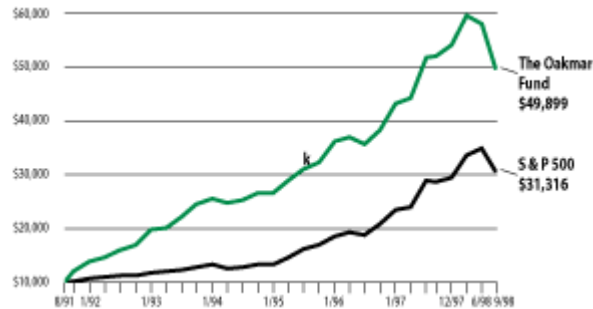
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9/30/98 NAV \$33.54

Average Annual
Total Return*
Through 9/30/98
From Fund
Inception
8/5/91

Total Return
Last 3 mos.

	Total Return Last 3 mos.	Average Annual Total Return* Through 9/30/98 From Fund Inception 8/5/91
The Oakmark Fund	-13.8%	25.2%
Standard & Poor's 500 Stock Index w/inc**	-10.0%	17.3%
Dow Jones Industrial Average w/inc**	-12.0%	17.1%
Value Line Composite Index**	-19.6%	6.7%

*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.

WHAT A SUMMER AND WHAT A YEAR...!

...and am I glad it's over!

Summer was beautiful in Chicago—great weather, another Bulls championship, Sammy Sosa

and the Cubs. It was also the summer we learned the definitions of a lot of neat words—"salacious," "parse," and "is," among others.

Yet, it was (and remains!) a very rocky period for the global economy and financial markets. The emerging market contagion, Monicagate, and the hedge fund debacle all combined to make equity markets very volatile. In the past month-and-a-half, the Standard & Poor's 500 had 17 trading sessions where it was up or down more than 1 percent! The height of what Shakespeare termed in **Twelfth Night** "this very midsummer madness" occurred on the morning of Friday, September 11. The Dow opened down big, but in the course of about ten minutes reversed, appreciating more than 3 percent. The proximate cause of this stunning reversal? President Clinton's tearful confession that he had "sinned." The market took this confession as sincere—as opposed to his prior confessions—and, I guess, interpreted these ostensibly real tears as increasing the chance that he will remain in office for the rest of his term.

What are value investors like ourselves to do in this sort of wacky environment in which stock prices are decoupled from intrinsic value?

Well, in light of the new forces driving the stock market, we have decided to abandon our one-stock-at-a-time, value-based philosophy. Instead, we have hired a linguist to interpret the nuances of the pronouncements of President Clinton and Alan Greenspan, we have installed cable tuned to CNBC in every investment professional's office, and have implemented a new investment philosophy we term "Buy what's going up." We are very optimistic that these moves will get us back in synch with the current market.

Just kidding. Repeat: just kidding. REPEAT: JUST KIDDING.

This has been a frustrating year and quarter for us (and for virtually all value investors, be they large cap, small cap, international—whatever). For the year, we lagged behind the S&P 500 by thirteen percent and, for the quarter, four percent. Last quarter, I discussed what I consider to be the reasons for this, and things have not changed. Frankly, many professional investors tend to be either paralyzed by the market weakness or, even worse, abandon their stated philosophies in pursuit of "performance." Many mutual fund managers encounter pressure from their shareholders and bosses to "do something"; generally, this means buying the hot stocks and selling the cold ones.

What are we doing? Well, both in our business affairs and our investment execution, we always do the same thing no matter what the environment. We continue to adhere to our philosophy and tune out all the noise. In fact, I am more confident about our Fund's prospects than I have been in a long time. Apparently, the managements of most of our holdings agree, as share repurchase activity among our holdings is at a very high level. As I have said before, we do not regard share buybacks as a panacea, but when stocks are trading significantly below value, they are a very efficient way to increase long-term value per share. In the market declines of 1987 and 1990, these were early indicators of under-valuation in many stocks. I believe it will also be the case this time.

As I write this, we are seeing very attractive buying opportunities and, in fact, putting our cash reserves to work. As many of our competitors adopt shorter and shorter investment time-frames, we find less competition from others with our long-term time-frame. While the volatility and uncertainty we are witnessing is not pleasant, it does present us with opportunities that should pay off over time. In future quarters, I hope to discuss individual investments at length.

In closing, and mining the same vein that characterized this summer's most famous speech, I take complete responsibility for the performance of the Fund, this has gone on too long and

hurt too many innocent people. If I have ever misled anyone—even my wife—that returns would be straight up to the moon, I offer my regret. God bless you and God bless The Oakmark Fund!

HEDGE FUND 101

What do you get in an investment firm where partners are ex-Vice Chairman of the Fed, two Nobel Prize winners in economics, and one of the all-time legendary traders? Answer: a decline in your portfolio of over 90 percent this year. Long-Term Capital Management was once a successful hedge fund that has been—alas!—in the news a lot recently.

A hedge fund is an investment vehicle whose investors are institutions and very wealthy individuals. Due to this clientele, hedge funds are exempt from most of the onerous regulations that other financial institutions—such as banks and mutual funds—must follow. While hedge funds follow a large variety of strategies, most use borrowed money to enhance returns.

The ironically named Long-Term Capital Management was formed by an ex-Solomon Brothers trader who figured prominently in the book **Liar's Poker**. Its specialty was in the fixed-income area. Generally, using computer models, its strategy was to buy and short a wide variety of debt securities that its computers identified as mispriced. During this past summer, Long-Term's portfolio consisted of about \$100 billion of securities, and the fund itself had partner equity of around \$3.5 billion. This leverage ratio of almost 30:1 made the fund a high-octane one but also made it very vulnerable if its model failed. Thus, after financing costs, if Long-Term was able to eke out a one percent gain from its portfolio, the leverage would allow the partners to realize a return of 30%.

Long-Term Capital attracted some very savvy investors, including the heads of many of Wall Street's most prominent firms. The terms were pretty tough: investors paid a management fee plus a percentage of profits, were given only a sketchy annual peek at the portfolio, and had to commit capital for three years. With the outsized gains that were generated, why worry?

Well, just like the seemingly infallible HAL in **2001: A Space Odyssey**, Long-Term's computers made a boo-boo. Its models undoubtedly were sophisticated, but depended upon order in the markets in which it invested. (This was the same assumption that blew up portfolio insurance, which was partly responsible for the Crash of 1987). Well, this summer saw volatile, disorderly markets. Long-Term's bets were off, and the leverage magnified them. Long-Term has surrendered virtual control to a passel of financial institutions who had lent it all that money.

Personally, I think the long-term effects of Long-Term's demise are negligible. Its clients can afford the loss and should have known about the risk. Perhaps lenders to hedge funds will now exercise more discretion. However, the long-term effect on the economy and the stock market is nil.

Individual investors can learn two important lessons from Long-Term. The first is a skepticism towards focusing solely on the historical returns of an investment vehicle. Just looking at the returns Long-Term was generating in its first few years of existence enticed a lot of people who should have known better. A responsible investor should know how one's money is being invested, the philosophy behind it, the leverage and any derivatives used, etc. The second is the ironclad relation between risk and return. Prior to this year, Long-Term had racked up great returns with an apparently low-risk system. We now know the risk was far greater than had been assumed by its investors.

Robert J. Sanborn

ROBERT J. SANBORN

Portfolio Manager

rsanborn@oakmark.com

October 5, 1998

THE OAKMARK FUND

Schedule of Investments—September 30, 1998

*Shares Held/
Principal Value Market Value*

Common Stocks—88.5%

Food & Beverage—15.2%

Philip Morris Companies Inc.	13,810,700	\$636,155,369
H.J. Heinz Company	4,007,250	204,870,656
Gallaher Group Plc (b)	3,835,500	112,667,812
Nabisco Holdings Corporation, Class A	2,572,100	92,434,844
The Quaker Oats Company	118,000	6,962,000
		<hr/>
		1,053,090,681

Apparel—6.1%

Nike, Inc., Class B	11,457,100	\$421,764,494
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Retail—0.3%

American Stores Company	648,400	\$20,870,375
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Other Consumer Goods & Services—20.1%

Mattel, Inc.	13,439,400	\$376,303,200
The Black & Decker Corporation (c)	8,267,000	344,113,875
H&R Block, Inc. (c)	7,665,800	317,172,475
Polaroid Corporation (c)	4,552,400	111,818,325
Brunswick Corporation (c)	7,280,800	94,195,350
Fortune Brands, Inc.	2,746,800	81,373,950

Juno Lighting, Inc. (c)	1,085,000	24,276,875
First Brands Corporation	1,070,400	23,348,100
GC Companies, Inc. (a)(c)	397,000	15,334,125
		<hr/>
		1,387,936,275

Banks & Thrifts—14.0%

Banc One Corporation	8,800,548	\$375,123,359
Washington Mutual, Inc.	10,100,000	340,875,000
Mellon Bank Corporation	4,540,500	250,011,281
		<hr/>
		966,009,640

Insurance—1.3%

Old Republic International Corporation	4,122,930	\$92,765,925
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Publishing—4.8%

Knight-Ridder, Inc. (c)	6,929,400	\$308,358,300
R. H. Donnelley Corporation (c)	2,098,260	25,965,967
		<hr/>
		334,324,267

Information Services—5.6%

The Dun & Bradstreet Corporation (c)	10,491,300	\$283,265,100
ACNielsen Corporation (c)	4,764,000	105,999,000
		<hr/>
		389,264,100

Computer Services—2.2%

Electronic Data Systems Corporation	4,588,000	\$152,264,250
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Medical Centers—3.9%

Columbia/HCA Healthcare Corporation	13,601,000	\$272,870,063
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Medical Products—0.9%

Sybron International Corporation (a)	3,135,600	\$59,968,350
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Automotive—0.5%

SPX Corporation (a)(c)	875,200	\$36,156,700
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Aerospace & Defense—9.1%

Lockheed Martin Corporation	3,625,000	\$365,445,312
The Boeing Company	7,599,400	260,754,413

626,199,725

Machinery & Industrial Processing—2.5%

Eaton Corporation	2,721,100	\$170,578,956
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Forestry Products—0.1%

Fort James Corporation	237,200	\$7,783,125
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Mining—1.2%

DeBeers Centenary AG (b)	6,546,000	\$82,234,125
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Other Industrial Goods & Services—0.7%

Bandag Incorporated, Class A	1,104,100	\$34,227,100
The Geon Company	971,600	17,245,900

51,473,000

Total Common Stocks (Cost: \$5,810,888,085)		6,125,554,051
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Principal Value Market Value

Short Term Investments—11.0%

Government and Agency Securities—1.4%

U.S. Government Bills—1.4%

United States Treasury
Bills, 4.29%–5.15%
due 10/15/1998–
1/14/1999 100,000,000 \$99,199,666

**Total Government and Agency
Securities (Cost: \$99,146,486) 99,199,666**

Commercial Paper—7.4%

American Express
Credit Corp., 5.27%–
5.55% due 10/1/1998–
10/14/1998 \$180,000,000 \$180,000,000

Ford Motor Credit
Corp., 5.40%–5.55%
due 10/1/1998–
10/9/1998 160,000,000 160,000,000

General Electric
Capital Corporation,
5.45%–5.70% due
10/1/1998–10/5/1998 170,000,000 170,000,000

**Total Commercial Paper
(Cost: \$510,000,000) 510,000,000**

Repurchase Agreements—2.2%

State Street
Repurchase
Agreement, 5.30%
due 10/1/1998 \$153,865,000 \$153,865,000

**Total Repurchase Agreements
(Cost: \$153,865,000) 153,865,000**

**Total Short Term Investments
(Cost: \$763,011,486) 763,064,666**

Total Investments (Cost
\$6,573,899,571)—99.5% (d) \$6,888,618,717

Other Assets In Excess Of Other
Liabilities—0.5% 35,339,165

Total Net Assets—100% \$6,923,957,882

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

(c) See footnote number five in the Notes to Financial Statements regarding transactions in affiliated issuers.

(d) At September 30, 1998, net unrealized appreciation of \$314,719,146, for federal income tax purposes consisted of gross unrealized appreciation of \$1,142,918,937 and gross unrealized depreciation of \$828,199,791.

The Oakmark Select Fund

Report from Bill Nygren, Portfolio Manager



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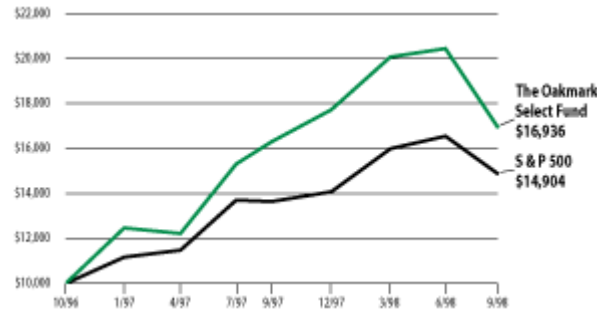
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (9/30/98) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX



9/30/98 NAV \$16.76

Average Annual
Total Return*
Through
9/30/98
From Fund
Inception
11/1/96

Total Return
Last 3 mos.

	Total Return Last 3 mos.	Average Annual Total Return* Through 9/30/98 From Fund Inception 11/1/96
The Oakmark Select Fund	-17.2%	31.7%
Standard & Poor's 500 Stock Index w/inc**	-10.0%	23.2%
Standard & Poor's MidCap 400 Index w/inc**	-14.5%	14.7%
Value Line Composite Index**	-19.6%	3.8%

*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.

For fiscal 1998, The Oakmark Select Fund increased in value by 3.6%. That performance looks especially good versus the 6.3% decline in the S&P MidCap 400. In fact, your fund outperformed 98% of the other funds classified by Morningstar as midcap value funds. Continued strong performance by our cable TV holdings, especially our largest holding Cablevision Systems, was the main contributor to these results. Unlike the full year, the fourth

quarter was disappointing as the fund's decline exceeded the drop in the Index. Although the fund declined less from the July 20 peak than did the MidCap Index, (16.0% vs. 18.2%), we weren't able to overcome the loss that occurred in the first week of the quarter when US Industries reported disappointing results.

Our equity weighting at the end of the quarter, 88.3%, was slightly below the 90% level that I've indicated would normally be our minimum. This situation was created by an unusual combination of events on the last two days of the quarter including new money coming into the fund, a sharp down market and a tactical decision to defer purchasing a new position. You should view the current cash position as extremely unusual and very temporary (it will likely be back to normal by the time you receive this!). We have no ability to predict the market level, and because of that, we don't use cash as a market timing tool.

Declines in individual stock prices this quarter seemed to have little correlation with underlying business value. Because of that, your fund had more turnover than usual as we opportunistically took steps to improve the portfolio. As always, we look for transactions that maximize the portfolio's undervaluation and our confidence in that undervaluation. In addition, we strive to make portfolio changes as tax-efficiently as possible. I think the portfolio today is unusually attractive relative to other stock market opportunities. The S&P 500 at September 30 sold at about 23 times estimated 1999 earnings. Excluding our two cable TV holdings (which aren't valued on a P/E basis), The Oakmark Select Fund had a weighted average P/E on 1999 estimates of 11.5 times. Look at the quality companies we own and I believe you will agree that a 50% discount to the market P/E is excessive. This inexpensive valuation should allow us to continue toward our goal of exceptional long-term performance.

HOW BIG IS TOO BIG?

By far the most frequently asked question in your e-mails is: "When should The Oakmark Select Fund close?" The topic of optimal fund size has received a great deal of attention this year thanks largely to the excellent work John Bogle, Jr. of Numeric Investors did explaining why his funds closed. Unfortunately, it seems his conclusion—close the funds—has received much more press than has his well-articulated rationale. I'd like to look at that rationale and see how it applies to The Oakmark Select Fund.

Intuitively, we all know that there are limits to how much money can be effectively managed with any investment strategy that attempts to perform better than the overall market. As assets under management grow, the number of investments goes up, each position size increases and the cost to enter and exit each position also goes up. What Mr. Bogle did was to measure the reduction in his return caused by price movements his own trading created. By quantifying those costs, Mr. Bogle found that his investment approach maximized expected excess return with just \$350 million under management.

What can we learn from his analysis? Most important, because trading costs are the key issue, capacity is constrained by trading volume, not assets under management. Since different investment styles require different levels of trading, they have different capacity. Mr. Bogle identifies three variables that determine a fund's trading cost: the average holding period, the amount of a company being purchased and, lastly, the role stock price momentum plays in the stock selection process. His style, short holding periods for small cap companies that show positive price momentum, has very limited capacity. At the other extreme, a contrarian approach of buying and holding very large companies would have nearly limitless capacity.

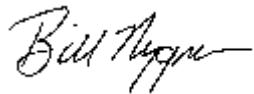
How does The Oakmark Select Fund compare? Mr. Bogle's average holding is an \$800 million market cap company that he holds for four months. Our average market cap today is about \$4 billion and our turnover implies a three-year holding period. Per dollar in the fund,

he trades nine times as often as we do and is buying companies that are about 20% as large as ours. By multiplication, our Fund could handle 45 times more assets. Further, costs per trade are much higher for strategies that wait for positive price action before a stock is purchased. While our approach is indifferent to stock price momentum, generally our buy targets are hit when a stock is unloved, and our sell targets hit when the stock is quite popular. Because our trades often go against the trend, our market impact is typically much less significant.

Capacity for The Oakmark Select Fund, as measured purely by trading costs, would be a very large number. In fact, we have imposed a much tighter constraint. We have said that the fund will generally hold twenty or fewer positions and we want the ability to make meaningful investments in midcap companies when we feel they are attractively priced. The midcap universe today is commonly defined to have an average market cap of about \$3 billion (that definition was created when stock prices were much lower, and I think it should now be well above \$3 billion). To invest 5% of the fund's assets without owning more than 5% of an average midcap company, our assets could not be greater than the size of that average company.

What benefits do current shareholders receive from allowing assets to increase? The most significant benefit is increased tax-efficiency. Because of our long-term holding periods, our gains are normally not only deferred, but also taxed at lower long-term rates. A growing fund gets additional tax benefits. First, some realized gains are avoided because position sizes can be reduced by simply allowing new money to dilute these positions. In a closed fund, it would require a sale, which would generate a taxable gain. Second, both realized and unrealized taxable gains are shared with the new investors even though they didn't benefit from them. The flip side of the argument, that it may be unwise to buy into a fund with a large unrealized gain, is that existing investors have their per-share taxable gains reduced.

So, if The Oakmark Select Fund becomes larger than an average midcap stock, we don't develop a large unrealized gain, and we haven't addressed closing, send me e-mails reminding me of this letter. Until then, we welcome new investors because we believe we all benefit from their joining us. Thank you for your continued support.



WILLIAM C. NYGREN

Portfolio Manager

bnygren@oakmark.com

October 1, 1998

THE OAKMARK SELECT FUND

Schedule of Investments—September 30, 1998

	<i>Shares Held/ Principal Value</i>	<i>Market Value</i>
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Common Stocks—88.3%

Retail—8.2%

Gucci Group (b)	2,787,900	\$100,712,887
<i>Other Consumer Goods & Services—5.8%</i>		
Host Marriott Corporation (a)	3,260,900	\$41,372,669
Ralston Purina Group	1,016,400	29,729,700
		71,102,369
<i>Banks & Thrifts—8.0%</i>		
Washington Mutual, Inc.	1,725,000	\$58,218,750
People's Bank of Bridgeport, Connecticut	1,642,600	40,243,700
		98,462,450
<i>Insurance—8.2%</i>		
PartnerRe Ltd. (c)	2,522,600	\$101,061,662
<i>Broadcasting & Cable TV—13.8%</i>		
Cablevision Systems Corporation, Class A (a)	3,930,200	\$169,735,512
<i>TV Programming—4.4%</i>		
Tele-Communications, Liberty Media, Class A (a)	1,453,550	\$53,327,116
<i>Information Services—4.0%</i>		
The Dun & Bradstreet Corporation	1,818,600	\$49,102,200
<i>Computer Services—7.2%</i>		
First Data Corporation	1,900,000	\$44,650,000
Electronic Data Systems Corporation	1,310,900	43,505,494
		88,155,494
<i>Medical Products—6.0%</i>		
Amgen, Inc. (a)	975,000	\$73,673,438
<i>Building Materials & Construction—9.7%</i>		
USG Corporation (d)	2,740,800	\$118,539,600
<i>Other Industrial Goods & Services—3.8%</i>		
Premark International, Inc.	1,678,800	\$47,111,325
<i>Diversified Conglomerates—9.2%</i>		
U.S. Industries, Inc. (d)	7,514,000	\$113,179,625
Total Common Stocks (Cost: \$1,075,412,040)		1,084,163,678

Short Term Investments—12.0%

Government and Agency Securities—3.2%

U.S. Government Bills—3.2%

United States Treasury Bills, 4.29%–5.07% due 10/8/1998–1/14/1999	40,000,000	\$39,709,859
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Total Government and Agency Securities (Cost: \$39,688,587)		39,709,859
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Commercial Paper—6.1%

American Express Credit Corp., 5.27%–5.55% due 10/1/1998–10/9/1998	25,000,000	\$25,000,000
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Ford Motor Credit Corp., 5.30%–5.53% due 10/1/1998–10/7/1998	20,000,000	20,000,000
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General Electric Capital Corporation, 5.70% due 10/1/1998	30,000,000	30,000,000
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Total Commercial Paper (Cost: \$75,000,000)		75,000,000
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Repurchase Agreements—2.7%

State Street Repurchase Agreement, 5.30% due 10/1/1998	\$32,399,000	\$32,399,000
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Total Repurchase Agreements (Cost: \$32,399,000)		32,399,000
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Total Short Term Investments (Cost: \$147,087,587)		147,108,859
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Total Investments (Cost \$1,222,499,627)—100.3% (e)		\$1,231,272,537
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Other Liabilities In Excess Of Other Assets—(0.3)%		(3,378,151)
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Total Net Assets—100%		\$1,227,894,386
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(a) Non-income producing security.

(b) Represents an American Depository Receipt.

(c) Represents foreign domiciled corporation.

(d) See footnote number five in the Notes to Financial Statements regarding transactions in affiliated issuers.

(e) At September 30, 1998, net unrealized appreciation of \$8,772,910, for federal income tax

purposes consisted of gross unrealized appreciation of \$155,507,575 and gross unrealized depreciation of \$146,734,665.

The Oakmark Small Cap Fund

Report from Steven J. Reid, Portfolio Manager



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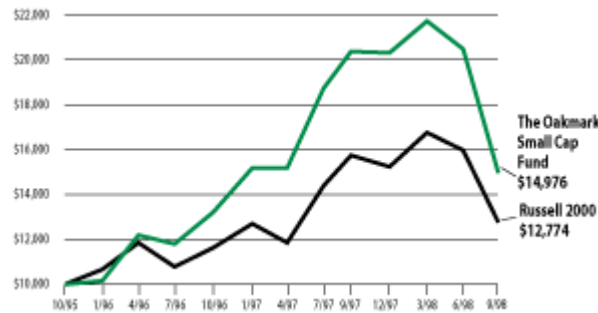
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (9/30/98) AS COMPARED TO THE RUSSELL 2000 INDEX



9/30/98 NAV \$12.63

	Average Annual Total Return* Through 9/30/98 From Fund Inception 11/1/95
Total Return Last 3 mos.	

	Total Return Last 3 mos.	Average Annual Total Return* Through 9/30/98 From Fund Inception 11/1/95
The Oakmark Small Cap Fund	-26.8%	14.9%
Lipper Small Cap Fund Index**	-21.4%	5.0%
Russell 2000 w/inc**	-20.2%	8.8%
S&P Small Cap 600 w/inc**	-20.9%	10.9%

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

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

Fortunately, The Oakmark Small Cap Fund's fiscal year ended on September 30, 1998. Results for the fourth quarter and the fiscal year were very disappointing. The shares of small cap companies have not performed well this year and continue to trail the broad market.

Unfortunately, The Oakmark Small Cap Fund's results lagged the relevant small cap indices.

"It was the worst of times, it was the best of times." SJR, PM.

Small cap stocks have been through a very difficult period. It is not uncommon to see a company's shares trading at prices that are down 30% or more from their annual highs. Nor, is it uncommon to see a company's shares trading at prices that represent their annual lows. The indices that measure the performance of the shares of small cap stocks have underperformed the broad market indices for years. The question I am frequently asked is: "When will small caps start to do well again?" I honestly don't know the answer. I don't think we will really know the answer until we can clearly see it in the rear view mirror three to six months after it has happened. Robert McGough of the Wall Street Journal wrote in a recent article: "Predictions of the revival of small-company stocks have been coming about as regularly as Elvis sightings—and so far have had about as much substance too." Leaving predictions to the gurus and pundits, our focus should be on where we are now.

I believe we are in the midst of the mutated Dickens quote from above. While there is no doubt that there are some very unsettling events occurring across the globe, we need to look beyond the headlines. As investors, we need to be forward looking. The underperformance of the shares of small cap companies is an opportunity. Historically, small cap stocks have traded at price earnings (P/E) ratios that are greater than those of large cap stocks. Very rarely do small cap stocks trade at a P/E ratio equal to or less than large cap stocks. Right now is one of those rare occasions where small cap stocks are cheaper than large cap stocks. In fact, we are able to buy small cap stocks that are trading at P/E multiples that are less than ten times earnings, which is less than half the small or large cap P/E multiple. Our experience has been that remaining patient and consistent with our investment philosophy will be rewarded.

REDEMPTIONS, DISTRIBUTIONS, AND RE-OPENING

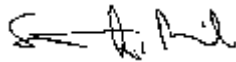
One year ago, the total assets of The Oakmark Small Cap Fund were over \$1.5 billion. At the end of this past fiscal year total assets are over \$600 million. Although it feels like we lost about \$900 million, we did not. In fact, net redemptions, the amount shareholders take out of the Fund less the amount they put into the Fund, amounted to over \$600 million of the change in assets. What is the effect of redemptions on the Fund? There are several that stand out. First, redemptions require the Fund to sell portfolio securities in order to make payments to shareholders who have elected to redeem their shares of the Fund. Essentially, the Fund was selling solely to create liquidity for redemptions, not because these investments had met our investment targets. The second effect, although not quantifiable, is the effect forced selling of our investments has on the share prices of these companies.

There are several unavoidable events in life—they include death, taxes, and mutual fund distributions. The Internal Revenue Service requires that mutual funds annually distribute to shareholders any income and realized capital gains. Since the Fund's inception, there has been relatively low turnover and hence very little realized gain distributed to shareholders. Unfortunately, another significant effect of net redemptions after the portfolio has appreciated is that they force the Fund to realize a significant amount of gains. Those gains, which were all long-term, were distributed to shareholders in early August. We anticipate that any additional distribution will be minimal. It is also worth noting that the Fund currently is carrying a fairly significant unrealized loss in the portfolio. Hence, going forward we should be in a fairly benign tax position.

Investors' disinterest in small cap stocks has reduced the level of competition for both the sourcing and purchasing of new investments for the Fund. During the quarter we added five new companies to the portfolio. These companies are all close to their annual lows and

between thirty and seventy percent below their annual highs. In order to take advantage of the opportunities we were seeing in the marketplace, the Fund "re-opened" to new investors at the beginning of September. This has helped stem the level of redemptions, mitigating the adverse effects noted above. We believe that new shareholders, as well as existing shareholders, own the Fund for the right reasons . . . meaning that they want exposure to small cap value stocks and are intrigued by the long-term opportunities available to us. In the future, should the level of inflows be too large or our opportunities to prudently invest the money not be available, we will take the appropriate action.

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



STEVEN J. REID
Portfolio Manager
sreid@oakmark.com
October 6, 1998

THE OAKMARK SMALL CAP FUND

Schedule of Investments—September 30, 1998

	<i>Shares Held/ Principal Value</i>	<i>Market Value</i>
<hr/>		
<i>Common Stocks—91.9%</i>		
<i>Food & Beverage—11.2%</i>		
Ralcorp Holdings, Inc. (a)(b)	1,750,000	\$24,500,000
Triarc Companies, Inc. (a)(b)	1,250,000	19,453,125
Vlasic Foods International Inc. (a)	500,000	9,343,750
International Multifoods Corporation	500,000	8,218,750
M & F Worldwide Corp. (a)	750,000	7,453,125
		<hr/>
		68,968,750
 <i>Retail—3.7%</i>		
Department 56, Inc. (a)	520,000	\$14,040,000
Ugly Duckling Corporation (a)(b)	1,676,200	8,695,288
		<hr/>
		22,735,288
 <i>Other Consumer Goods & Services—13.0%</i>		

First Brands Corporation	1,250,000	\$27,265,625
Scotsman Industries, Inc. (b)	983,000	22,240,375
Libbey, Inc.	420,500	12,404,750
Barry (R.G.) Corporation (a)(b)	849,100	11,781,262
P.H. Glatfelter Company	500,000	6,531,250

80,223,262

Banks & Thrifts—11.5%

People's Bank of Bridgeport, Connecticut	2,000,000	\$49,000,000
BankAtlantic Bancorp, Inc., Class A	1,000,001	7,187,507
Northwest Bancorp Inc.	550,000	5,637,500
Niagara Bancorp Inc. (a)	400,000	3,925,000
PennFed Financial Services, Inc.	260,000	3,445,000
Finger Lakes Financial Corp. (b)	188,000	2,068,000

71,263,007

Insurance—2.3%

Financial Security Assurance Holdings Ltd.	292,600	\$14,264,250
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Other Financial—5.5%

ARM Financial Group, Inc., Class A	1,000,000	\$17,750,000
Duff & Phelps Credit Rating Co. (b)	350,000	16,121,875

33,871,875

Broadcasting & Cable TV—6.8%

Cablevision Systems Corporation, Class A (a)	689,800	\$29,790,737
Ascent Entertainment Group, Inc. (a)(b)	1,500,000	12,000,000

41,790,737

Telecommunications—0.9%

ROHN Industries, Inc. (b)	3,000,000	\$5,812,500
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Computer Services—1.5%

Symantec Corporation (a)	725,000	\$9,560,938
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Automotive—7.9%

SPX Corporation (a)	500,000	\$20,656,250
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Stoneridge, Inc. (a)	1,000,000	16,187,500
Standard Motor Products, Inc.	500,000	12,187,500
		<hr/>
		49,031,250
 <i>Transportation Services—2.7%</i>		
Teekay Shipping Corporation (c)	900,000	\$16,368,750
 <i>Machinery & Industrial Processing—1.9%</i>		
Northwest Pipe Company (a)(b)	500,000	\$9,250,000
The Carbide/Graphite Group, Inc. (a)	240,000	2,670,000
		<hr/>
		11,920,000
 <i>Forestry Products—0.8%</i>		
Schweitzer-Mauduit International, Inc.	216,500	\$4,708,875
 <i>Other Industrial Goods & Services—10.3%</i>		
Ferro Corporation	900,000	\$17,887,500
Columbus McKinnon Corporation (b)	900,000	17,325,000
MagneTek, Inc. (a)	1,500,000	16,406,250
H.B. Fuller Company	200,000	7,575,000
Binks Sames Corporation (b)	275,000	4,675,000
		<hr/>
		63,868,750
 <i>Commercial Real Estate—4.1%</i>		
Catellus Development Corporation (a)	1,500,000	\$19,500,000
Prime Hospitality Corp.	800,000	5,600,000
		<hr/>
		25,100,000
 <i>Diversified Conglomerates—7.8%</i>		
U.S. Industries, Inc.	3,200,000	\$48,200,000
Total Common Stocks (Cost: \$633,782,649)		567,688,232

Short Term Investments—7.8%

Commercial Paper—5.6%

American Express Credit Corp., 5.27%–5.55% due 10/1/1998–10/6/1998	\$15,000,000	\$15,000,000
Ford Motor Credit Corp., 5.40% due 10/2/1998	5,000,000	5,000,000
General Electric Capital Corporation, 5.70% due 10/1/1998	15,000,000	15,000,000
		<hr/>
Total Commercial Paper (Cost: \$35,000,000)		35,000,000
 <i>Repurchase Agreements—2.2%</i>		
State Street Repurchase Agreement, 5.30% due 10/1/1998	\$13,543,000	\$13,543,000
		<hr/>
Total Repurchase Agreements (Cost: \$13,543,000)		13,543,000
Total Short Term Investments (Cost: \$48,543,000)		48,543,000
Total Investments (Cost \$682,325,649)—99.7% (d)		\$616,231,232
Other Assets In Excess Of Other Liabilities—0.3%		1,763,530
		<hr/>
Total Net Assets—100%		\$617,994,762
		<hr/> <hr/>

(a) Non-income producing security.

(b) See footnote number five in the Notes to Financial Statements regarding transactions in affiliated issuers.

(c) Represents foreign domiciled corporation.

(d) At September 30, 1998, net unrealized depreciation of \$66,094,417, for federal income tax purposes consisted of gross unrealized appreciation of \$47,329,047 and gross unrealized depreciation of \$113,423,464.

The Oakmark Equity and Income Fund



Report from Clyde S. McGregor, Portfolio Manager

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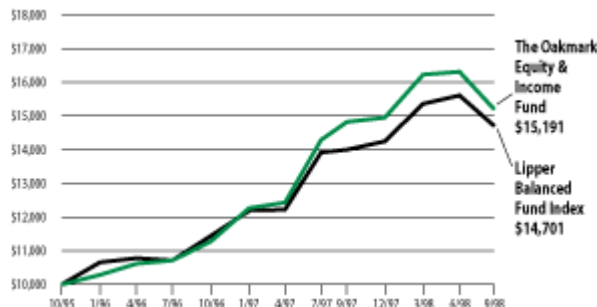
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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (9/30/98) AS COMPARED TO THE LIPPER BALANCED FUND INDEX



9/30/98 NAV \$13.99

	Average Annual Total Return*
	Through 9/30/98
Total Return Last 3 mos.	From Fund Inception 11/1/95

	Total Return Last 3 mos.	Average Annual Total Return* Through 9/30/98 From Fund Inception 11/1/95
The Oakmark Equity & Income Fund	-6.9%	15.4%
Lipper Balanced Fund Index**	-5.8%	14.1%
Lehman Govt./Corp. Bond**	5.0%	8.6%
S&P 500 w/inc**	-10.0%	23.5%

*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 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.

THE SUMMER OF OUR DISCONTENT

Last quarter saw the end of two wonderful streaks: Cal Ripken Jr.'s record for consecutive baseball games and the Equity and Income Fund's heretofore unblemished record of positive

return quarters. Time and volatile markets made it inevitable that these streaks would end, but both are regrettable developments. Investor confidence seemed to evaporate worldwide during the summer, and the resulting "flight to liquidity" proved quite painful for some of our mid-cap equity holdings. The portfolio's fixed income position did its part to buffer volatility, however, earning a positive total return of 4.6%.

It is important to remember that the market prices on businesses are far more volatile than the intrinsic values of those businesses. None of the Fund's holdings announced a loss, fraud, or dividend cut during the quarter. Some bought back their shares, others announced new repurchase authorizations, and most saw high levels of share purchases by their own management and directors. In all cases management has been and is now working hard to increase the value per share of their business.

In keeping with these deflationary times, the stock market has declared a clearance sale on most issues. At The Oakmark Family of Funds, we own pieces of businesses that the stock market has allowed us to purchase for less than their intrinsic value. We believe that the opportunities which the summer's selloff has created will prove to be the foundation of future investment returns.

THE STRENGTH OF THE (FIXED INCOME) STRATEGY

While the stock market's difficulties have gotten most of the press recently, times have also been very tough in the corporate bond market. Risk premiums for corporate bonds have widened dramatically over the last six months, in part because of the well-publicized problems of a major hedge fund.

Since the Fund's inception, my strategy in fixed income investing has been to maintain a "quality barbell" of at least 25% in US Treasury notes augmented with high yield investments developed as byproducts of our equity work. I have avoided investment grade corporate debt because the spreads versus Treasury notes were inadequate for all but the most perfect environment. Now that the world is seen as a risky place again, spreads have expanded to more typical levels.

How has the strategy worked out in this period of transition from "all news is good news" to "all news is bad news?" Splendidly. Returns on the Fund's fixed income position were positive in every month of fiscal 1998. This outcome resulted in part because I let the percentage allocation for high yield issues diminish during the year. The one area of increased commitment has been preferred stocks, specifically trust preferreds (discussed in my August 1997 report). I am pleased to report that all of the Trust preferreds achieved a positive return in fiscal 1998 despite unfavorable market conditions.

In closing this section, I will note that should current trends continue, I might have the opportunity to add investment grade issues to the portfolio. I am not opposed to higher graded bonds; I am opposed to overpaying for them.

MIGHTY OAKS AWARDS

With the close of the fiscal year it is time to issue the Mighty Oaks Awards. The awards recognize the stock and fixed income investments which achieve the highest rates of return. Though 1998 proved to be a difficult year, several issues did make large contributions to the Fund. While two-time award winner Bill Nygren (of Oakmark Select) made a strong showing in the equity category with Liberty Media (up 84%), he lost out to analyst Jim Benson who scored a 110% return from Lexmark International.

Clients often ask us why our portfolios do not have representation in the technology sector.

The answer to this question derives from our investment philosophy. Before we invest in a company's stock, we ask whether we would be willing to own the entire company at the current price if we could never sell shares again. Put differently, could we live off the cash flows that the business produces if we paid today's price for the entire company? Leading edge technology companies pose a great problem for our philosophy because of the risk of obsolescence. We are, happy, however, to own companies that turn technological innovation to their advantage.

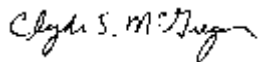
Lexmark International is such a company. Originally the division of IBM which made Selectric typewriters, Lexmark is now the second largest manufacturer of printers. The business economics fit the razor/razor blade model. Lexmark's profits from printers are small, but the company achieves high margins on associated supplies (e.g. ink cartridges).

Jim recommended Lexmark for the Fund in May 1997, when the stock had dipped on earnings and product worries. Part of what we do as value investors is to position our portfolios to benefit from unexpected good fortune, and Lexmark exemplifies this effort. Shortly after we purchased the stock, the company introduced new products that were well received. And, the company's free cash flow proved to be strong enough to support a significant share repurchase. Congratulations to Jim for this wonderful recommendation.

This year's fixed income winner is Harris Associates' fixed income analyst, Chris Pilat. Chris advised that I extend the duration of the fixed income portfolio but keep overall quality high. The Fund's 7-year Treasury notes returned 18% for the twelve months, 4% more than the Fund's highest-returning high yield issue. Thanks, Chris, for pushing me out further on the yield curve.

THANKS

As the Fund nears its third anniversary, I would be remiss not to thank long term shareholders for their support. The consistency and interest of the Fund's shareholders has been most helpful. Please feel free to e-mail me with your comments, questions or ideas for quarterly reports.



CLYDE S. MCGREGOR

Portfolio Manager

mcgregor@oakmark.com

October 9, 1998

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—September 30, 1998

	<i>Shares Held/ Principal Value</i>	<i>Market Value</i>
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Common Stocks—57.4%

Office Equipment—3.1%

Lexmark International Group, Inc., Class A (a)	26,000	\$1,802,125
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Other Consumer Goods & Services—6.4%

Juno Lighting, Inc.	76,300	\$1,707,213
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H&R Block, Inc.	33,000	1,365,375
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National Presto Industries, Inc.	17,000	637,500
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3,710,088

Banks & Thrifts—4.7%

Washington Mutual, Inc.	50,000	\$1,687,500
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Banc One Corporation	23,674	1,009,104
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2,696,604

Insurance—4.2%

PartnerRe Ltd. (b)	32,500	\$1,302,031
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Old Republic International Corporation	49,500	1,113,750
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2,415,781

TV Programming—3.4%

Tele-Communications, Liberty Media, Class A (a)	52,800	\$1,937,100
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Publishing—1.5%

Lee Enterprises, Inc.	33,900	\$879,281
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Information Services—3.3%

The Dun & Bradstreet Corporation	70,000	\$1,890,000
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Computer Services—5.8%

First Data Corporation	80,000	\$1,880,000
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Electronic Data Systems Corporation	45,000	1,493,438
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3,373,438

Data Storage—4.0%

Imation Corp. (a)	125,000	\$2,312,500
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Medical Products—3.1%

Sybron International Corporation (a)	93,000	\$1,778,625
<i>Automotive—6.5%</i>		
Chrysler Corporation	42,000	\$2,010,750
Lear Corporation (a)	40,000	1,750,000
		<hr/>
		3,760,750
<i>Other Industrial Goods & Services—2.7%</i>		
Premark International, Inc.	56,500	\$1,585,531
<i>Commercial Real Estate—6.2%</i>		
Amlı Residential Properties Trust	90,000	\$1,918,125
Catellus Development Corporation (a)	127,728	1,660,464
		<hr/>
		3,578,589
<i>Diversified Conglomerates—2.5%</i>		
U.S. Industries, Inc.	94,000	\$1,415,875
Total Common Stocks (Cost: \$30,820,268)		33,136,287
<i>Fixed Income—33.7%</i>		
<i>Preferred Stock—5.1%</i>		
<i>Banks & Thrifts—5.1%</i>		
BBC Capital Trust I, Preferred, 9.50%	28,000	\$714,000
Pennfed Capital Trust, Preferred, 8.90%	27,500	687,500
PennFirst Capital Trust 1, Preferred, 8.625%	70,000	673,750
RBI Capital Trust I, Preferred, 9.10%	42,500	430,312
Fidelity Capital Trust I, Preferred, 8.375%	43,500	424,125
		<hr/>
		2,929,687
Total Preferred Stock (Cost: \$2,970,738)		2,929,687
<i>Corporate Bonds—2.4%</i>		
<i>Aerospace & Automotive—0.3%</i>		
Coltec Industries, Inc., 9.75% due 4/1/2000	\$150,000	\$157,687

Coltec Industries, Inc., 9.75% due 11/1/1999	25,000	26,188
		<hr/>
		183,875
<i>Building Materials & Construction—0.3%</i>		
USG Corporation, 9.25% due 9/15/2001, Senior Notes Series B	150,000	\$160,313
<i>Utilities—0.3%</i>		
Midland Funding Corporation, 11.75% due 7/23/2005	150,000	\$173,438
<i>Other Industrial Goods & Services—1.5%</i>		
Scotsman Industries, Inc., 8.625% due 12/15/2007, Senior Subordinated Note	565,000	\$560,762
UCAR Global Enterprises Inc., 12.00% due 1/15/2005, Senior Subordinated Note	300,000	304,500
		<hr/>
		865,262
Total Corporate Bonds (Cost: \$1,395,124)		1,382,888
<i>Government and Agency Securities—26.2%</i>		
<i>U.S. Government Bonds—25.7%</i>		
United States Treasury Notes, 7.875% due 11/15/2004	\$6,000,000	\$7,107,720
United States Treasury Notes, 7.50% due 5/15/2002	6,000,000	6,616,140
United States Treasury Notes, 6.25% due 2/15/2007	1,000,000	1,122,490
		<hr/>
		14,846,350
<i>U.S. Government Agencies—0.5%</i>		
Federal Home Loan Bank, 6.405% due 4/10/2001, Consolidated Bond	300,000	\$311,895
Total Government and Agency Securities (Cost: \$14,288,633)		15,158,245
Total Fixed Income (Cost: \$18,654,495)		19,470,820
<i>Short Term Investments—8.5%</i>		
<i>Commercial Paper—6.1%</i>		
American Express Credit Corp., 5.27% due 10/5/1998	\$500,000	\$500,000

Ford Motor Credit Corp., 5.55% due 10/1/1998	1,500,000	1,500,000
General Electric Capital Corporation, 5.70% due 10/1/1998	1,500,000	1,500,000
		<hr/>
Total Commercial Paper (Cost: \$3,500,000)		3,500,000
 <i>Repurchase Agreements—2.4%</i>		
State Street Repurchase Agreement, 5.30% due 10/1/1998	\$1,390,000	\$1,390,000
		<hr/>
Total Repurchase Agreements (Cost: \$1,390,000)		1,390,000
Total Short Term Investments (Cost: \$4,890,000)		4,890,000
Total Investments (Cost \$54,364,763)—99.6% (c)		\$57,497,107
Other Assets In Excess Of Other Liabilities—0.4%		248,748
		<hr/>
Total Net Assets—100%		\$57,745,855
		<hr/> <hr/>

(a) Non-income producing security.

(b) Represents foreign domiciled corporation.

(c) At September 30, 1998, net unrealized appreciation of \$3,132,344, for federal income tax purposes consisted of gross unrealized appreciation of \$5,429,008 and gross unrealized depreciation of \$2,296,664.

The Oakmark International Fund



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

LETTER &
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OAKMARK
SMALL CAP
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OAKMARK
INT'L SMALL
CAP FUND

STATEMENT
OF ASSETS AND
LIABILITIES

STATEMENT OF
OPERATIONS

STATEMENT OF
CHANGES IN
NET ASSETS

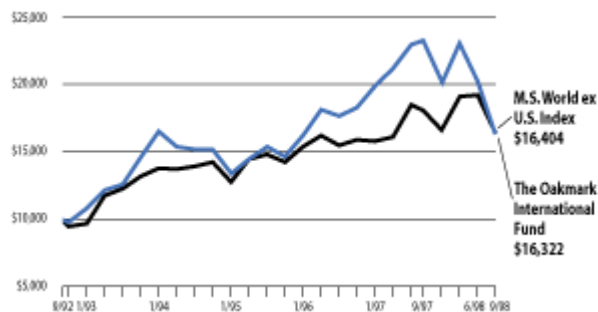
NOTES TO
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REPORT OF
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& OFFICERS

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (9/30/98) COMPARED TO THE MORGAN STANLEY WORLD EX U.S. INDEX



9/30/98 NAV \$10.42

Average Annual
Total Return*
Through
9/30/98
From Fund
Inception
9/30/92

	Total Return Last 3 mos.	Average Annual Total Return*
The Oakmark International Fund	-19.4%	8.5%
Morgan Stanley World ex U.S. w/inc.**	-14.7%	8.6%
Morgan Stanley EAFE w/inc**	-14.2%	8.6%
Lipper Analytical International Fund Index**	-15.8%	10.3%

*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,

Disappointingly, your Fund dropped by 19.4% in the third quarter as turmoil in the world equity markets intensified. As you can see by the comparative indices, all were greatly negative with the MS EAFE falling by 14.2% and the Lipper International Fund Index dropping by 15.8%. Virtually no market in the world was unscathed with just two exceptions: Korea, up 11.8% and Thailand up 6.6%.

DON'T LET THE PUNDITS SCARE YOU!

As a result of the sharp drop in share price, the global market gurus are predicting that the gloom and doom will last forever and one should avoid exposure to the world equity markets, especially those in Latin America and Asia. To us, this is just another reason why one should be **adding** to ones positions at these levels. Consider some of their past statements:

"The USA has a severe problem with structurally high inflation." This was the mantra of the media economists in the early 1980's. Certainly if you would have believed that conventional wisdom, you would have avoided the bond market thereby missing one of the greatest rallies in history.

"The USA has a severe problem with structurally high unemployment." This was conventional wisdom of the late 80's/early 90's. Remember Robert Reich? Of course, this statement appears nonsensical now that the United States has the lowest unemployment rate in the developed world.

"We need to be more like Japan and Germany." This consensus began to build in the late 1980's. Even presidential candidate Bill Clinton preached this static opinion along with the pundit choir in the election of 1992. Luckily, we did not become more like them because Japan's bubble burst and Germany is struggling with genuinely high structural unemployment. And, remember all of the late 80's fear-mongering over Japanese ownership of USA assets? Popular authors like Michael Crichton and closed-minded politicians believed that, from Rockefeller Center to Nebraska farmland to the Pebble Beach golf club, the entirety of the United States would be bought up by the invincible Japanese. If you believed this and invested in Japanese stocks in the late 80's-early 90's you would be broke! By the way, has anyone seen Lester Thurow lately? In 1992, you couldn't turn on a television set without seeing this most zealous promoter of the Japanese economic model. He has become remarkably scarce over the past few years.

"US Dollar has lost its reserve status. It is most assuredly on its way to Y50 and DM1.00." Most tel-economists and media-friendly strategists proclaimed this as the dollar was crashing to new lows in 1995-1996. How wrong they were! The dollar today is at Y120 and DM1.60 and seems to be the world's only safe haven. Again, following the advice of conventional wisdom would have taken a considerable chunk of your net worth.

"One should have at least 10% of your personal net worth in emerging markets. I am maximum bullish on China and Asia." This was the attitude of the day at the end of 1993 when most emerging markets were up over 50%. Again, more of the same by our global experts who, as you can see, earn their wages by telling you what just happened, amplifying it and assuming the new amplified version will carry on into perpetuity. By the way, long-term shareholders of Oakmark International might remember that we had only 5% of the Fund's assets in Asia at the height of this mania, given the lack of investments that met our value criteria.

AND, HERE ARE TODAY'S SAMPLES...

"The Japanese Yen is in terminal decline. Expect it to decline to Y200." Maybe...but maybe not. The important thing to note is that for the first time in years we are finding

Japanese companies that fit our value criteria and have business formulas designed to succeed regardless of the direction of the Yen.

"Emerging markets should be avoided...they are just too risky and volatile." Again, reporting rather than analysis. To us, this sounds like perfect bottom-speak and probably indicates that long-term investors should seriously consider increasing exposure to this asset class.

"Foreign stocks should be avoided...they are just too risky and volatile compared to the US market." As mentioned above, all of these experts seem to be able to do is to "report" via the rear-view mirror, that is, to tell us what has already happened. Given what has happened in terms of price drops, one should be adding, not cutting international holdings.

"Asia is destroyed, it will be years before it will recover economically." We don't think the pundits understand Asia at all. Yes, it's tough there and will continue to be for a while. However, the area has numerous fundamental strengths that will prove the pundits wrong: solid physical and intellectual infrastructure, low economy-wide debt levels with high rates of individual savings, extremely flexible regulatory structures, generally a strong work ethic and literacy rates, and an important intangible, a fierce "we can do it" attitude. Investors also must keep in mind that with the unprecedented declines in most of these markets, a great deal of economic instability has already been discounted in the prices they are paying for businesses.

THE OAKMARK WAY...

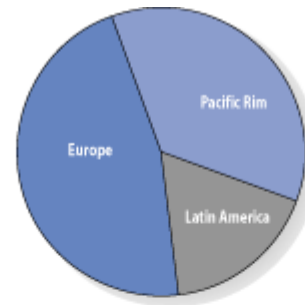
To us, "pundit speak" is nothing more than distracting, random noise. Instead, we focus on something that is concrete and analyzable: the value of a business. To the greatest extent possible, we try hard to take advantage of the volatility that exists in times like these by buying shares of companies that have become undervalued. We are certain that these conditions are not permanent and that when things appear most bleak, it is usually a good time to invest. However, we also realize this is the time when it is most difficult to remain steadfast as a shareholder. In this regard, it is important for you to hear how extremely excited we are about the composition of The Oakmark International Fund. It is full of quality businesses selling at uniquely low prices. We believe this will eventually move the Fund to a strong future performance. Until this time, we would like to again thank our fellow shareholders for their continued patience.



DAVID HERRO
Portfolio Manager
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MICHAEL WELSH
Portfolio Manager
102521.2142@compuserve.com
October 5, 1998



	% of Fund Net Assets		% of Fund Net Assets
Europe	43.8%	Pacific Rim	34.1%
Great Britain	26.0%	Japan	9.6%
France	9.4%	Hong Kong	7.4%
Finland	3.5%	Singapore	7.0%
Italy	2.9%	New Zealand	4.5%
Netherlands	2.0%	Korea	3.3%
Latin America	16.4%	Australia	2.2%
Brazil	8.5%	Malaysia	0.1%
Argentina	5.1%		
Panama	2.8%		

THE OAKMARK INTERNATIONAL FUND
Schedule of Investments—September 30, 1998

Description

*Shares Market Value
Held*

Common Stocks—94.3%

Consumer Non-Durables—5.7%

Fila Holding S.p.A. (Italy), (b)(e)	Athletic Footwear Manufacturing	2,574,800	\$21,885,800
Citizen Watch Co. (Japan)	Watch Manufacturer and Retailer	3,166,000	21,438,086
		43,323,886	

Food & Beverage—10.1%

Quilmes Industrial SA	Brewer
-----------------------	--------

(Argentina), (b)		4,724,300	\$38,680,206
Pernod Ricard (France)	Manufactures Wines, Spirits, & Fruit Juices	228,579	16,837,894
Tate & Lyle PLC (Great Britain)	Sugar Producer & Distributor	2,665,700	14,774,171
Lotte Chilsung Beverage Company (Korea) (e)	Manufacturer of Soft Drinks, Juices, & Sport Drinks	123,000	3,095,452
Lotte Confectionery Company (Korea)	Confection Manufacturer	65,270	2,933,219
			<hr/>
			76,320,942

Household Products—1.6%

Amway Japan Limited (Japan)	Marketing of Household Products	1,630,300	\$11,934,409
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Retail—1.2%

Giordano International Limited (Hong Kong) (e)	East Asian Clothing Retailer & Manufacturer	69,304,000	\$9,391,028
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Other Consumer Goods & Services—6.8%

Canon, Inc. (Japan)	Office and Video Equipment	1,007,000	\$20,419,383
Sankyo Company, Ltd. (Japan)	Pachinko Machine Manufacturer	1,234,800	16,722,520
Mandarin Oriental Hotel Management International Limited (Singapore)		30,539,000	14,353,330
			<hr/>
			51,495,233

Banks—8.2%

Uniao de Bancos Brasileiros S.A. (Brazil), (c)	Major Brazilian Bank	1,834,900	\$24,771,150
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama), (b)(e)	Multinational Bank	1,316,500	21,146,282
United Overseas Bank Ltd.,			

Foreign Shares (Singapore)	Commercial Banking	5,443,000	15,864,668
			<hr/>
			61,782,100
<i>Other Financial—3.4%</i>			
Sedgwick Group plc (Great Britain)	Insurance Broker, Financial Services	7,510,000	\$25,343,973
<i>Marketing Services—9.5%</i>			
Cordiant Communications Group plc (Great Britain) (e)	Advertising Services	21,997,578	\$40,015,927
Saatchi & Saatchi plc (Great Britain), (e)	Advertising Services	17,757,578	31,699,125
			<hr/>
			71,715,052
<i>Broadcasting & Publishing—5.3%</i>			
Singapore Press Holdings Ltd. (Singapore)	Newspaper Publisher	2,740,000	\$22,725,119
Europe 1 Communication (France)	Television Production	74,020	14,804,529
Woongjin Publishing Company (Korea) (e)	Publisher	148,410	1,259,204
South China Morning Post (Holdings) Ltd. (Hong Kong)	Newspaper Publisher	3,130,000	1,231,997
			<hr/>
			40,020,849
<i>Telecommunications—2.8%</i>			
Telesp Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	\$6,293,357
Embratel Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	3,315,855
SK Telecom Co. Ltd. (Korea)	Telecommunications	10,395	3,146,716
Tele Centro Sul	Telecommunications		

Participacoes S.A. (Brazil), (a)		401,100,000	2,233,127
Tele Norte Leste Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	2,030,115
Telesp Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	\$1,691,763
Tele Sudeste Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	676,705
Technology Resources Industries Berhad (Malaysia)	Telecommunications	1,485,000	472,855
Tele Celular Sul Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	304,517
Tele Centro Oeste Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	213,162
Telemig Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	179,327
Tele Nordeste Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	172,560
Tele Leste Celular Participacoes (Brazil), (a)	Telecommunications	401,100,000	111,656
Tele Norte Celular Participacoes S.A. (Brazil), (a)	Telecommunications	401,100,000	84,588
Telecomunicacoes Brasileiras S.A. (Brazil)	Telecommunications	401,100,000	84,588
			21,010,891

Aerospace—6.0%

Rolls-Royce plc (Great Britain)	Jet Engines	9,228,552	\$31,928,037
Hong Kong Aircraft Engineering Company Ltd.	Commercial Aircraft Overhaul & Maintenance		

(Hong Kong) (e)		11,096,900	13,175,134
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45,103,171

Airlines—2.2%

Qantas Airways Limited (Australia)	International Airline	10,798,714	\$16,828,789
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Oil & Natural Gas—0.5%

ISIS (France), (a)	Oil Services	57,000	\$3,867,995
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Chemicals—6.7%

Fernz Corporation Limited (New Zealand) (e)	Agricultural & Industrial Chemical Producer	13,373,250	\$33,797,841
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European Vinyls Corporation International N.V. (Netherlands) (e)	PVC Manufacturer	1,212,299	15,126,783
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Nagase & Co., Ltd. (Japan)	Chemical Wholesaler	569,000	2,032,663
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50,957,287

Components—3.4%

Varitronix International Limited (Hong Kong)	Liquid Crystal Displays	13,421,000	\$26,066,752
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Machinery & Metal Processing—2.2%

Outokumpu Oyj (Finland)	Metal Producer	1,235,000	\$10,250,172
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The Rauma Group (Finland)	Pulp Machinery	544,300	6,155,423
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16,405,595

Mining and Building Materials—0.7%

Keumkang Ltd. (Korea) (e)	Building Materials	560,460	\$4,956,792
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Asia Cement Manufacturing Company Ltd. (Korea)	Cement Producer	10,500	42,581
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4,999,373

Other Industrial Goods & Services—13.7%

Tomkins plc (Great Britain)	Industrial Management Company	9,065,000	\$42,496,931
Chargeurs SA (France) (e)	Wool Production Holding Company	524,387	25,752,067
Kone Corporation, Class B (Finland)	Elevators	103,870	10,418,665
Charter plc (Great Britain)	Welding Products Manufacturer	1,884,100	10,250,102
Groupe Legris Industries SA (France)	European Crane Manufacturer	217,815	9,720,341
Dongah Tire Industry Company (Korea), (a)(e)	Tire Manufacturer	166,290	4,603,390
			<hr/>
			103,241,496

Steel—2.9%

USIMINAS (Brazil), (e)	Steel Production	7,401,370	\$21,852,288
Pohang Iron & Steel Company Ltd. (Korea)	Manufactures Steel Products	14,000	443,933
			<hr/>
			22,296,221

Diversified Conglomerates—1.4%

First Pacific Company Ltd. (Hong Kong)	Diversified Operations	19,948,000	\$5,856,610
Tae Young Corporation (Korea) (e)	Heavy Construction	518,300	4,770,261
Lamex Holdings Ltd. (Hong Kong) (e)	Office Furniture Supplier	14,040,000	322,517
			<hr/>
			10,949,388

Total Common Stocks
(Cost: \$1,061,918,399)

713,054,430

*Principal Market Value
Value*

Short Term Investments—3.5%

*Commercial
Paper—2.0%*

General Electric Capital Corporation,
5.70% due 10/1/1998 \$15,000,000 \$15,000,000

Total Commercial Paper
(Cost: \$15,000,000) **15,000,000**

Repurchase Agreements—1.5%

State Street Repurchase Agreement,
5.30% due 10/1/1998 \$11,121,000 \$11,121,000

Total Repurchase Agreements
(Cost: \$11,121,000) **11,121,000**

Total Short Term Investments
(Cost: \$26,121,000) **26,121,000**

Total Investments (Cost
\$1,088,039,399)—97.8% (f) \$739,175,430

Foreign Currencies (Proceeds
\$1,367,998)—0.2% 1,367,813

Other Assets In Excess Of Other
Liabilities—2.0% (d) 15,561,065

Total Net Assets—100% **\$756,104,308**

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

(c) Represents a Global Depository Receipt.

(d) Includes portfolio and transaction hedges.

(e) See footnote number five in the Notes to Financial Statements regarding transactions in

affiliated issuers.

(f) At September 30, 1998, net unrealized depreciation of \$348,863,969, for federal income tax purposes consisted of gross unrealized appreciation of \$42,503,436 and gross unrealized depreciation of \$391,367,405.

The Oakmark International Small Cap Fund

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



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The value of a \$10,000 investment in The Oakmark International Small Cap Fund from its inception (11/1/95) to present (9/30/98) as compared to the Morgan Stanley World ex U.S. Index



9/30/98 NAV \$6.89

Average Annual Total Return* Through 9/30/98 From Fund Inception 11/1/95

Investment	Total Return Last 3 mos.	Average Annual Total Return*
The Oakmark International Small Cap Fund	17.0%	-6.5%
Morgan Stanley World ex U.S. w/inc.**	14.7%	5.0%
Lipper Analytical International Small Cap Fund Average**	17.0%	5.8%
Micropal International Small Co. Fund Index**	16.8%	5.6%

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

**Each of the three indexes or averages is an unmanaged group of 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 59 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,

The Oakmark International Small Cap Fund declined by 17% in the past quarter. This compares with a drop of 17% of the Lipper International Small Cap Fund Index and a 14% drop of EAFE. Market conditions for global equities and especially international equities with exposure in emerging markets continue to be volatile. Besides the obvious places like the emerging markets, there have been certain pockets of severe price contraction in apparently economically healthy countries.

AS AN EXAMPLE...

Your fund currently has over 20% of its assets invested in the United Kingdom. Though conditions there are stable (See Traveler's Log below), that country's small cap index has dropped by close to 25% in the last three months. Furthermore, over the last year that index is down by over 15%. What gives? Last year, in order to head off the possibility of rising inflation, The Bank of England began raising interest rates. This caused sterling to strengthen which ultimately hit small and medium cap stocks and especially weakened stocks in the export sector. Our fund was not exempted from the mark-down...some of our larger positions were hit hard, hurting the performance of your Fund.

One example of this was in the price of retailer **Carpetright**. When we began purchasing the stock, it had plummeted off its highs because of a slowing in the torrid pace of home remodeling in the UK; market punishment of a leading competitor for significant accounting problems also hurt sentiment for the industry. The company has little debt, has a shareholder-oriented management that owns a lot of stock, and is one of the most efficient retailers in the UK. Unfortunately, the price continues to drop, and has fallen roughly 40% from our first purchases. Today Carpetright is yielding 14% on a stable dividend, and trades at 7.5 times core earnings. All through the price fall, those who know the company the best, management and the board of directors, have been buying stock. Furthermore, the company itself has also bought back shares. While the recent price drop has been another painful example of sell first, ask questions later, we feel extremely comfortable being investors in this business at this price. We have also taken advantage of price weakness to increase our holding.

TRAVELER'S LOG...THE UNITED KINGDOM

Recently, we spent a week visiting companies in the United Kingdom. Though it is an area of Europe with some of the strongest economic fundamentals, the most market-oriented government, and some of the best managements, the equity market has greatly underperformed those of the continent. Many of the companies we met with have experienced falls in their share prices of over 50% in the last year and are currently trading at five-year lows. Most of these managements were baffled by the share price declines, saying that while business conditions have slowed, they have experienced no collapse nor do they expect one. Clearly, there is a pervasive fright in the UK and in foreign markets that is taking prices down to unrealistic levels. Besides Carpetright, consider **Royal Doulton**. This company makes tableware and gifts and is one of the global leaders in those two sectors. Formerly, the company was a poorly managed, neglected stepchild of a diversified conglomerate that didn't seem to bother focusing on the business's fundamentals. Recently, the newly independent company which was spun out of its parent, has installed new, more aggressive management that is much more focused on enhancing the profitability of the brand. Since the spin-off, the stock has dropped by over 50%, giving us the opportunity to buy it at a very attractive price.

In Royal Doulton we are getting a good global brand and new, incentivized management focused on enhancing profitability. Equally important, Royal Doulton is trading at a price of about four times our estimate of "normal" earnings. The new chairman also thinks the stock is cheap, as he recently purchased a big block of stock for himself on the open market.

THINGS WILL GET BETTER!

Though share prices have been weak, and this fund has been slumping since the Asia crisis started last year, we continue to be confident about the future. It is true that as shareholders we have all suffered over the last year. However, we strongly assert that current prices of this **Fund's underlying investments do not come close to reflecting their true fundamental value**. Over time, value and price have always converged and we have no reason to believe it will not happen again this time. We feel so certain of this that, as co-portfolio managers of this fund, we represent the largest ownership block and we continue to invest in the Fund. Fundamentals will assert themselves and while we wait, we thank you for your patience.



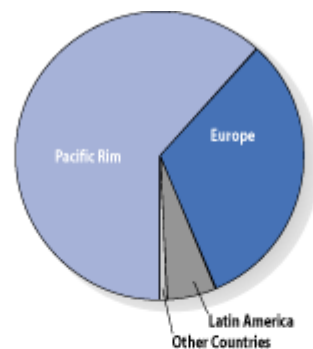
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October 5, 1998

THE OAKMARK INTERNATIONAL SMALL CAP FUND

International Diversification—September 30, 1998



	% of Fund Net Assets	% of Fund Net Assets	
Pacific Rim	58.9%	Europe	30.7%
Japan	19.0%	Great Britain	21.5%
New Zealand	7.9%	France	4.3%
Hong Kong	7.0%	Germany	2.9%
Australia	6.9%	Netherlands	2.0%
Korea	6.7%	Other	0.8%
Singapore	4.6%	Canada	0.8%
Thailand	3.5%		
Philippines	3.3%		
Latin America	5.3%		
Brazil	5.3%		

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—September 30, 1998

<i>Description</i>	<i>Shares Held</i>	<i>Market Value</i>
<i>Common Stocks—95.7%</i>		
<i>Consumer Non-Durables—3.9%</i>		
Royal Doulton plc (Great Britain)	990,000	\$1,540,035
Designer Textiles (NZ) Limited (New Zealand) (c)	2,960,000	459,213
Dickson Concepts International Limited (Hong Kong)	20,000	15,615
		2,014,863

Food & Beverage—9.6%

Matthew Clark plc (Great Britain)	Spirits & Drinks	1,054,000	\$2,150,285
Alaska Milk Corporation (Philippines), (a)	Milk Producer	39,327,000	1,707,915
Hite Brewery Company (Korea)	Brewer	165,010	761,722
Souza Cruz S/A (Brazil)	Tobacco Products	55,000	347,969
			<hr/>
			4,967,891

Retail—11.3%

Carpetright plc (Great Britain)	Carpet Retailer	650,000	\$2,375,889
Daimon (Japan) (c)	Liquor Retailer & Distributor	657,700	1,516,602
Paris Miki Inc. (Japan)	Optical Supplies Retailer	85,100	1,140,024
Giordano International Limited (Hong Kong)	East Asian Clothing Retailer & Manufacturer	3,112,000	421,691
Jusco Stores Co., Limited (Hong Kong)	Department Stores	4,244,000	410,773
			<hr/>
			5,864,979

Other Consumer Goods & Services—6.5%

Sanford Limited (New Zealand)	Fisheries	1,275,240	\$1,595,485
CeWe Color Holding AG (Germany)	Photo Equipment & Supplies	9,400	1,519,806
CDL Hotels International Limited (Hong Kong)	Hotel Operator	1,072,000	246,252
			<hr/>
			3,361,543

Banks—0.3%

Shinhan Bank (Korea)	Commercial Bank	47,764	\$110,931
Kookmin Bank (Korea)	Commercial Bank	11,351	27,587
			<hr/>
			138,518

Other Financial—11.0%

Lambert Fenchurch Group plc (Great Britain)	Insurance Broker	1,411,000	\$2,470,805
JCG Holdings Ltd. (Hong Kong)	Investment Holding Company	9,461,000	1,709,348
Ichiyoshi Securities (Japan)	Stock Broker	1,575,000	1,498,847
			<hr/>
			5,679,000

Computer Software—7.5%

Enix Corporation (Japan)	Entertainment Software	129,100	\$2,778,478
Koei (Japan)	Computer Software	196,000	1,120,574
			<hr/>
			3,899,052

Computer Systems—3.9%

Solution 6 Holdings Limited (Australia), (a)(c)	Systems Design & Consulting	4,150,893	\$1,992,286
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Marketing Services—5.0%

Cordiant Communications Group plc (Great Britain)	Advertising Services	1,428,500	\$2,598,593
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Broadcasting & Publishing—5.2%

Matichon Public Company Limited, Foreign Shares (Thailand) (c)	Newspaper Publisher	2,038,900	\$1,801,468
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Woongjin Publishing Company (Korea)	Publisher	107,076	908,501
Matichon Public Company Limited (Thailand)	Newspaper Publisher	600	505
			<hr/>
			2,710,474

Telecommunications—0.5%

SK Telecom Co. Ltd. (Korea)	Telecommunications	803	\$243,080
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Chemicals—2.0%

European Vinyls Corporation International N.V. (Netherlands)	PVC Manufacturer	83,100	\$1,036,902
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Machinery & Metal Processing—1.5%

Denyo Co., Ltd. (Japan)	Welding Machines & Power Generators	184,000	\$793,353
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Mining and Building Materials—3.1%

Parbury Limited (Australia) (c)	Building Products	11,119,712	\$1,581,357
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Other Industrial Goods & Services—11.6%

Elevadores Atlas, SA (Brazil)	Elevators	229,200	\$2,378,135
Dongah Tire Industry Company (Korea), (a)	Tire Manufacturer	43,900	1,215,280
Nishio Rent All Company (Japan)	Construction Equipment Rental	163,900	995,842
Yip's Hang Cheung Ltd. (Hong Kong) (c)	Paint & Solvents	24,724,000	845,532
Groupe Legris Industries SA (France)	European Crane Manufacturer	12,800	571,220
			<hr/>

6,006,009

Production Equipment—3.9%

NSC Groupe (France)	Manufacturer of Textile Equipment	11,532	\$1,637,191
Skyjack Inc. (Canada), (a)	Producer of Elevating Platforms & Lifts	32,200	406,339
			2,043,530

Steel—4.3%

Steel & Tube Holdings Ltd. (New Zealand)	Produces and Distributes Steel	2,995,400	\$2,023,714
Pohang Iron & Steel Company Ltd. (Korea)	Manufactures Steel Products	6,580	208,649
			2,232,363

Diversified Conglomerates—4.6%

Haw Par Corporation Ltd. (Singapore)	Healthcare and Leisure Products	3,113,000	\$2,397,452
Total Common Stocks			49,561,245
(Cost: \$78,457,722)			

<i>Description</i>	<i>Principal Value</i>	<i>Market Value</i>
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*Short Term Investments—1.9%**Repurchase Agreements—1.9%*

State Street Repurchase Agreement, 5.30% due 10/1/1998	\$967,000	\$967,000
Total Repurchase Agreements (Cost: \$967,000)		967,000
Total Short Term Investments (Cost: \$967,000)		967,000

Total Investments (Cost \$79,424,722)—97.6% (d)	\$50,528,245
Foreign Currencies (Proceeds \$31,439)—0.1%	31,436
Other Assets In Excess Of Other Liabilities— 2.3% (b)	1,210,894

Total Net Assets—100%

\$51,770,575

(a) Non-income producing security.

(b) Includes portfolio and transaction hedges.

(c) See footnote number five in the Notes to Financial Statements regarding transactions in affiliated issuers.

(d) At September 30, 1998, net unrealized depreciation of \$28,896,477, for federal income tax purposes consisted of gross unrealized appreciation of \$437,043 and gross unrealized depreciation of \$29,333,520.

The Oakmark Family of Funds

Statement of Assets and Liabilities—September 30, 1998

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	The Oakmark Fund	The Oakmark Select Fund	The Oakmark Small Cap Fund
Assets			
Investments, at market value	\$6,888,618,717	\$1,231,272,537	\$616,231,232
	(cost: \$6,573,899,571)	(cost: \$1,222,499,627)	(cost: \$682,325,649)
Cash	47,767	652	1,013,396
Foreign currency, at value	0	0	0
Collateral for securities loaned, at value	0	159,033,480	26,009,161
Receivable for:			
Forward foreign currency contracts	0	0	0
Securities sold	23,602,941	467,123	12,674,906
Fund shares sold	9,105,820	2,884,796	1,033,409
Dividends and interest	17,548,208	750,119	532,476
Total receivables	50,256,969	4,102,038	14,240,791
Other assets	37,203	8,444	8,548
Total assets	\$6,938,960,656	\$1,394,417,151	\$657,503,128

Liabilities and Net Assets

Payable for:

Collateral for
securities loaned, at
value

\$0 \$159,033,480 \$26,009,161

Securities purchased

0 4,837,276 11,122,483

Fund shares redeemed	7,227,480	1,045,502	1,436,217
Due to adviser	5,290,462	957,981	670,322
Forward foreign currency contracts	0	0	0
Other	2,484,832	648,526	270,183
	<hr/>	<hr/>	<hr/>
Total liabilities	15,002,774	166,522,765	39,508,366
	<hr/>	<hr/>	<hr/>
Net assets applicable to fund shares outstanding	\$6,923,957,882	\$1,227,894,386	\$617,994,762
	<hr/>	<hr/>	<hr/>
Fund shares outstanding	206,454,614	73,251,709	48,938,247
	<hr/>	<hr/>	<hr/>

Price of Shares

Net asset value per share	\$33.54	\$16.76	\$12.63
	<hr/>	<hr/>	<hr/>
	<hr/>	<hr/>	<hr/>

Analysis of Net Assets

Paid in capital	\$6,156,111,515	\$1,149,816,590	\$684,807,280
Accumulated undistributed net realized gain (loss) on sale of investments, forward contracts and foreign currency exchange transactions	375,272,768	67,603,248	6,202,400
Net unrealized appreciation (depreciation) of investments	314,719,146	8,772,910	(66,094,417)
Net unrealized appreciation (depreciation) of foreign currency			

portfolio hedges	0	0	0
Net unrealized appreciation (depreciation)—other	0	0	0
Accumulated undistributed net investment income (loss)	77,854,453	1,701,638	(6,920,501)
Net assets applicable to Fund shares outstanding	\$6,923,957,882	\$1,227,894,386	\$617,994,762

	The Oakmark Equity and Income Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
Assets			
Investments, at market value	\$57,497,107	\$739,175,430	\$50,528,245
	(cost: \$54,364,763)	(cost: \$1,088,039,399)	(cost: \$79,424,722)
Cash	585	601	940
Foreign currency, at value	0	1,367,813	31,436
Collateral for securities loaned, at value	1,759,177	73,675,393	3,218,851
Receivable for:			
Forward foreign currency contracts	0	2,446,315	1,877
Securities sold	0	15,095,665	1,087,279
Fund shares sold	15,175	203,924	24,414
Dividends and interest	461,512	5,128,670	512,069
Total receivables	476,687	22,874,574	1,625,639
Other assets	3,274	5,399	3,350
Total assets	\$59,736,830	\$837,099,210	\$55,408,461

Liabilities and Net Assets

Payable for:

Collateral for securities loaned, at value	\$1,759,177	\$73,675,393	\$3,218,851
Securities purchased	0	0	0
Fund shares redeemed	135,567	2,048,641	34,598
Due to adviser	34,324	683,804	58,195
Forward foreign currency contracts	0	3,977,540	179,274
Other	61,907	609,524	146,968
	<hr/>	<hr/>	<hr/>
Total liabilities	1,990,975	80,994,902	3,637,886
	<hr/>	<hr/>	<hr/>
Net assets applicable to fund shares outstanding	\$57,745,855	\$756,104,308	\$51,770,575
	<hr/>	<hr/>	<hr/>
Fund shares outstanding	4,127,329	72,552,725	7,514,807
	<hr/>	<hr/>	<hr/>

Price of Shares

Net asset value per share	\$13.99	\$10.42	\$6.89
	<hr/>	<hr/>	<hr/>

Analysis of Net Assets

Paid in capital	\$52,589,935	\$1,015,075,572	\$80,845,737
Accumulated undistributed net realized gain (loss) on sale of investments, forward contracts and foreign currency exchange transactions	1,002,213	52,470,799	(1,634,583)
Net unrealized appreciation (depreciation) of			

investments	3,132,344	(348,864,154)	(28,896,480)
Net unrealized appreciation (depreciation) of foreign currency portfolio hedges	0	(1,515,552)	(179,057)
Net unrealized appreciation (depreciation)—other	0	198,784	5,883
Accumulated undistributed net investment income (loss)	1,021,363	38,738,859	1,629,075
Net assets applicable to Fund shares outstanding	\$57,745,855	\$756,104,308	\$51,770,575

The Oakmark Family of Funds

Statement of Operations—Year Ended September 30, 1998

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	The Oakmark Fund	The Oakmark Select Fund	The Oakmark Small Cap Fund
Investment Income:			
Dividends	\$132,309,356	\$10,572,619	\$8,702,112
Interest Income	47,671,926	5,735,556	3,864,378
Securities lending income	0	109,602	434,864
Foreign taxes withheld	(1,820,235)	(169,788)	0
Total investment income	178,161,047	16,247,989	13,001,354
Expenses:			
Investment advisory fee	72,196,251	11,525,158	15,863,707
Transfer and dividend disbursing agent fees	4,376,441	1,063,152	780,579
Other shareholder servicing fees	3,387,013	764,027	700,403
Reports to shareholders	1,664,357	318,511	301,533
Custody and accounting fees	868,661	178,446	179,707
Registration and blue sky expenses	673,806	335,384	55,750
Trustees fees	90,748	30,422	30,535
Legal fees	58,259	19,206	20,157
Audit fees	27,925	20,999	21,041
Other	343,480	46,872	56,482
Total expenses	83,686,941	14,302,177	18,009,894
Expense offset arrangements	(6,489)	(2,712)	(48,678)
Net expenses	83,680,452	14,299,465	17,961,216

Net Investment Income (loss):	94,480,595	1,948,524	(4,959,862)
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Net realized and unrealized gain (loss) on investments and foreign currency transactions:

Net realized gain (loss) on investments	1,258,937,339	69,415,172	124,757,914
Net realized gain (loss) on foreign currency transactions	(8,898)	0	0
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(1,704,966,868)	(78,902,257)	(374,056,372)
Net change in appreciation of forward currency exchange contracts	0	0	0
Net change in appreciation (depreciation)—other	0	0	0

Net realized and unrealized gain on investments and foreign currency transactions:	(446,038,427)	(9,487,085)	(249,298,458)
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Net increase in net assets resulting from operations	\$(351,557,832)	\$(7,538,561)	\$(254,258,320)
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	The Oakmark Equity and Income Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
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Investment Income:

Dividends	\$737,103	\$38,964,663	\$2,777,457
Interest Income	1,064,634	2,761,336	214,453
Securities lending income	5,635	1,625,921	7,556
Foreign taxes withheld	(1,560)	(3,542,574)	(304,967)
Total investment income	1,805,812	39,809,346	2,694,499

Expenses:

Investment advisory fee	359,708	12,623,371	827,611
Transfer and dividend disbursing agent fees	95,816	967,291	112,828
Other shareholder servicing fees	12,676	580,069	27,531
Reports to shareholders	20,847	335,053	31,378
Custody and accounting fees	49,662	1,350,813	176,922
Registration and blue sky expenses	43,519	53,679	35,377
Trustees fees	18,442	27,749	18,433
Legal fees	11,337	17,726	12,111
Audit fees	19,544	26,722	24,144
Other	7,909	123,111	13,299
Total expenses	639,460	16,105,584	1,279,634
Expense offset arrangements	(212)	(105,661)	(292)
Net expenses	639,248	15,999,923	1,279,342
Net Investment Income (loss):	1,166,564	23,809,423	1,415,157

Net realized and unrealized gain (loss) on investments and foreign currency transactions:

Net realized gain (loss) on investments	1,578,730	86,532,713	(96,290)
Net realized gain (loss) on foreign currency transactions	0	(3,890,444)	(162,499)
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(2,325,892)	(502,914,491)	(27,728,327)
Net change in appreciation of forward currency exchange contracts	0	(2,045,738)	(179,057)
Net change in appreciation (depreciation)—other	0	195,384	2,414

Net realized and unrealized gain on investments and foreign currency transactions:	(747,162)	(422,122,576)	(28,163,759)
<hr/>			
Net increase in net assets resulting from operations	\$419,402	\$(398,313,153)	\$(26,748,602)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Oakmark Family of Funds

Statement of Changes in Net Assets—September 30, 1998

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	The Oakmark Fund	
	Year Ended September 30, 1998	Eleven Months Ended September 30, 1997
From Operations:		
Net investment income	\$94,480,595	\$55,858,346
Net realized gain on sale of investments	1,258,937,339	239,442,987
Net realized gain (loss) on foreign currency transactions	(8,898)	(2,673)
Net change in unrealized appreciation	(1,704,966,868)	1,231,138,352
	(351,557,832)	1,526,437,012
Distribution to shareholders from (1):		
Net investment income	(66,321,023)	(41,659,757)
Net realized short-term gain	(25,210,618)	(13,947,126)
Net realized long-term gain	(1,098,260,243)	(212,039,549)
	(1,189,791,884)	(267,646,432)
From Fund share transactions:		
Proceeds from shares sold	2,836,315,983	2,107,074,877
Reinvestment of dividends and capital gain distributions	1,133,761,068	256,384,877
Payments for shares redeemed	(2,119,718,081)	(941,237,366)
	1,850,358,970	1,422,222,388
Net increase in net assets from Fund share transactions	1,850,358,970	1,422,222,388

Total increase in net assets	309,009,254	2,681,012,968
Net assets:		
Beginning of period	6,614,948,628	3,933,935,660
End of period	\$6,923,957,882	\$6,614,948,628
Undistributed net investment income	\$77,854,452	\$49,694,881
(1) Distributions per share:		
Net investment income	0.3996	0.3441
Net realized short-term gain	0.1519	0.1152
Net realized long-term gain	5.8556	1.7514
Total distributions to shareholders	\$6.4071	\$2.2107

**The Oakmark
Select Fund**

**Year Ended
September 30, 1998** **Eleven Months Ended
September 30, 1997**

From Operations:

Net investment income	\$1,948,524	\$(246,886)
Net realized gain on sale of investments	69,415,172	5,070,435
Net realized gain (loss) on foreign currency transactions	0	0
Net change in unrealized appreciation	(78,902,257)	87,675,167

Net increase in net assets from operations	(7,538,561)	92,498,716
<hr/>		
Distribution to shareholders from (1):		
Net investment income	0	0
Net realized short-term gain	(6,882,359)	0
Net realized long-term gain	—	0
	<hr/>	<hr/>
Total distributions to shareholders	(6,882,359)	0
<hr/>		
From Fund share transactions:		
Proceeds from shares sold	1,440,695,723	571,117,746
Reinvestment of dividends and capital gain distributions	6,568,333	0
Payments for shares redeemed	(719,123,322)	(149,441,890)
	<hr/>	<hr/>
Net increase in net assets from Fund share transactions	728,140,734	421,675,856
<hr/>		
Total increase in net assets	713,719,814	514,174,572
Net assets:		
Beginning of period	514,174,572	0
	<hr/>	<hr/>
End of period	\$1,227,894,386	\$514,174,572
	<hr/>	<hr/>
	<hr/>	<hr/>
Undistributed net investment income	\$1,701,638	\$(246,886)
	<hr/>	<hr/>
	<hr/>	<hr/>
(1) Distributions per share:		
Net investment income	0	0

Net realized short-term gain	0.1678	0
Net realized long-term gain	0	0
	<hr/>	<hr/>
Total distributions to shareholders	\$0.1678	\$0

**The Oakmark
Small Cap Fund**

**Year Ended Eleven Months Ended
September 30, 1998 September 30, 1997**

From Operations:

Net investment income	\$(4,959,862)	\$(1,684,439)
Net realized gain on sale of investments	124,757,914	46,501,798
Net realized gain (loss) on foreign currency transactions	0	0
Net change in unrealized appreciation	(374,056,372)	287,859,202
	<hr/>	<hr/>
Net increase in net assets from operations	(254,258,320)	332,676,561

Distribution to shareholders from: (1)

Net investment income	0	0
Net realized short-term gain	(35,041,133)	0
Net realized long-term gain	(129,772,888)	0
	<hr/>	<hr/>
Total distributions to shareholders	(164,814,021)	0

From Fund share transactions:

Proceeds from shares sold	416,817,749	1,289,718,462
Reinvestment of dividends and capital gain distributions	156,645,973	0
Payments for shares redeemed	(1,049,792,259)	(327,419,790)
	<hr/>	<hr/>

Net increase in net assets from Fund share transactions	(476,328,537)	962,298,672
	<hr/>	<hr/>
Total increase in net assets	(895,400,878)	1,294,975,233
Net assets:		
Beginning of period	1,513,395,640	218,420,407
	<hr/>	<hr/>
End of period	\$617,994,762	\$1,513,395,640
	<hr/> <hr/>	<hr/> <hr/>
Undistributed net investment income	\$(6,920,502)	\$(1,960,639)
	<hr/> <hr/>	<hr/> <hr/>
(1) Distributions per share:		
Net investment income	0	0
Net realized short-term gain	0.4738	0
Net realized long-term gain	2.3874	0
	<hr/>	<hr/>
Total distributions to shareholders	\$2.8612	\$0

**The Oakmark
Equity and Income Fund**

**Year Ended Eleven Months Ended
September 30, 1998 September 30, 1997**

From Operations:

Net investment income	\$1,166,564	\$471,744
Net realized gain on sale of investments	1,578,730	904,824
Net realized gain (loss) on foreign currency transactions	0	0

Net change in unrealized appreciation	(2,325,892)	4,554,518
	<hr/>	<hr/>
Net increase in net assets from operations	419,402	5,931,086
<hr/>		
Distribution to shareholders from: (1)		
Net investment income	(594,007)	(148,466)
Net realized short-term gain	(882,071)	(162,188)
Net realized long-term gain	(599,021)	0
	<hr/>	<hr/>
Total distributions to shareholders	(2,075,099)	(310,654)
<hr/>		
From Fund share transactions:		
Proceeds from shares sold	43,125,943	24,903,007
Reinvestment of dividends and capital gain distributions	1,964,129	288,850
Payments for shares redeemed	(19,151,033)	(11,148,702)
	<hr/>	<hr/>
Net increase in net assets from Fund share transactions	25,939,039	14,043,155
	<hr/>	<hr/>
<hr/>		
Total increase in net assets	24,283,342	19,663,587
Net assets:		
Beginning of period	33,462,513	13,798,926
	<hr/>	<hr/>
End of period	\$57,745,855	\$33,462,513
	<hr/>	<hr/>
	<hr/>	<hr/>
Undistributed net investment income	\$1,021,363	\$448,806
	<hr/>	<hr/>

(1) Distributions per share:

Net investment income	0.2359	0.1202
Net realized short-term gain	0.3503	0.1311
Net realized long-term gain	0.2379	0
	<hr/>	<hr/>
Total distributions to shareholders	\$0.8241	\$0.2513

**The Oakmark
International Fund**

Year Ended **Eleven Months Ended**
September 30, 1998 **September 30, 1997**

From Operations:

Net investment income	\$23,809,423	\$27,666,383
Net realized gain on sale of investments	86,532,713	217,090,057
Net realized gain (loss) on foreign currency transactions	(3,890,444)	17,724,883
Net change in unrealized appreciation (depreciation)	(502,914,491)	70,717,122
Net change in unrealized appreciation (depreciation) of forward currency exchange contracts	(2,045,738)	3,426,674
Net change in unrealized appreciation (depreciation)—other	195,384	197,532
	<hr/>	<hr/>
Net increase (decrease) in net assets from operations	(398,313,153)	336,822,651

Distribution to shareholders from: (1)

Net investment income	(46,460,573)	(12,477,945)
Net realized short-term gain	(57,985,224)	0
Net realized long-term gain	(173,099,244)	0
	<hr/>	<hr/>

Total distributions to shareholders	(277,545,041)	(12,477,945)
From Fund share transactions:		
Proceeds from shares sold	482,976,228	710,447,882
Reinvestment of dividends and capital gain distributions	263,415,429	11,903,359
Payments for shares redeemed	(961,776,686)	(572,115,610)
Net increase in net assets from Fund share transactions	(215,385,029)	150,235,631
Total increase (decrease) in net assets	(891,243,223)	474,580,337
Net assets:		
Beginning of period	1,647,347,531	1,172,767,194
End of period	\$756,104,308	\$1,647,347,531
Undistributed net investment income	\$38,738,859	\$61,390,009
(1) Distributions per share:		
Net investment income	0.5758	0.1617
Net realized short-term gain	0.7186	0
Net realized long-term gain	2.1453	0
Total distributions to shareholders	\$3.4397	\$0.1617

From Operations:

Net investment income	\$1,415,157	\$646,048
Net realized gain on sale of investments	(96,290)	6,250,624
Net realized gain (loss) on foreign currency transactions	(162,499)	(232,740)
Net change in unrealized appreciation (depreciation)	(27,728,327)	(1,464,546)
Net change in unrealized appreciation (depreciation) of forward currency exchange contracts	(179,057)	0
Net change in unrealized appreciation (depreciation)—other	2,414	5,257
	<hr/>	<hr/>
Net increase (decrease) in net assets from operations	(26,748,602)	5,204,643

Distribution to shareholders from: (1)

Net investment income	(308,015)	(279,216)
Net realized short-term gain	(3,477,982)	(1,285,114)
Net realized long-term gain	(3,890,139)	0
	<hr/>	<hr/>
Total distributions to shareholders	(7,676,136)	(1,564,330)

From Fund share transactions:

Proceeds from shares sold	77,339,314	63,012,100
Reinvestment of dividends and capital gain distributions	7,427,846	1,523,977
Payments for shares redeemed	(64,544,647)	(41,955,631)
	<hr/>	<hr/>
Net increase in net assets from Fund share transactions	20,222,513	22,580,446

Total increase (decrease) in net assets	(14,202,225)	26,220,759
Net assets:		
Beginning of period	65,972,800	39,752,041
End of period	\$51,770,575	\$65,972,800
Undistributed net investment income	\$1,629,074	\$521,933
(1) Distributions per share:		
Net investment income	0.0559	0.0777
Net realized short-term gain	0.6312	0.3581
Net realized long-term gain	0.7060	0
Total distributions to shareholders	\$1.3931	\$0.4358

LETTER &
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Notes to Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

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

Security valuation—

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

Foreign currency translations—

Values of investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the mean of the bid and offer prices of such currencies at the time of valuation. Purchases and sales of investments and dividend and interest income are converted at the prevailing rate of exchange on the respective dates of such transactions.

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

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

At September 30, 1998, only the International and Int'l Small Cap Funds had foreign currency transactions. Net unrealized appreciation (depreciation)-other includes the following components:

International

Unrealized appreciation on dividends and dividend reclaims receivable	\$238,449	\$12,428
Unrealized depreciation on open securities purchases and sales	(17,431)	(6,912)
Unrealized appreciation (depreciation) on transaction hedge purchases and sales	(15,673)	1,660
Unrealized depreciation on tax expense payable	(6,561)	(1,293)
	\$198,784	\$5,883

Security transactions and investment income—

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

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

Forward foreign currency contracts—

At September 30, 1998, International and Int'l Small Cap had entered into forward foreign currency contracts under which they are obligated to exchange currencies at specified future dates. The Funds' currency transactions are limited to transaction hedging and portfolio hedging involving either specific transactions or portfolio positions.

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

The International Fund had the following outstanding contracts at September 30, 1998:

Portfolio Hedges:—

US Dollars Purchased	Foreign Currency Sold	Settlement Date	Unrealized Appreciation (Depreciation) at September 30, 1998
\$25,000,000	31,235,000 Brazilian Real	January 1998	\$1,310,201
20,000,000	24,992,000 Brazilian Real	January 1998	1,112,769
30,654,500	18,500,000 Pound Sterling	October 1998	(753,068)

37,289,250	22,500,000 Pound Sterling	November 1998	(894,688)
14,801,400	9,000,000 Pound Sterling	November 1998	(466,449)
14,794,200	9,000,000 Pound Sterling	November 1998	(473,649)
14,607,000	9,000,000 Pound Sterling	November 1998	(658,415)
14,233,120	8,800,000 Pound Sterling	November 1998	(692,253)

\$(1,515,552)

Transaction Hedges: Foreign Currency Sales—

US Dollars Purchased	Foreign Currency Sold	Settlement Date	Unrealized Appreciation (Depreciation) September 30, at 1998
\$3,738,928	20,963,421 French Franc	October 1998	\$(4,674)
3,143,545	1,865,827 Pound Sterling	October 1998	(28,545)
1,594,391	933,429 Pound Sterling	October 1998	7,468
3,223,084	1,886,499 Pound Sterling	October 1998	15,848
1,844,181	1,087,820 Pound Sterling	October 1998	(5,221)
472,144	278,043 Pound Sterling	October 1998	(556)
14,664	South Korean 20,353,856 Won	October 1998	29
24,850	New Zealand 49,700 Dollar	October 1998	(22)
			\$(15,673)

The Int'l Small Cap Fund had the following outstanding contracts:

Portfolio Hedges—

US Dollars Purchased	Foreign Currency Sold	Settlement Date	Unrealized Appreciation (Depreciation) at September 30, 1998
\$7,456,500	4,500,000 Pound Sterling	November 1998	\$(179,057)

Transaction Hedges: Foreign Currency Sales—

US Dollars Purchased	Foreign Currency Sold	Settlement Date	Unrealized Appreciation (Depreciation) at September 30, 1998
\$36,402	55,680 Canadian Dollar	October 1998	\$(99)
441,298	259,480 Pound Sterling	October 1998	156
214,840	125,748 Pound Sterling	October 1998	1,057
7,541	1,025,913 Japanese Yen	October 1998	31
60,660	8,252,168 Japanese Yen	October 1998	251
92,447	12,576,472 Japanese Yen	October 1998	382
131,033	262,066 New Zealand Dollar	October 1998	(118)
			\$1,660
			\$1,660

At September 30, 1998, International and Int'l Small Cap Funds each had sufficient cash and/or securities to cover any commitments under these contracts.

Securities Lending—

Each Fund except The Oakmark Fund may lend portfolio securities to broker-dealers and banks.

Security loans are required to be secured at all times by collateral at least equal to the market value of securities loaned. The Funds receive income from lending securities by investing the collateral and continue to earn income on the loaned securities. Security loans are subject to the risk of failure by the borrower to return the loaned securities, in which case the lending Fund could incur a loss. The market values (in thousands) of securities on loan to broker-dealers at September 30, 1998 are shown below.

	Select	Small Cap	Equity & Income	International	Int'l Small Cap
Market Value of Securities Loaned	\$153,993	\$24,519	\$1,696	\$67,416	\$2,988
Collateral (Cash and U.S. Treasuries)	159,033	26,009	1,759	73,675	3,219

Federal income taxes, dividends and distributions to shareholders—

No provision is made for Federal income taxes since the Funds elect to be taxed as "regulated investment companies" and make such distributions to their shareholders as to be relieved of

all Federal income taxes under provisions of current Federal tax law.

The Funds hereby designate the following long term capital gain distributions for purposes of the dividends received deduction (in thousands):

	Oakmark	Select	Small Cap	Equity & Income	International	Int'l Small Cap
Long Term Capital Gain	\$1,111,813	\$67,892	\$124,758	\$1,111	\$23,108	\$0

Bank Loans—

The Funds have two unsecured lines of credit with a syndication of banks. One line of credit is a committed line of \$350 million and the other is an uncommitted line of \$250 million. Borrowings under this arrangement bear interest at .50% above the Federal Funds Effective Rate. As of September 30, 1998, there were no outstanding borrowings.

2. TRANSACTIONS WITH AFFILIATES

Each fund has an investment advisory agreement with Harris Associates L.P. (Adviser). For management services and facilities furnished, the Funds pay the Adviser monthly fees at annual rates as follows. Oakmark pays 1% on the first \$2.5 billion of net assets, .95% on the next \$1.25 billion of net assets, .90% on the next \$1.25 billion of net assets and .85% on the excess of \$5 billion of net assets. International pays 1% on the first \$2.5 billion of net assets, .95% on the next \$2.5 billion of net assets and .90% on the excess of \$5 billion of net assets. Select pays 1% on the first \$1 billion and .95% on the next \$500 million, .90% on the next \$500 million, .85% on the next \$500 million and .80% on the excess of \$2.5 million of net assets. Small Cap pays 1.25% on the first \$1 billion of net assets, 1.15% on the next \$500 million, 1.10% on the next \$500 million, 1.05% on the next \$500 million, and 1% on the excess of \$2.5 billion. Equity and Income pays .75% of net assets and Int'l Small Cap pays 1.25% of net assets. Each fee is calculated on the total net assets as determined at the end of each preceding calendar month. Beginning October 1, 1998, additional breakpoints will be as follows: Oakmark will pay .80% on net assets in excess of \$10 billion and Select will pay .75% on excess of \$5 billion of net assets. The Adviser has voluntarily agreed to reimburse the Funds to the extent that annual expenses, excluding certain expenses, exceed 1.5% for domestic funds and 2.0% for international funds.

In connection with the organization of the Funds, expenses of approximately \$146,500 and \$47,000 were advanced to Oakmark and International, approximately \$7,283 each to Small Cap, Equity and Income and Int'l Small Cap, and \$3,500 to Select by the Adviser. These expenses are being amortized on a straight line basis through October, 2000 for Small Cap, Equity and Income and Int'l Small Cap, and October, 2001 for Select. Oakmark and International have fully amortized all organization expenses.

During the year ended September 30, 1998, the Funds incurred brokerage commissions of \$7,658,348, \$2,399,359, \$1,956,260, \$66,195, \$4,295,208 and \$384,909 of which \$2,068,690, \$589,570, \$193,708, \$41,979, \$0, and \$0 were paid by Oakmark, Select, Small Cap, Equity and Income, International and Int'l Small Cap, respectively, to an affiliate of the Adviser.

3. FUND SHARE TRANSACTIONS

Proceeds and payments on Fund shares as shown in the Statement of Changes in Net Assets

are in respect of the following number of shares (in thousands):

Year Ended September 30, 1998

	Oakmark	Select	Small Cap	Equity & Income	International	Int'l Small Cap
Shares sold	68,340	81,093	22,121	3,014	34,513	8,604
Shares issued in reinvestment of dividends	30,513	410	9,667	149	20,108	786
Less shares redeemed	(52,910)	(39,717)	(57,261)	(1,344)	(69,820)	(7,284)
Net increase (decrease) in shares outstanding	45,943	41,786	(25,473)	1,819	(15,199)	2,106

Eleven Months Ended September 30, 1997

	Oakmark	Select	Small Cap	Equity & Income	International	Int'l Small Cap
Shares sold	57,226	42,529	78,065	1,941	41,288	5,229
Shares issued in reinvestment of dividends	7,962	0	0	25	793	135
Less shares redeemed	(26,115)	(11,063)	(20,201)	(880)	(32,946)	(3,438)
Net increase in shares outstanding	39,073	31,466	57,864	1,086	9,135	1,926

4. INVESTMENT TRANSACTIONS

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

	Oakmark	Select	Small Cap	Equity & Income	International	Int'l Small Cap
Purchases	\$3,681,990	\$1,219,648	\$391,185	\$41,789	\$502,915	\$57,346
Proceeds from sales	2,991,049	601,544	968,060	20,783	923,456	41,576

5. TRANSACTIONS IN SECURITIES OF AFFILIATED ISSUERS

Affiliated issuers, as defined under the Investment Company Act of 1940, are those in which the Fund's holdings of an issuer represent 5% or more of the outstanding voting securities of the issuer. A summary of the Fund's transactions in the securities of these issuers during the year ended September 30, 1998 is set forth below:

Summary of Transactions with Affiliated Companies The Oakmark Fund

Affiliates	Purchase Cost	Sales Proceeds	Dividend Income	Market Value
AC Nielsen Corporation	\$—	\$—	\$—	\$105,999,000
Brunswick Corporation	47,321,680	—	1,789,400	94,195,350
GC Companies, Inc.	—	—	—	15,334,125
H & R Block, Inc.	340,780,489	—	2,941,950	317,172,475
Juno Lighting, Incorporated	—	—	390,600	24,276,875
Knight Ridder	128,013,079	—	4,480,340	308,358,300
Polaroid Corporation	11,171,805	—	2,731,440	111,818,325
R. H. Donnelley Corporation	10,418,862	—	1,835,978	25,965,967
SPX Corporation	—	—	—	36,156,700
The Black & Decker Corporation	46,677,053	—	3,899,160	344,113,875
The Dun & Bradstreet Corporation	107,175,516	—	6,115,747	283,265,100
TOTALS	\$691,558,484	—	\$24,184,615	\$1,666,656,092

Summary of Transactions with Affiliated Companies The Oakmark Select Fund

Affiliates	Purchase Cost	Sales Proceeds	Dividend Income	Market Value
USG Corporation	\$96,334,193	\$3,793,551	\$26,492	\$118,539,600
US Industries Inc.	148,983,455	16,251,897	1,212,415	113,179,625

TOTALS	\$245,317,648	\$20,045,448	\$1,238,907	\$231,719,225
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*Summary of Transactions with Affiliated Companies
The Oakmark Small Cap Fund*

Affiliates	Purchase Cost	Sales Proceeds	Dividend Income	Market Value
Ascent Entertainment Group, Inc.	\$3,794,484	\$5,437,319	\$—	\$12,000,000
Barry (R.G.) Corporation	3,388,252	—	—	11,781,263
Binks Sames Corporation	1,078,125	—	24,700	4,675,000
Columbus McKinnon Corporation	5,432,270	1,724,192	249,816	17,325,000
Duff & Phelps Credit Rating Company	3,082,142	—	38,808	16,121,875
Finger Lakes Financial Corp.	—	—	41,360	2,068,000
Northwest Pipe Company	1,520,000	2,103,411	—	9,250,000
Ralcorp Holdings, Inc.	—	23,429,934	—	24,500,000
ROHN Industries, Inc.	17,335,121	—	50,000	5,812,500
Scotsman Industries, Inc.	—	1,664,975	100,612	22,240,375
Triarc Companies, Inc.	1,959,905	10,981,722	—	19,453,125
Ugly Duckling Corporation	20,320,181	8,194,979	—	8,695,288
TOTALS	\$57,910,480	\$53,536,532	\$505,296	\$153,922,426

*Summary of Transactions with Affiliated Companies
The Oakmark International Fund*

Affiliates	Purchase Cost	Sales Proceeds	Dividend Income	Market Value
Banco Latinoamericano de Exportaciones, S.A. Class E	\$39,751,365	\$3,301,540	\$849,888	\$21,146,282
Chargeurs International SA	—	9,934,608	1,430,885	25,752,067
Cordiant Communications				

Group PLC	2,891,044	—	420,931	40,015,927
Dongah Tire Industry Company	5,643,713	—	—	4,603,390
European Vinyls Corporation Intl. NV	—	3,188,031	1,951,039	15,126,783
Fernz Corporation Ltd.	6,718,676	2,115,546	1,574,294	33,797,841
Fila Holding S.p.A.	20,288,049	187,177	685,787	21,885,800
Giordano International Limited	8,556,185	98,829	89,476	9,391,028
Hong Kong Aircraft Engineering Company	3,216,275	607,632	1,026,373	13,175,134
Keumkang Ltd.	2,940,243	—	159,292	4,956,792
Lamex Holdings Ltd.	—	—	181,184	322,517
Lotte Chilsung Beverage Company	3,009,525	—	17,504	3,095,452
Saatchi & Saatchi PLC	523,408	7,666,881	492,036	31,699,125
Tae Young Corporation	13,975,221	1,023,976	88,023	4,770,261
USIMINAS	12,560,055	—	5,885,389	21,852,288
Woongjin Publishing Company	2,936,743	—	34,695	1,259,204
TOTALS	\$123,010,502	\$28,124,220	\$14,886,796	\$252,849,891

*Summary of Transactions with Affiliated Companies
The Oakmark International Small Cap Fund*

Affiliates	Purchase Cost	Sales Proceeds	Dividend Income	Market Value
Daimon	\$836,251	\$61,037	\$63,270	\$1,516,602
Designer Textiles (NZ) Limited	—	—	56,322	459,213
Matichon Public Company Limited, Foreign Shares	648,794	—	75,237	1,746,991
Parbury Limited	2,899,156	—	65,550	1,581,357
Solution 6 Holdings Ltd.	431,130	—	—	1,992,286
Yip's Hang Cheung Ltd.	539,149	2,540	89,119	845,532
TOTALS	\$5,354,480	\$63,577	\$349,498	\$8,141,981

6. INTRODUCTION OF THE EURO

The European Monetary Union intends to establish a common European currency for participating countries to be called the "euro." Each participating country will supplement its existing currency with the euro on January 1, 1999 and replace its existing currency with the euro on July 2, 2002. The consequences of the euro conversion for foreign exchange rates, interest rates and the value of European securities are presently unclear. Uncertainties include

whether operational systems of banks and other financial institutions will be ready by January 1, 1999; the application of exchange rates for existing currencies and the euro; the creation of suitable clearing and settlement systems for the new currency; the legal treatment of certain outstanding financial contracts after January 1, 1999 that refer to existing currencies rather than the euro; and whether the interest rate, tax and labor regimes of European countries participating in the euro will converge over time. These and other factors, including economic and political risks, could cause market disruptions before or after the introduction of the euro, and could adversely affect the value of securities held by the Funds.

Rate 43% 17% 24% 18% 29% 18% 34% 0%

*Data has been annualized.

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

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

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

The Oakmark Select Fund

Financial Highlights

For a share outstanding throughout the period

	Year Ended September 30, 1998	Eleven Months Ended September 30, 1997
Net Asset Value, Beginning of Period	\$ 16.34	\$10.00
Income From Investment Operations:		
Net Investment Income (Loss)	0.03	(0.01)
Net Gains or Losses on Securities (both realized and unrealized)	0.56	6.35
	<hr/>	<hr/>
Total From Investment Operations:	0.59	6.34
Less Distributions:		
Dividends (from net investment income)	0.00	0.00
Distributions (from capital gains)	(0.17)	0.00
	<hr/>	<hr/>
Total Distributions	(0.17)	0.00
	<hr/>	<hr/>
Net Asset Value, End of Period	\$ 16.76	\$16.34
	<hr/> <hr/>	<hr/> <hr/>
Total Return	3.64%	69.16%*
Ratios/Supplemental Data:		
Net Assets, End of Period (\$ million)	\$1,227.9	\$514.2
Ratio of Expenses to Average Net Assets (a)	1.22%	1.12%*
Ratio of Net Income (Loss) to Average Net Assets (a)	0.17%	(0.11)%*
Portfolio Turnover Rate	56%	37%

Notes

*Ratios have been annualized.

The Oakmark Small Cap Fund

Financial Highlights

For a share outstanding throughout each period

	Year Ended September 30, 1998	Eleven Months Ended September 30, 1997	Year Ended October 31, 1996
Net Asset Value, Beginning of Period	\$20.34	\$ 13.19	\$10.00
Income From Investment Operations:			
Net Investment Income (Loss)	(0.12)	(0.01)	(0.02)
Net Gains or Losses on Securities (both realized and unrealized)	(4.73)	7.16	3.21
Total From Investment Operations:	(4.85)	7.15	3.19
Less Distributions:			
Dividends (from net investment income)	0.00	0.00	0.00
Distributions (from capital gains)	(2.86)	0.00	0.00
Total Distributions	(2.86)	0.00	0.00
Net Asset Value, End of Period	\$12.63	\$ 20.34	\$13.19
Total Return	(26.37%)	59.14%*	31.94%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$618.0	\$1,513.4	\$218.4
Ratio of Expenses to Average Net Assets	1.45%	1.37%(*)	1.61%
Ratio of Net Income (Loss) to Average Net Assets	(0.40%)	(0.25%)*	(0.29%)
Portfolio Turnover Rate	34%	27%	23%

*Data has been annualized.

The Oakmark Equity and Income Fund

Financial Highlights

For a share outstanding throughout each period

	Year Ended September 30, 1998	Eleven Months Ended September 30, 1997	Year Ended October 31, 1996
Net Asset Value, Beginning of Period	\$14.49	\$11.29	\$10.00
Income From Investment Operations:			
Net Investment Income (Loss)	0.29	0.21	0.10
Net Gains or Losses on Securities (both realized and unrealized)	0.04	3.24	1.19

Total From Investment Operations:	0.33	3.45	1.29
Less Distributions:			
Dividends (from net investment income)	(0.24)	(0.12)	0.00
Distributions (from capital gains)	(0.59)	(0.13)	0.00
Total Distributions	(0.83)	(0.25)	0.00
Net Asset Value, End of Period	\$13.99	\$14.49	\$11.29
Total Return	2.57%	34.01% (*)	12.91%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$57.7	\$33.5	\$13.8
Ratio of Expenses to Average Net Assets	1.31%	1.50% *(a)	2.50%(a)
Ratio of Net Income (Loss) to Average Net Assets	2.39%	2.38% *(a)	1.21%(a)
Portfolio Turnover Rate	46%	53%	66%

*Data has been annualized

(a) If the fund had paid all of its expenses and there had been no expense reimbursement by the investment adviser, ratios would have been as follows:

	September 30, 1997	October 31, 1996
Ratio of Expenses to Average Net Assets	1.70%	2.64%
Ratio of Net Income (Loss) to Average Net Assets	2.18%	1.08%

The Oakmark International Fund

Financial Highlights

For a share outstanding throughout each period

	Year Ended	Eleven Months Ended	Year Ended October 31,				Period Ended
	September 30, 1998	September 30, 1997	1996	1995	1994	1993	October 31, 1992(a)
Net Asset Value, Beginning of Period	\$18.77	\$ 14.92	\$ 12.97	\$14.50	\$ 14.09	\$ 9.80	\$10.00
Income From Investment Operations:							
Net Investment Income (Loss)	0.41	0.27	0.09	0.30	0.21	0.06	0.26
Net Gains or Losses on Securities (both realized and unrealized)	(5.32)	3.74	2.90	(0.77)	0.43	4.48	(0.46)

Total From Investment Operations:	(4.91)	4.01	2.99	(0.47)	0.64	4.54	(0.20)
Less Distributions:							
Dividends (from net investment income)	(0.58)	(0.16)	0.00	0.00	(0.08)	(0.25)	—
Distributions (from capital gains)	(2.86)	0.00	(1.04)	(1.06)	(0.15)	—	—
Total Distributions	(3.44)	(0.16)	(1.04)	(1.06)	(0.23)	(0.25)	—
Net Asset Value, End of Period	\$10.42	\$ 18.77	\$ 14.92	\$12.97	\$ 14.50	\$ 14.09	9.80
Total Return	(29.90%)	29.63%*	24.90%	(3.06%)	4.62%	47.49%	(22.81%)*
Ratios/Supplemental Data:							
Net Assets, End of Period (\$million)	\$756.1	\$1,647.3	\$1,172.8	\$819.7	\$1,286.0	\$815.4	\$23.5
Ratio of Expenses to Average Net Assets	1.32%	1.26%*	1.32%	1.40%	1.37%	1.26%	2.04%*
Ratio of Net Income (Loss) to Average Net Assets	1.95%	2.09%*	1.45%	1.40%	1.44%	1.55%	37.02%*
Portfolio Turnover Rate	43%	61%	42%	26%	55%	21%	0%

*Ratios have been annualized.

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

The Oakmark International Small Cap Fund

Financial Highlights

For a share outstanding throughout each period

	Year Ended September 30, 1998	Eleven Months Ended September 30, 1997	Year Ended October 31, 1996
Net Asset Value, Beginning of Period	\$12.20	\$11.41	\$10.00
Income From Investment Operations:			
Net Investment Income (Loss)	0.18	0.13	0.04
Net Gains or Losses on Securities (both realized and unrealized)	(4.09)	1.10	1.37
Total From Investment Operations:	(3.91)	1.23	1.41
Less Distributions:			
Dividends (from net investment income)	(0.06)	(0.08)	0.00
Distributions (from capital gains)	(1.34)	(0.36)	0.00

Total Distributions	(1.40)	(0.44)	0.00
Net Asset Value, End of Period	\$6.89	\$12.20	\$11.41
Total Return	(35.20%)	12.07%*	14.15%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$51.8	\$66.0	\$39.8
Ratio of Expenses to Average Net Assets	1.96%	1.93%*	2.50%(a)
Ratio of Net Income (Loss) to Average Net Assets	2.17%	1.23%*	0.65%(a)
Portfolio Turnover Rate	69%	63%	27%

Notes

*Ratios have been annualized.

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

See accompanying notes to financial statements.

The Oakmark Family of Funds

Report of Independent Public Accountants

TO THE SHAREHOLDERS AND BOARD OF TRUSTEES OF HARRIS ASSOCIATES INVESTMENT TRUST:

We have audited the accompanying statements of assets and liabilities of The Oakmark Fund, The Oakmark Select Fund, The Oakmark Small Cap Fund, The Oakmark Equity and Income Fund, The Oakmark International Fund, and The Oakmark International Small Cap Fund (each a series of Harris Associates Investment Trust), including the schedules of investments on pages 7-9, 12-13, 16-18, 21-23, 27-31, and 35-37, as of September 30, 1998, and the related statements of operations, statements of changes in net assets and the financial highlights for the periods indicated thereon. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of September 30, 1998, by correspondence with the custodian and brokers. As to securities purchased but not received, we requested confirmation from brokers, and when replies were not received, we carried out alternative auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of The Oakmark Fund, The Oakmark Select Fund, The Oakmark Small Cap Fund, The Oakmark Equity and Income Fund, The Oakmark International Fund, and The Oakmark International Small Cap Fund of the Harris Associates Investment Trust as of September 30, 1998, the results of their operations, the changes in their net assets, and their financial highlights for the periods indicated thereon in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Chicago, Illinois
October 21, 1998

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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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Independent Public Accountants

Arthur Andersen LLP
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24-hour NAV hotline

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9625)

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