

The Oakmark Fund

The Oakmark  
Select Fund

The Oakmark Small  
Cap Fund

The Oakmark Equity  
and Income Fund

The Oakmark  
Global Fund

The Oakmark  
International Fund

The Oakmark  
International Small  
Cap Fund

# ANNUAL REPORT

SEPTEMBER 30, 2002



# THE OAKMARK FAMILY OF FUNDS

## 2002 Annual Report

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### For More Information

Access our web site at [www.oakmark.com](http://www.oakmark.com) to obtain a prospectus, an application or periodic reports, or call 1-800-OAKMARK (1-800-625-6275) or (617) 449-6274.

Turn to the end of this report to read about Oakmark's Philosophy and Process and look up financial terms in the Oakmark Glossary.

## Letter from the President

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### Dear Fellow Shareholders,

This past quarter was extremely difficult for all equity investors. The Dow<sup>1</sup>, S&P 500<sup>2</sup>, and NASDAQ<sup>3</sup> all posted double-digit losses for the second consecutive quarter. While the Funds' relative performance has held up in the face of significant declines this year, our absolute returns are not in line with our long-term goal of positive rates of return.

#### The Market

The market continued to be very volatile over the past few months, and investors faced a range of complex issues. On the plus side, hope grew that the economy and stock prices may be improving, while negative factors included high profile company-specific problems, uncertain profit forecasts, and the threat of war with Iraq.

Without overlooking these issues, we attribute the market's weakness primarily to an emotional exodus from equities as a whole and *not* to an unacceptably large number of new fundamental problems. Like many, we continue to find values in today's market and believe that this downward stock price pressure is symptomatic more of the *end* of a bear market, rather than the *beginning*.

With very low interest rates and expectations of improving economic conditions in 2003 and 2004, we maintain that equities will provide attractive long-term returns versus other asset classes. Over time, economic growth drives corporate earnings, which in turn power the long-term performance of the stock market.

#### Corporate Governance

One of our three key investment tenets is to invest with company managements whose interests are aligned with us, as shareholders. Adhering to this principle allowed us to avoid a number of recent well-publicized company-specific problems. It is important, however, that the concerns surrounding executive compensation, stock options, and excessive retirement packages be addressed.

We have and will continue to invest in companies that strike the appropriate balance between providing strong incentives for management and overall corporate profitability and integrity. Stock options should be expensed so that they are more accurately reflected as a "cost" of compensation. In addition, compensation packages should be rational, and retirement benefits should reward excellent long-term leadership, but at sensible levels. Periods of excess often uncover problems—and then lead to solutions that benefit all long-term investors. We believe that the market will also be self-correcting with management compensation.

#### Evaluate Your Equity Allocation

As we saw in late 1999 and early 2000—and as we see today—investors are often most optimistic when the



market climbs to new highs and are most pessimistic when it tumbles significantly. Bear markets can trigger exaggerated, emotional behavior—causing equities to become significantly undervalued—as much as stocks in bull markets become overvalued. We continue to direct our efforts to what we've always done: invest in quality companies that we believe are undervalued and have significant long-term potential and focus on the rigors of our investment process rather than respond to the market emotionally.

While exiting equities may seem tempting today, you should consider remaining invested—or increasing your equity position to return to levels before this correction—if you have a long investment horizon. Even if the benefits of equity investing are difficult to appreciate now, we remain confident in the long-term positioning of our Funds and encourage you to stick with your financial plan.

An important part of achieving above-average long-term investment results is investing against the emotional tide, not with it. We look forward to better times ahead.

A handwritten signature in black ink that reads "Robert M. Levy". The signature is written in a cursive, flowing style.

**Robert M. Levy**  
President and CEO

P.S. In our continuing efforts to provide top quality service to investors, you may now open new Oakmark accounts on our web site, [www.oakmark.com](http://www.oakmark.com). We hope that this makes investing in our funds even easier for you.

October 4, 2002

# THE OAKMARK FAMILY OF FUNDS

## Summary Information

<i>Performance for Period Ended September 30, 2002<sup>4</sup></i>	<b>The Oakmark Fund (OAKMX)</b>	<b>The Oakmark Select Fund (OAKLX)</b>	<b>The Oakmark Small Cap Fund (OAKSX)</b>
<b>3 Months*</b>	-16.60%	-15.58%	-22.01%
<b>6 Months*</b>	-23.57%	-22.41%	-27.36%
<b>1 Year</b>	-11.77%	-13.85%	-3.23%
<b>Average Annual Total Return for:</b>			
<b>3 Year</b>	-0.59%	10.49%	1.75%
<b>5 Year</b>	0.35%	12.70%	-3.02%
<b>10 Year</b>	12.15%	N/A	N/A
<b>Since inception</b>	16.10%	20.21%	8.37%
<b>Value of \$10,000 from inception date</b>	\$52,927 (8/5/91)	\$29,720 (11/1/96)	\$17,445 (11/1/95)
<b>Top Five Holdings as of September 30, 2002<sup>5</sup></b>	Washington Mutual, Inc. 3.7%	Washington Mutual, Inc. 17.8%	Hanger Orthopedic Group, Inc. 4.3%
	H&R Block, Inc. 3.1%	H&R Block, Inc. 8.6%	Tupperware Corporation 4.0%
	AOL Time Warner Inc. 2.4%	Yum! Brands, Inc. 5.4%	eFunds Corporation 3.5%
	General Mills, Inc. 2.4%	Moody's Corporation 5.1%	Checkpoint Systems, Inc. 3.5%
	Fortune Brands, Inc. 2.4%	The Dun & Bradstreet Corporation 4.7%	Ralcorp Corporation 3.5%
<b>Company and % of Total Net Assets</b>			
<b>Top Five Industries as of September 30, 2002</b>	Retail 14.3%	Banks & Thrifts 17.8%	Medical Products 7.4%
	Pharmaceuticals 10.6%	Retail 16.5%	Computer Software 6.7%
	Other Consumer Goods & Services 7.8%	Other Consumer Goods & Services 13.1%	Food & Beverage 6.3%
	Food & Beverage 6.4%	Information Services 9.8%	Banks & Thrifts 5.9%
	Cable Systems & Satellite TV 6.2%	Computer Services 5.3%	Other Consumer Goods & Services 5.1%
<b>Industries and % of Total Net Assets</b>			

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

The Oakmark Equity and Income Fund (OAKBX)		The Oakmark Global Fund (OAKGX)		The Oakmark International Fund (OAKIX)		The Oakmark International Small Cap Fund (OAKEX)	
-8.57%		-17.70%		-22.93%		-22.25%	
-11.49%		-23.13%		-24.64%		-20.30%	
-0.47%		6.84%		-1.53%		4.68%	
10.50%		8.81%		-0.75%		-1.75%	
9.80%		N/A		0.07%		2.93%	
N/A		N/A		8.85%		N/A	
13.24%		5.46% <sup>s</sup>		8.85%		5.66%	
\$23,640 (11/1/95)		\$11,828 (8/4/99)		\$23,365 (9/30/92)		\$14,641 (11/1/95)	
Burlington Resources Inc.	3.3%	eFunds Corporation	6.5%	GlaxoSmithKline plc	4.5%	Kobenhavn Lufthavne A/S	4.6%
SAFECO Corporation	3.0%	Vivendi Universal SA	6.3%	Vivendi Universal SA	3.5%	Carpetright plc	4.4%
Guidant Corporation	2.5%	Synopsys, Inc.	4.8%	Wolters Kluwer NV	3.1%	Gurit-Heberlein AG	4.0%
Synopsys, Inc.	2.4%	Hunter Douglas N.V.	4.3%	Hunter Douglas N.V.	3.0%	Neopost SA	3.8%
Ceridian Corporation	2.4%	Liberty Media Corporation, Class A	4.1%	Givaudan	3.0%	Grupo Aeroportuario del Sureste S.A. de C.V.	3.5%
U.S. Government Notes	37.9%	Information Services	9.9%	Pharmaceuticals	9.6%	Retail	10.4%
Oil & Natural Gas	6.3%	Banks and Thrifts	7.6%	Food & Beverage	8.4%	Airport Maintenance	8.1%
Medical Products	5.2%	Computer Software	7.2%	Banks & Thrifts	7.5%	Food & Beverage	6.4%
Retail	4.6%	Broadcasting & Programming	6.6%	Publishing	6.7%	Banks & Thrifts	5.9%
Pharmaceuticals	4.5%	Diversified Conglomerates	6.3%	Other Financial	5.6%	Machinery & Industrial Processing	5.4%

## THE OAKMARK AND OAKMARK SELECT FUNDS

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At Oakmark, we look for stocks with prices less than 60% of intrinsic value, with intrinsic value that is likely to grow and with management that acts in the interest of outside shareholders. The combination of these factors creates our biggest competitive advantage—the ability to be more patient than most investors.



Last quarter was brutal! As measured by the 17% decline in the S&P 500<sup>2</sup>, the market lost more last quarter than in any quarter in the past fifteen years—and this quarter followed a couple of very tough years. The *New York Times* publishes daily a list of the twenty most widely held stocks and shows their recent performance. That list shows an average loss of 38% over the last year and 58% since the March 2000 peak.

Back at the peak, research reports were arguing that stocks would go higher, primarily because they had gone up so much already, which sounded backwards to us. This week I read a report on one of our holdings that used the same rear-view mirror logic: “We have lowered our price objective based on the recent weakness in the stock.” Effectively, the shell-shocked analyst is saying that his model projects a price that makes the stock look too attractive, so he is going to ignore the model. Media reports are not any better as story after story points out that over the past five years, the average equity investor has lost money, and then goes on to question why anyone would own stocks today. Those articles are like the weather forecast made by Bill Murray’s character, Phil Connors, in *Groundhog Day*: “It’s gonna be cold... it’s gonna be gray... and it’s gonna last for the rest of your life!”

As we watch the market go down, seemingly every day, it’s hard to keep the perspective that business values are much more stable than are stock prices. Just as business value growth did not match the 250% gain the S&P 500 achieved from 1995 to March of 2000, business values have not subsequently declined 45% as the S&P 500 has. The observation that business values are relatively stable (but generally grow over time) leads to our conclusion that the more extreme stock price moves become, the more likely they are to reverse. As the bull market of the 90’s neared its end, investor surveys showed expectations of long-term annual percentage gains in the teens. We all knew that was not achievable. Now, after the market has fallen sharply, return expectations have also fallen, with many investors now uncomfortable projecting future returns greater than zero. Historical returns and future returns necessarily have an inverse relationship. The more stock prices fall, the greater the opportunity is for above-average returns.

John Burr Williams was one of the first to represent mathematically the value of a stock as the present worth of

### Highlights

- Business values are much more stable than are stock prices.
- We estimate the highest price a buyer could pay to own a business and still earn an adequate return, and then we buy at 60% of that number.
- Owning stocks that sell below our intrinsic value estimate provides a margin of safety.

all its future dividends. In his 1938 classic *The Theory of Investment Value* he states:

“If a man buys a security below its investment value he need never lose, even if its price should fall at once, because he can still hold for income and get a return above normal on his cost price; but if he buys it above its investment value, his only hope of avoiding a loss is to sell to someone else who must in turn take the loss in the form of insufficient income.”

“If marginal opinion, not intrinsic value, determines market price, as claimed in this book, and if changes in opinion, but nothing else, cause changes in price, then those who trade in the market for a living will find herein a philosophy of their work.”

That approach defines value investing—estimating the intrinsic value of businesses and only purchasing them when negative opinions cause prices to reach discounts to value. Value investing is what we do across The Oakmark Family of Funds. The basic premise of value investing is that the return achieved while owning a stock can be broken down into two components: the change in business value during the holding period, and the change in the stock price relative to its business value. We attempt to identify stocks selling below 60% of business value, anticipating that the narrowing of the price-to-value gap will be a significant positive contributor to our return.

All value investors share this basic approach of buying at a discount to value, but how value is estimated differs widely. Benjamin Graham was one of the early developers of the value investing style. In his book with David Dodd, *Security Analysis*, he states that “asset values are virtually ignored in the stock market.” He considered the best investment opportunities to be “those cases in which the market price ... is less than the net current assets.”

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Following Graham's work, a generation of value investors focused on the balance sheet and accounting book value as the primary indicator of intrinsic value.

One of Graham's students, Warren Buffett, is generally viewed as today's most successful value investor. Buffett broadened the value investing perspective. In his 1996 Berkshire Hathaway annual report he wrote: "My own thinking has changed drastically from thirty five years ago when I was taught to favor tangible assets and to shun businesses whose value depended largely upon economic goodwill. Ultimately, business experience, direct and vicarious, produced my present strong preference for businesses that possess large amounts of enduring goodwill and that utilize a minimum of tangible assets."

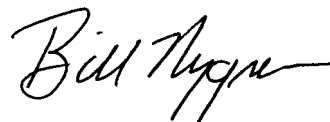
With this approach, value investors moved from a balance sheet focus to an income statement focus. The intangible assets Buffett looks for don't get included on the balance sheet but represent competitive advantage that allows companies to sustainably earn high returns on equity. Using that thought process, the P/E<sup>7</sup> ratio became the favorite metric of most value investors for estimating business values.

At The Oakmark Family we are not believers in a "one size fits all" approach to estimating business values. For some companies, a book value<sup>8</sup> or asset value based approach provides a good estimate of value. Natural resource companies, such as Burlington Resources, are a good example—a large number of transactions suggest that there is a fairly consistent price paid per MCF of natural gas. On the other hand, an asset-based approach would be nearly useless for valuing the consistently growing tax preparation business of H&R Block. For H&R Block, a price-to-earnings ratio is much more useful than a price-to-book<sup>9</sup> ratio for estimating value. And for a company in many different businesses, like AOL Time Warner, we value each business unit using the measure we find most appropriate, sum up all the values, then deduct net debt to reach an estimate of the equity value.

What we do on an industry-by-industry and company-by-company basis is to look at acquisitions to gauge the most

appropriate summary statistic for estimating business value. For any given business, book value, earnings, cashflow, sales, subscribers, or barrels of oil might give the best indication of value. For a different business, a different measure may be most useful. When we develop the rules-of-thumb that explain previous acquisition prices, we apply them to the stocks we are analyzing. For each stock we try to figure out the highest price a buyer could pay to own the entire business and still earn an adequate return on their investment. Then we wait for the stock to sell below 60% of that value. When prices of the stocks we already own exceed 90% of our value estimates, we sell them.

Benjamin Graham summed up his investing approach with the phrase "margin-of-safety." Owning stocks that sell below intrinsic value provides a margin-of-safety that "is available for absorbing the effect of miscalculating or worse than average luck." Buying below intrinsic value not only lowers the risk, it increases the expected return. When we succeed at buying at 60% and selling at 90% of value, we achieve a return on our investment of not just the growth in business value, but an additional 50%. Our long-term track record shows that despite many mistakes, we have achieved above average returns with below average risk. We believe the primary reason behind this result is our disciplined approach to purchasing only undervalued stocks.



**William C. Nygren, CFA**  
**Portfolio Manager**

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October 3, 2002

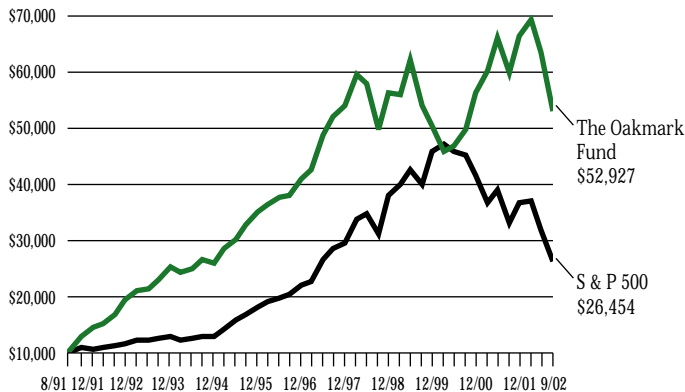


# THE OAKMARK FUND

Report from Bill Nygren and Kevin Grant, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK FUND FROM ITS INCEPTION (8/5/91) TO PRESENT (9/30/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX<sup>2</sup>



### Average Annual Total Returns<sup>4</sup>

(as of 9/30/02)

	Total Return Last 3 Months*	1-year	5-year	10-year	Since Inception (8/5/91)
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<b>Oakmark Fund</b>	<b>-16.60%</b>	<b>-11.77%</b>	<b>0.35%</b>	<b>12.15%</b>	<b>16.10%</b>
S&P 500	-17.28%	-20.49%	-1.63%	8.99%	9.11%
Dow Jones Average <sup>1</sup>	-17.33%	-12.48%	0.81%	11.11%	11.03%
Lipper Large Cap Value Index <sup>10</sup>	-18.65%	-19.61%	-1.77%	8.49%	8.70%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

The Oakmark Fund declined 17% last quarter, which took our fiscal year results into negative territory by 12%. The loss in the quarter was only fractionally better than the 17% loss suffered by the S&P 500, but the fiscal year results compare favorably to the S&P 500 loss of 20%. The pain of this decline has caused many investors to give up on stocks. The stock market is down nearly 50% from its peak. Stocks now appear significantly undervalued using the Fed model (which compares P/E ratios to long-term government bond yields); the dividend yield on the S&P 500 exceeds the yield on Treasury bills for the first time since 1963; and money-market fund assets compared to the market value of stocks is at the highest level ever recorded. Those data points are much more typical of market bottoms than tops. Many stocks have now fallen to our buy targets, and we continue to add new holdings that have the business fundamentals of growth companies, but the valuation levels of value stocks. All of our new holdings are discussed on our website ([www.oakmark.com](http://www.oakmark.com)). The new holding discussed below is not singled out because of higher confidence in it, but rather because it is an exception to our belief that most large technology companies continue to be fully valued.

### Sun Microsystems (SUNW—\$2.59)

Two years ago, Sun reached a high of \$65, which we thought was silly because that was over 125 times earnings, nearly 30 times book value<sup>8</sup> and 13 times sales. As a leading supplier of servers and workstations, the last two years have been extremely disappointing for Sun's business. However, Sun continues to have a \$12 billion sales base, and their Solaris operating system is unmatched for high-end servers. Today, Sun sells at a slight premium to tangible book value and has net cash of more than half its stock price. Net of its cash, Sun sells at about one-third of sales and less than three times its annual R&D spending. Sun probably won't return to a \$65 price during our lifetime, but that is irrelevant to the investment decision today. At \$2.59, we believe Sun is now selling at less than 60% of business value and, from this level, is likely to achieve above-average returns.

Best wishes,

**William C. Nygren, CFA**  
Portfolio Manager  
[bnygren@oakmark.com](mailto:bnygren@oakmark.com)

**Kevin Grant, CFA**  
Portfolio Manager  
[kgrant@oakmark.com](mailto:kgrant@oakmark.com)

October 3, 2002



# THE OAKMARK FUND

## Schedule of Investments—September 30, 2002

Name	Shares Held	Market Value
<b>Common Stocks—93.5%</b>		
<b>Food &amp; Beverage—6.4%</b>		
General Mills, Inc.	1,755,000	\$ 77,957,100
Kraft Foods Inc.	1,895,000	69,091,700
H.J. Heinz Company	1,910,000	<u>63,736,700</u>
		210,785,500
<b>Household Products—2.4%</b>		
The Clorox Company	1,390,200	\$ 55,858,236
Newell Rubbermaid, Inc.	775,000	<u>23,924,250</u>
		79,782,486
<b>Other Consumer Goods &amp; Services—7.8%</b>		
H&R Block, Inc.	2,453,300	\$ 103,063,133
Fortune Brands, Inc.	1,645,600	77,820,424
Mattel, Inc.	3,216,300	57,925,563
Cendant Corporation (a)	1,895,100	<u>20,391,276</u>
		259,200,396
<b>Broadcasting &amp; Programming—2.5%</b>		
Liberty Media Corporation, Class A (a)	8,201,400	\$ 58,886,052
The Walt Disney Company	1,500,000	<u>22,710,000</u>
		81,596,052
<b>Building Materials &amp; Construction—1.9%</b>		
Masco Corporation	3,133,000	\$ 61,250,150
<b>Cable Systems &amp; Satellite TV—6.2%</b>		
AOL Time Warner Inc. (a)	6,766,600	\$ 79,169,219
General Motors Corporation, Class H (Hughes Electronics Corporation) (a)	5,100,000	46,665,000
EchoStar Communications Corporation (a)	2,475,000	42,817,500
Comcast Corporation (a)	1,800,000	<u>37,548,000</u>
		206,199,719
<b>Hardware—2.1%</b>		
The Black & Decker Corporation	1,622,200	\$ 68,018,846
<b>Marketing Services—1.5%</b>		
The Interpublic Group of Companies, Inc.	3,165,000	\$ 50,165,250
<b>Publishing—3.5%</b>		
Gannett Co., Inc.	884,500	\$ 63,843,210
Knight-Ridder, Inc.	916,000	<u>51,671,560</u>
		115,514,770
<b>Recreation &amp; Entertainment—1.1%</b>		
Carnival Corporation	1,500,000	\$ 37,650,000

# THE OAKMARK FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held	Market Value
<b>Common Stocks—93.5% (cont.)</b>		
<b>Retail—14.3%</b>		
Yum! Brands, Inc (a)	2,439,000	\$ 67,584,690
J.C. Penney Company, Inc.	3,902,900	62,134,168
The Kroger Co. (a)	4,390,000	61,899,000
McDonald's Corporation	3,300,000	58,278,000
Safeway Inc. (a)	2,527,000	56,352,100
The Home Depot, Inc.	2,100,000	54,810,000
CVS Corporation	1,605,000	40,686,750
The Gap, Inc.	3,599,000	39,049,150
Toys 'R' Us, Inc. (a)	3,125,000	31,812,500
		<u>472,606,358</u>
<b>Bank &amp; Thrifts—5.8%</b>		
Washington Mutual, Inc.	3,937,300	\$ 123,906,831
U.S. Bancorp	3,700,000	68,746,000
		<u>192,652,831</u>
<b>Insurance—1.8%</b>		
MGIC Investment Corporation	1,437,900	\$ 58,709,457
<b>Other Financial—2.1%</b>		
Fannie Mae	1,170,000	\$ 69,661,800
<b>Medical Products—2.4%</b>		
Guidant Corporation (a)	2,396,100	\$ 77,417,991
<b>Pharmaceuticals—10.6%</b>		
Bristol-Myers Squibb Company	3,250,000	\$ 77,350,000
Abbott Laboratories	1,850,000	74,740,000
Merck & Co., Inc.	1,600,000	73,136,000
Schering-Plough Corporation	3,225,000	68,757,000
Chiron Corporation (a)	1,622,000	56,672,680
		<u>350,655,680</u>
<b>Telecommunications—1.2%</b>		
Sprint Corporation	4,421,000	\$ 40,319,520
<b>Telecommunications Equipment—0.9%</b>		
Motorola, Inc.	2,975,000	\$ 30,285,500
<b>Computer Services—4.3%</b>		
First Data Corporation	2,400,000	\$ 67,080,000
SunGard Data Systems, Inc. (a)	2,801,600	54,491,120
Electronic Data Systems Corporation	1,501,000	20,983,980
		<u>142,555,100</u>

# THE OAKMARK FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held/ Par Value	Market Value
<b>Common Stocks—93.5% (cont.)</b>		
<b>Computer Systems—0.9%</b>		
Sun Microsystems, Inc. (a)	12,000,000	\$ 31,080,000
<b>Office Equipment—1.1%</b>		
Xerox Corporation (a)	7,427,400	\$ 36,765,630
<b>Aerospace &amp; Defense—2.3%</b>		
Honeywell International, Inc.	1,950,000	\$ 42,237,000
The Boeing Company	1,000,000	<u>34,130,000</u>
		76,367,000
<b>Other Industrial Goods &amp; Services—1.1%</b>		
Illinois Tool Works Inc.	604,200	\$ 35,242,986
<b>Waste Disposal—1.8%</b>		
Waste Management, Inc.	2,574,300	\$ 60,032,676
<b>Oil &amp; Natural Gas—4.2%</b>		
ConocoPhillips	1,635,335	\$ 75,617,890
Burlington Resources Inc.	1,671,100	<u>64,103,396</u>
		139,721,286
<b>Electric Utilities—3.3%</b>		
TXU Corp.	1,565,000	\$ 65,276,150
Duke Energy Corporation	2,220,000	<u>43,401,000</u>
		108,677,150
<b>Total Common Stocks (Cost: \$3,433,430,323)</b>		<b>3,092,914,134</b>
<b>Short Term Investments—6.4%</b>		
<b>U.S. Government Bills—4.8%</b>		
United States Treasury Bills, 1.58% - 1.665% due 10/3/2002 - 11/29/2002	\$160,000,000	\$ 159,873,818
<b>Total U.S. Government Bills (Cost: \$159,870,861)</b>		<b>159,873,818</b>

# THE OAKMARK FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Par Value	Market Value
<b>Short Term Investments—6.4% (cont.)</b>		
<b>Repurchase Agreements—1.6%</b>		
IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$50,002,431 collateralized by U.S. Government Agency Securities	\$50,000,000	\$ 50,000,000
IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$1,886,022 collateralized by a U.S. Government Agency Security	1,885,964	<u>1,885,964</u>
<b>Total Repurchase Agreement (Cost: \$51,885,964)</b>		<b>51,885,964</b>
<b>Total Short Term Investments (Cost: \$211,756,825)</b>		<b>211,759,782</b>
<b>Total Investments (Cost \$3,645,187,148)—99.9%</b>		<b>\$3,304,673,916</b>
<b>Other Assets In Excess Of Other Liabilities—0.1%</b>		<u><b>4,007,917</b></u>
<b>Total Net Assets—100%</b>		<u><u><b>\$3,308,681,833</b></u></u>

(a) Non-income producing security.

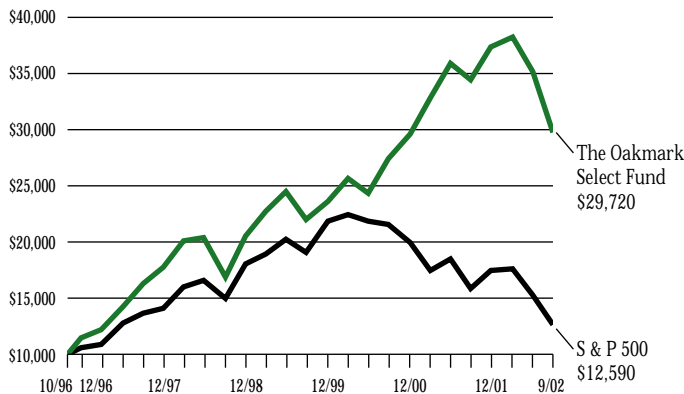
# THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



The Oakmark Select Fund declined by 16% during the quarter and by 14% for the fiscal year. For a little over two years, despite the bear market, we were able to prosper by owning undervalued stocks that were not a part of the bull market's excesses. In fact, the Fund achieved an all-time high NAV<sup>13</sup> in May of this year. Since May, however, the market decline has become very broad-based—all capitalization sizes and all investment styles have been hit by roughly the same amount. We both have personal assets invested in the Fund, so we share the pain that all our investors have experienced these last four months. Although we cannot predict when the bottom will be reached, we strongly believe that prices have declined to levels that make it highly likely that today's long-term investors will earn higher returns in stocks than in other investments.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (9/30/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX<sup>2</sup>



Average Annual Total Returns<sup>4</sup>

Total Return Last 3 Months*	(as of 9/30/02)		
	1-year	5-year	Since Inception (11/1/96)

<b>Oakmark Select Fund</b>	<b>-15.58%</b>	<b>-13.85%</b>	<b>12.70%</b>	<b>20.21%</b>
S&P 500	-17.28%	-20.49%	-1.63%	3.97%
S&P MidCap 400 <sup>11</sup>	-16.55%	-4.70%	5.38%	10.47%
Lipper Mid Cap Value Index <sup>12</sup>	-17.46%	-8.22%	0.38%	5.22%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

In the nearly six years since we started The Oakmark Select Fund, we have owned sixty different stocks, and in three of those we have lost over half of our investment. The most recent, Electronic Data Systems (EDS), shocked the market last month by drastically lowering earnings expectations. No explanation of that miss made sense: either management had not been candid about their prospects or, perhaps worse, didn't have the information flow to know how weak their business was, or despite their large book of long-term contracts, their profitability was more dependent on last-minute, add-on sales than realized. We didn't like any of those answers and began selling our EDS position, despite the stock having fallen from \$36 to \$22. When the stock fell below \$20, we stopped selling. We felt that EDS was suffering artificial pressure from managers who didn't want EDS on their quarter-end statements and from hedge funds that were trying to encourage panic selling. Unfortunately, we had sold less than a quarter of our holdings. Our belief was, and still is, that for a company likely to earn between \$2 and \$3 per share next year, the price should be higher than the low teens. We still have just over 1% of our assets in EDS and will be looking for a better opportunity to sell that position. As unpleasant as these mistakes are, they are included in our long-term performance record, which continues to be excellent both in relative and absolute terms.

Thank you for your support.

**William C. Nygren, CFA**  
Portfolio Manager  
bnygren@oakmark.com

**Henry R. Berghoef, CFA**  
Portfolio Manager  
berghoef@oakmark.com

October 3, 2002

# THE OAKMARK SELECT FUND

## Schedule of Investments—September 30, 2002

Name	Shares Held	Market Value
<b>Common Stocks—92.2%</b>		
<b>Other Consumer Goods &amp; Services—13.1%</b>		
H&R Block, Inc.	7,738,800	\$ 325,106,988
Mattel, Inc.	9,554,000	<u>172,067,540</u>
		497,174,528
<b>Cable Systems &amp; Satellite TV—4.0%</b>		
AOL Time Warner Inc. (a)	13,000,000	\$ 152,100,000
<b>Information Services—9.8%</b>		
Moody's Corporation	3,984,000	\$ 193,224,000
The Dun & Bradstreet Corporation (a)(b)	5,321,300	<u>178,848,893</u>
		372,072,893
<b>Publishing—3.9%</b>		
Knight-Ridder, Inc.	2,606,500	\$ 147,032,665
<b>Retail—16.5%</b>		
Yum! Brands, Inc (a)	7,422,000	\$ 205,663,620
The Kroger Co. (a)	10,362,500	146,111,250
Office Depot, Inc. (a)	11,434,900	141,106,666
Toys 'R' Us, Inc. (a)(b)	12,698,500	<u>129,270,730</u>
		622,152,266
<b>Bank &amp; Thrifts—17.8%</b>		
Washington Mutual, Inc.	21,351,400	\$ 671,928,558
<b>Investment Management—2.9%</b>		
Stilwell Financial Inc	9,030,400	\$ 108,996,928
<b>Health Care Services—4.1%</b>		
IMS Health Incorporated	10,392,000	\$ 155,568,240
<b>Pharmaceuticals—4.4%</b>		
Chiron Corporation (a)	4,811,400	\$ 168,110,316
<b>Telecommunications—3.3%</b>		
Sprint Corporation	13,727,500	\$ 125,194,800
<b>Computer Services—5.3%</b>		
First Data Corporation	5,430,400	\$ 151,779,680
Electronic Data Systems Corporation	3,451,500	<u>48,251,970</u>
		200,031,650
<b>Office Equipment—2.8%</b>		
Xerox Corporation (a)	21,547,700	\$ 106,661,115

# THE OAKMARK SELECT FUND

## Schedule of Investments—September 30, 2002 (cont.)

Name	Shares Held/ Par Value	Market Value
<b>Common Stocks—92.2% (cont.)</b>		
<b>Oil &amp; Natural Gas—4.3%</b>		
Burlington Resources Inc.	4,201,800	\$ 161,181,048
<b>Total Common Stocks (Cost: \$3,372,614,639)</b>		<b>3,488,205,007</b>
<b>Short Term Investments—7.4%</b>		
<b>U.S. Government Bills—4.1%</b>		
United States Treasury Bills, 1.58% - 1.975% due 10/3/2002 - 12/12/2002	\$155,000,000	\$ 154,792,889
<b>Total U.S. Government Bills (Cost: \$154,782,375)</b>		<b>154,792,889</b>
<b>Repurchase Agreements—3.3%</b>		
IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$121,005,882 collateralized by U.S. Government Agency Securities	\$121,000,000	\$ 121,000,000
IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$2,118,317 collateralized by a U.S. Government Agency Security	2,118,252	<u>2,118,252</u>
<b>Total Repurchase Agreement (Cost: \$123,118,252)</b>		<b>123,118,252</b>
<b>Total Short Term Investments (Cost: \$277,900,627)</b>		<b>277,911,141</b>
<b>Total Investments (Cost \$3,650,515,266)—99.6%</b>		<b>\$ 3,766,116,148</b>
<b>Other Assets In Excess Of Other Liabilities—0.4%</b>		<u>15,936,183</u>
<b>Total Net Assets—100%</b>		<b><u><u>\$3,782,052,331</u></u></b>

(a) Non-income producing security.

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

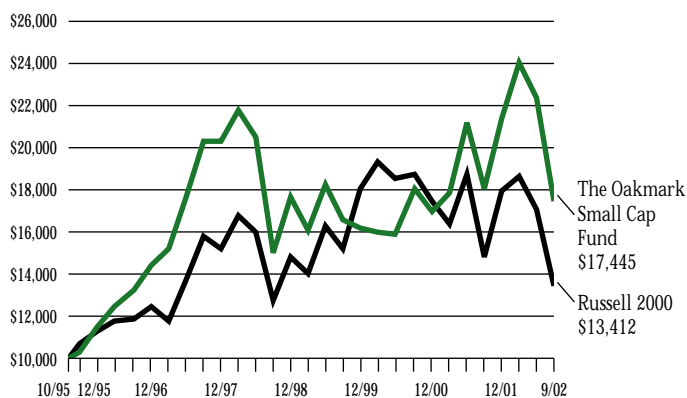


# THE OAKMARK SMALL CAP FUND

Report from James P. Benson and Clyde S. McGregor, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (9/30/02) AS COMPARED TO THE RUSSELL 2000 INDEX<sup>14</sup>



## Average Annual Total Returns<sup>4</sup>

(as of 9/30/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
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<b>Oakmark Small Cap Fund</b>	<b>-22.01%</b>	<b>-3.23%</b>	<b>-3.02%</b>	<b>8.37%</b>
Russell 2000	-21.40%	-9.30%	-3.19%	4.33%
S&P Small Cap 600 <sup>15</sup>	-18.61%	-1.79%	0.82%	8.25%
Lipper Small Cap Value Index <sup>16</sup>	-18.83%	-0.33%	1.36%	8.49%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

The third calendar quarter of 2002 was the worst quarter for U. S. stocks since the fourth quarter of 1987. It is notable that the fourth quarter of 1987 included the October "Black Monday" stock market crash when the market lost over 20% in one day. Thankfully, the just concluded quarter lacked a major one-day catastrophe, but the cumulative pounding of stock prices over the weeks took a severe toll. We wish we could say we avoided this sharp downdraft, but we cannot. For the just concluded quarter, stocks slumped in value as the S&P 500 Index<sup>2</sup> fell by over 17% and the Russell 2000 Small Cap Index declined by more than 21%. Year-to-date the Russell 2000 is down by over 25%. Your Fund experienced a loss roughly in-line with the Russell 2000 of 22% during the last three months, bringing the year-to-date return to a loss of 18%. While we can report that our results thus far in 2002 are about 7% better vis-a-vis the Russell 2000, our absolute returns have been disappointing.

## The Recent Past

Uncertainty concerning economic activity, terrorism, a possible war and corporate governance has, we believe, had a negative impact on stocks over the past six months. Successful investing, however, has always revolved around seeing opportunities and accessing risks well ahead of the crowd. Examining past periods when equity prices declined sharply provides investors a few key guideposts for the future. In most cases in the post World War II economy, a sharp drop in equity prices was followed in fairly short order by a significant rebound in prices as the economic picture brightened and investor psychology improved. There are only two examples over this time period when stocks entered an extended period of sluggish performance, the mid-1970's to the early 1980's and the past two and one-half years.

The 1973-1982 period was characterized by high inflation, a lack of productivity, high interest rates and stock prices that moved generally sideways for almost a decade. Almost none of these characteristics are present in today's economy, thus we do not believe this historical example is applicable to today's stock market. The other extended period of poor equity performance has been over the past two and one-half years. During this period, the NASDAQ Composite Index<sup>3</sup> has declined by over 75% from its peak led by price declines in telecom and technology companies. Most other broad-based indices are also down over this period, although by lesser amounts, as excesses in valuations got squeezed out of stock prices. Despite the strong headwind created by generally declining stock prices since March 2000, your Fund has achieved a total return of approximately 15% from its mid-March 2000 level.

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### Highlights

- Earnings-to-price yield is an especially interesting valuation measure—and way to compare stock prices to other investments—in a low inflation, low interest-rate environment.
- Many of our stocks trade at less than ten times estimated earnings and have an expected earnings yield of over 10%.
- We believe return expectations are now very positive based on the positive earnings yield differential between stocks and treasuries.

### Looking Forward

The ability to exceed the returns posted by the overall stock market over an extended period of time is usually based on sound analytical work in estimating the value of any asset and comparing that asset's expected investment return to other investment choices. While no investment process that we are aware of generates a perfect track record, we work diligently to uncover stocks that are undervalued relative to their private market value. One key measure of comparing stock prices to other classes of investments is a company's earnings yield. Many investors are familiar with price-to-earnings ratios and the earnings yield of a company is simply the inverse of the P/E ratio. We think the earnings-to-price yield is an especially interesting valuation measure in a low inflation and low interest rate environment.

The earnings yield measure is conceptually easier to think about in the context of owning an entire company. If an investor purchases a company for \$100 million and that company generates \$12 million in after-tax profits, the investor paid 8.3 times earnings (the P/E) and is enjoying a 12% yield on his/her \$100 million investment. This 12% yield looks very attractive in an environment where fixed-income investment alternatives like 10-year Treasury Notes yield less than 4%. Since shares of stock simply represent a percentage ownership in a company, the earnings yield calculation can easily be applied to publicly traded stocks. In addition to looking at earnings, our analysts focus on the ability of the companies we invest in to generate free cash flow which we believe provides us with incremental insight as to what a stock is worth.

In retrospect, in early 2000 the 10-year Treasury Note yielded over 6% while many stocks had earnings yields of less than 3%. Today, many of the stocks in your Fund trade at less than ten times estimated earnings and thus have an

expected earnings yield of over 10%. We believe the return expectations for stocks are now very positive based upon the positive earnings yield differential between many stocks and fixed-income Treasury securities. Therefore, we remain optimistic on the long-term future of small cap equities.

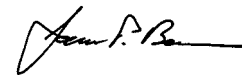
### Portfolio Update

During the past quarter we deleted two stocks from your Fund's portfolio while we added no new names. The two companies we sold were Covance Inc. and Silverstream Software. Covance had been a strong performer for the Fund for a couple of years and we elected to liquidate this position principally due to its valuation relative to many other stocks in the portfolio. Covance was one of our lowest earnings yield stocks and we wanted to redeploy the capital invested in Covance into other stocks that we believe represent better values. The other stock we exited during the quarter was Silverstream Software. This company was purchased in an all cash transaction that closed during the third quarter of 2002.

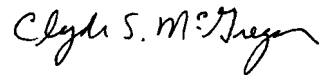
Within the portfolio we actively trimmed some positions while adding to others to better position the Fund for the future. We were able to take advantage of the overall decline in equity prices to add to our positions in Insituform Technologies, Surebeam Corp. and Tupperware Corp. Insituform, a leading provider of sewer replacement services to local governments, appears to be well positioned to benefit from a replacement/upgrade cycle in municipal sewer systems. We believe Surebeam, with its patented food irradiation process, is just beginning to see large numbers of customers embrace its solutions to prevent food borne illnesses such as e. coli and salmonella. Lastly, we added to Tupperware based upon its strong consumer brand name, expanding distribution channels, attractive valuation and high dividend yield.

### Conclusion

We would like to thank our shareholders for your ongoing interest in and your support of The Oakmark Small Cap Fund. Additionally, we look forward to communicating with you over the next several years.



**James P. Benson, CFA**  
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**Clyde S. McGregor, CFA**  
Portfolio Manager  
mcgregor@oakmark.com

October 1, 2002

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—September 30, 2002

Name	Shares Held	Market Value
<b>Common Stocks—96.7%</b>		
<b>Food &amp; Beverage—6.3%</b>		
Ralcorp Holdings, Inc. (a)	579,000	\$ 12,315,330
Del Monte Foods Company (a)	1,230,000	<u>10,049,100</u>
		22,364,430
<b>Household Products—3.9%</b>		
Tupperware Corporation	850,000	\$ 14,127,000
<b>Other Consumer Goods &amp; Services—5.1%</b>		
Department 56, Inc. (a)(b)	760,000	\$ 7,942,000
Callaway Golf Company	500,000	5,200,000
Central Parking Corporation	250,000	<u>5,035,000</u>
		18,177,000
<b>Security Systems—3.4%</b>		
Checkpoint Systems, Inc. (a)	1,000,000	\$ 12,350,000
<b>Apparel—3.2%</b>		
Oakley, Inc. (a)	750,000	\$ 7,537,500
R.G. Barry Corporation (a)(b)	900,000	<u>3,744,000</u>
		11,281,500
<b>Automobile Rentals—1.5%</b>		
Dollar Thrifty Automotive Group, Inc. (a)	325,000	\$ 5,216,250
<b>Building Materials &amp; Construction—3.0%</b>		
Insituform Technologies, Inc., Class A (a)	750,000	\$ 10,762,500
<b>Educational Services—2.7%</b>		
ITT Educational Services, Inc. (a)	509,500	\$ 9,563,315
<b>Hotels &amp; Motels—1.9%</b>		
Prime Hospitality Corp. (a)	810,000	\$ 6,642,000
<b>Information Services—3.5%</b>		
eFunds Corporation (a)	1,327,600	\$ 12,454,216
<b>Marketing Services—0.2%</b>		
Grey Global Group Inc.	1,000	\$ 590,000
<b>Retail—3.9%</b>		
ShopKo Stores, Inc. (a)	740,000	\$ 9,664,400
Pathmark Stores Inc (a)	471,500	<u>4,314,225</u>
		13,978,625

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held	Market Value
<b>Common Stocks—96.7% (cont.)</b>		
<b>Bank &amp; Thrifts—5.9%</b>		
BankAtlantic Bancorp, Inc., Class A	1,000,000	\$ 8,980,000
People's Bank of Bridgeport, Connecticut	360,000	8,074,800
PennFed Financial Services, Inc.	150,000	<u>4,123,500</u>
		21,178,300
<b>Insurance—3.0%</b>		
The PMI Group, Inc.	400,000	\$ 10,884,000
<b>Other Financial—1.9%</b>		
NCO Group, Inc. (a)	600,000	\$ 6,882,000
<b>Real Estate—4.7%</b>		
Catellus Development Corporation (a)	650,000	\$ 11,992,500
Trammell Crow Company (a)	495,000	<u>4,880,700</u>
		16,873,200
<b>Medical Products—7.4%</b>		
Hanger Orthopedic Group, Inc. (a)	960,000	\$ 15,264,000
CONMED Corporation (a)	350,000	7,052,500
Sybron Dental Specialties, Inc. (a)	300,000	<u>4,197,000</u>
		26,513,500
<b>Pharmaceuticals—3.4%</b>		
Pharmaceutical Resources Inc (a)	424,300	\$ 11,871,914
Elan Corporation plc (a)(c)	115,000	<u>221,950</u>
		12,093,864
<b>Computer Services—3.3%</b>		
CIBER, Inc. (a)	1,805,000	\$ 10,487,050
Interland, Inc. (a)	600,000	<u>1,230,000</u>
		11,717,050
<b>Computer Software—6.7%</b>		
Sybase Inc (a)	1,000,000	\$ 11,620,000
MSC.Software Corp. (a)	1,100,000	9,372,000
Mentor Graphics Corporation (a)	587,000	<u>2,864,560</u>
		23,856,560
<b>Computer Systems—1.6%</b>		
Optimal Robotics Corp., Class A (a)(b)(d)	763,500	\$ 5,833,140
<b>Data Storage—2.0%</b>		
Imation Corp. (a)	250,000	\$ 7,082,500

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held	Market Value
<b>Common Stocks—96.7% (cont.)</b>		
<b>Office Equipment—3.7%</b>		
InFocus Corporation (a)	1,000,000	\$ 7,620,000
MCSi, Inc. (a)	1,125,000	<u>5,568,750</u>
		13,188,750
<b>Instruments—2.3%</b>		
IDEXX Laboratories, Inc. (a)	255,000	\$ 7,891,740
Measurement Specialties, Inc. (a)(e)	550,000	<u>412,500</u>
		8,304,240
<b>Machinery &amp; Industrial Processing—2.1%</b>		
SureBeam Corporation, Class A (a)	3,100,000	\$ 5,580,000
Columbus McKinnon Corporation (a)	365,000	<u>1,919,900</u>
		7,499,900
<b>Other Industrial Goods &amp; Services—0.7%</b>		
Integrated Electrical Services, Inc. (a)	650,000	\$ 2,431,000
<b>Transportation Services—1.6%</b>		
Teekay Shipping Corporation (d)	203,400	\$ 5,796,900
<b>Chemicals—2.8%</b>		
Sensient Technologies Corporation	292,800	\$ 6,186,864
H.B. Fuller Company	140,000	<u>3,724,000</u>
		9,910,864
<b>Oil &amp; Natural Gas—5.0%</b>		
St. Mary Land & Exploration Company	350,000	\$ 8,365,000
Cabot Oil & Gas Corporation	250,000	5,375,000
Berry Petroleum Company	250,000	<u>4,247,500</u>
		17,987,500
<b>Total Common Stocks (Cost: \$404,024,443)</b>		<b>345,540,104</b>

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Par Value	Market Value
<b>Short Term Investments—3.3%</b>		
<b>Repurchase Agreements—3.3%</b>		
IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$10,000,486 collateralized by U.S. Government Agency Securities	\$10,000,000	\$ 10,000,000
IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$1,896,864 collateralized by a U.S. Government Agency Security	1,896,806	<u>1,896,806</u>
<b>Total Repurchase Agreement (Cost: \$11,896,806)</b>		<b>11,896,806</b>
<b>Total Short Term Investments (Cost: \$11,896,806)</b>		<b>11,896,806</b>
<b>Total Investments (Cost \$415,921,249)—100.0%</b>		<b>\$ 357,436,910</b>
<b>Other Liabilities In Excess Of Other Assets—0.0%</b>		<u>(42,821)</u>
<b>Total Net Assets—100%</b>		<b><u>\$357,394,089</u></b>

- (a) Non-income producing security.
- (b) See footnote number five in the Notes to Financial Statements regarding transactions in affiliated issuers.
- (c) Represents an American Depository Receipt.
- (d) Represents a foreign domiciled corporation.
- (e) Security valued at a fair value as determined by the Pricing Committee appointed by the Board of Trustees.

# THE OAKMARK EQUITY AND INCOME FUND

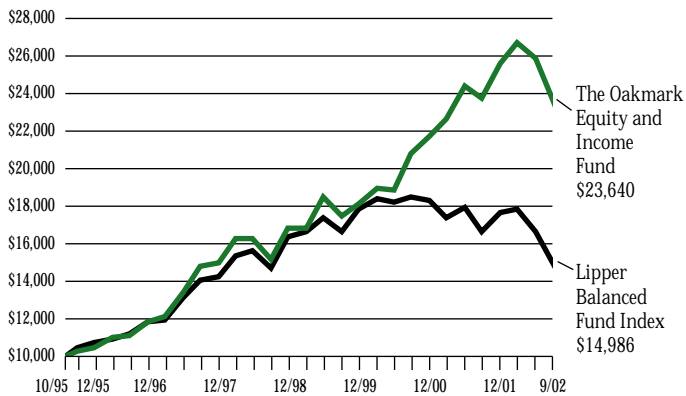
Report from Clyde S. McGregor and Edward A. Studzinski, Portfolio Managers



## Quarter and Annual Review

What is it about summer, anyway? In the entire 27-quarter history of The Oakmark Equity and Income Fund only six quarters have suffered negative results. Four of those six were summer quarters. The recently completed quarter saw the Fund's price decrease by 9%, which contrasts with a loss of 10% for the Lipper Balanced Fund Index. For the fiscal 9/30 year the comparative results are stronger though still negative: -1% for the Fund, -10% for the Lipper. The Lipper Balanced Fund Index may be our standard of comparison, but it is not our benchmark. Our true focus is on how much money the Fund has earned for its shareholders. Others may be in the business of besting an index. We are in the business of earning positive returns for our clients. Period. We know that our clients can live off positive returns that may be uninteresting when times are good. We also know that they cannot live off negative returns even when those returns are relatively superior.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (9/30/02) AS COMPARED TO THE LIPPER BALANCED FUND INDEX<sup>17</sup>



## Average Annual Total Returns<sup>4</sup>

(as of 9/30/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
--	-----------------------------	--------	--------	---------------------------

<b>Oakmark Equity and Income Fund</b>	<b>-8.57%</b>	<b>-0.47%</b>	<b>9.80%</b>	<b>13.24%</b>
S&P 500 <sup>2</sup>	-17.28%	-20.49%	-1.63%	6.66%
Lehman Govt./Corp. Bond <sup>18</sup>	5.70%	9.21%	7.92%	7.53%
Lipper Balanced Fund Index	-9.87%	-9.83%	1.34%	6.02%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

## Issues du jour

Hopefully the summer quarter's pains will produce some positive, if unintended, consequences. For example, we fervently hope that the word "visibility" has been expunged from the lexicon of Wall Street analysts. We regularly come across analyst reports expressing wariness towards a particular company because of insufficient visibility concerning future earnings. If the last two years have not discredited the idea that future corporate outcomes may be precisely forecasted, we do not know what will. This explains why our focus on valuation is so important. While any valuation of a business implicitly assumes that there will, in fact, be a future, our valuation methodologies attempt to minimize the importance of positive future developments. We often speak of "obtaining the future for free." Catellus Development, the real estate company, is a good example of this way of seeing. When we purchased Catellus, we knew that management was in the process of obtaining permits to develop Mission Bay, the first significant new real estate project in the city of San Francisco in over fifty years. We were able to pay a price for the company that did not reflect any positive impact from Mission Bay.

We would also like to reframe the debate over incentive stock options by moving the focus from accounting to aligning. At Harris Associates we have always articulated a belief that corporate management teams should have their interests aligned with their shareholders. In the 1980's we saw options programs as one means to that end. Some of the excesses that we observed in the 1990's changed our minds.



In the last few years management teams have come to regard their options program as an extension of their annual compensation. "Evergreen" options programs are a particularly troublesome illustration of this tendency. When options vest in this system, management exercises the options and sells the new shares immediately. The company's board of directors then "reloads" management with new options so that the incentive element is reestablished.

Today the weakened condition of the stock market and the renewed focus on corporate governance combine to make it possible to return options to their proper role. In our opinion, cash should be the dominant form of compensation. For the purpose of aligning interests, boards should require management to own meaningful equity in their company. Options may be a means to that end if they have long-term vesting and long term holding periods. This would have the effect of reducing management's attention to short term outcomes and focusing efforts on productive deployment of capital. We do not expect to see changes of this sort anytime soon, but we will be studying options programs ever more carefully. Management teams of companies in which we invest have been given control over capital that you, our shareholders, have worked hard to accumulate. It is their responsibility to treat this capital with respect.

### Profitless Prosperity

By now it is generally accepted that many sectors of the US economy experienced growth in the late 1990's that was both far above trend and unsustainable. Unfortunately, boom/bust cycles are a recurring feature in our economy. The basic pattern is that new technology promotes optimism, draws inordinate capital investment to the favored sector, and finally collapses that sector under the weight of excessive competition. For example, in early 1983 extreme optimism enabled more than 60 manufacturers of computer storage devices to go public. The flood of capital into this industry quickly resulted in destructive competition and the rapid evaporation of business values. A similar cycle ensued in the early 1990's for manufacturers of personal computers.

More recently, the puncturing of the late 1990's bubble had obvious first level effects such as the disappearance of the "dotcoms." Next to suffer was the telecommunications industry. It is now clear, however, that the boom's impact was much more widespread than first thought. Industries as diverse as retailing and electric utilities now labor under excess capacity conditions. An example more relevant to The Equity and Income Fund has been the effect on portfolio holding GATX. Improved computer systems have helped the railroad industry reduce the time it takes to move a carload across the country. This greater efficiency in the management of the rail fleet means that GATX, a

### Highlights

- Our valuation methodologies attempt to minimize the importance of future developments—we are looking to "obtain the future for free".
- The apparent prosperity of 2002—an environment with low inflation and low interest rates—has been without profit. Our response is to orient the fund to issues with strong balance sheets.
- A weakened stock market and renewed focus on corporate governance make it possible to return stock options to their proper role.

leasing company, has more railroad equipment than it can profitably employ at present. This pattern has spread throughout much of the economy: excess supply leads to lower pricing and then decreased return on investment.

Imagine one year ago we had known that the government would be reporting solid economic growth for 2002 together with low inflation and very low interest rates. With that knowledge we would probably have forecast that the stock market would be enjoying a strong year. But as it has turned out, this apparent prosperity has been without profit and replete with corporate distress. Our tactical response to this environment has been to orient The Equity and Income Fund portfolio to issues with the strongest balance sheets. In particular, we have searched for undervalued issues with no debt and substantial cash positions. In deflationary times, debt is economically disadvantageous. Because we do not know whether the future will bring inflation or deflation, we have built a portfolio that has the potential to succeed in either environment.

In closing, we once again thank you, our shareholders, for entrusting us with the management of your capital.



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October 1, 2002

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002

Name	Shares Held	Market Value
<b>Equity and Equivalent—53.2%</b>		
<b>Common Stocks—52.5%</b>		
<b>Food &amp; Beverage—0.5%</b>		
UST Inc.	400,000	\$ 11,284,000
<b>Broadcasting &amp; Publishing—0.7%</b>		
Gemstar-TV Guide International Inc. (b)	7,000,000	\$ 17,640,000
<b>Cable Systems &amp; Satellite TV—0.8%</b>		
General Motors Corporation, Class H (Hughes Electronics Corporation) (a)	2,000,000	\$ 18,300,000
<b>Information Services—2.4%</b>		
Ceridian Corporation (a)	3,900,000	\$ 55,575,000
<b>Marketing Services—0.5%</b>		
The Interpublic Group of Companies, Inc.	800,000	\$ 12,680,000
<b>Printing—0.2%</b>		
Valassis Communications, Inc. (a)	150,000	\$ 5,260,500
<b>Recreation &amp; Entertainment—1.0%</b>		
International Game Technology (a)	345,000	\$ 23,853,300
<b>Retail—4.1%</b>		
J.C. Penney Company, Inc.	2,200,000	\$ 35,024,000
Albertson's, Inc.	1,200,000	28,992,000
BJ's Wholesale Club, Inc. (a)	1,100,000	20,911,000
Office Depot, Inc. (a)	980,000	12,093,200
		97,020,200
<b>Insurance—3.6%</b>		
SAFECO Corporation	2,200,000	\$ 69,916,000
PartnerRe, Ltd. (c)	200,000	9,636,000
RenaissanceRe Holdings Ltd.	174,700	6,601,913
		86,153,913
<b>Other Financial—0.5%</b>		
GATX Corporation	600,000	\$ 11,880,000
<b>Real Estate—2.0%</b>		
Catellus Development Corporation (a)	1,881,500	\$ 34,713,675
Hospitality Properties Trust	200,000	6,624,000
Legacy Hotels Real Estate Investment Trust (c)	1,125,000	5,909,851
		47,247,526

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held	Market Value
<b>Equity and Equivalents—53.2% (cont.)</b>		
<b>Health Care Services—2.0%</b>		
IMS Health Incorporated	2,300,000	\$ 34,431,000
Caremark Rx, Inc. (a)	750,000	<u>12,750,000</u>
		47,181,000
<b>Managed Care Services—2.3%</b>		
First Health Group Corp. (a)	2,000,000	\$ 54,240,000
<b>Medical Products—4.9%</b>		
Guidant Corporation (a)	1,855,000	\$ 59,935,050
Apogent Technologies Inc. (a)	1,750,000	32,655,000
Techne Corporation (a)	525,000	17,214,750
Edwards Lifesciences Corporation (a)	275,000	<u>7,037,250</u>
		116,842,050
<b>Pharmaceuticals—4.3%</b>		
Watson Pharmaceuticals, Inc. (a)	2,100,000	\$ 51,471,000
Bristol-Myers Squibb Company	2,000,000	47,600,000
Chiron Corporation (a)	41,800	<u>1,460,492</u>
		100,531,492
<b>Telecommunications—0.1%</b>		
CenturyTel, Inc.	159,800	\$ 3,584,314
<b>Computer Software—3.6%</b>		
Synopsys, Inc. (a)	1,485,000	\$ 56,652,750
Novell, Inc. (a)	8,000,000	16,800,000
Mentor Graphics Corporation (a)	2,300,000	<u>11,224,000</u>
		84,676,750
<b>Computer Systems—1.1%</b>		
The Reynolds and Reynolds Company, Class A	1,164,000	\$ 26,120,160
<b>Aerospace &amp; Defense—3.5%</b>		
Rockwell Collins, Inc.	1,863,800	\$ 40,891,772
Honeywell International, Inc.	1,875,000	<u>40,612,500</u>
		81,504,272
<b>Agricultural Equipment—0.1%</b>		
Alamo Group Inc.	141,900	\$ 1,753,884
<b>Instruments—1.9%</b>		
Varian Inc. (a)	1,599,400	\$ 44,159,434
<b>Machinery &amp; Industrial Processing—2.5%</b>		
Rockwell Automation International Corporation	1,964,500	\$ 31,962,415
Cooper Industries, Ltd.	880,700	<u>26,729,245</u>
		58,691,660

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Shares Held/ Par Value	Market Value
<b>Equity and Equivalents—53.2% (cont.)</b>		
<b>Transportation Services—0.1%</b>		
Nordic American Tanker Shipping Limited (c)	154,900	\$ 1,645,038
<b>Agricultural Operations—1.8%</b>		
Monsanto Company	2,800,000	\$ 42,812,000
<b>Forestry Products—1.7%</b>		
Plum Creek Timber Company, Inc.	1,809,644	\$ 40,916,051
<b>Oil &amp; Natural Gas—6.3%</b>		
Burlington Resources Inc.	2,000,000	\$ 76,720,000
XTO Energy, Inc.	1,528,000	31,492,080
St. Mary Land & Exploration Company	1,030,000	24,617,000
Cabot Oil & Gas Corporation	750,000	16,125,000
		148,954,080
Total Common Stocks (Cost: \$1,385,836,462)		1,240,506,624
<b>Convertible Bonds—0.7%</b>		
<b>Cable Systems &amp; Satellite TV—0.5%</b>		
EchoStar Communications Corporation, 4.875% due 1/1/2007	\$ 15,000,000	\$ 11,343,750
<b>Pharmaceuticals—0.2%</b>		
Sepracor Inc., 7.00% due 12/15/2005	\$ 7,285,000	\$ 4,498,487
Total Convertible Bonds (Cost: \$17,579,387)		15,842,237
Total Equity And Equivalents (Cost: \$1,403,415,849)		1,256,348,861
<b>Fixed Income—40.2%</b>		
<b>Preferred Stocks—0.1%</b>		
<b>Bank &amp; Thrifts—0.1%</b>		
BBC Capital Trust I, Preferred, 9.50%	48,000	\$ 1,200,480
Pennfed Capital Trust, Preferred, 8.90%	27,500	694,375
Fidelity Capital Trust I, Preferred, 8.375%	43,500	437,175
		2,332,030
<b>Telecommunications—0.0%</b>		
MediaOne Finance Trust III, Preferred, 9.04%	20,000	\$ 470,000
Total Preferred Stocks (Cost: \$2,715,763)		2,802,030

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Par Value	Market Value
<b>Fixed Income—40.2% (cont.)</b>		
<b>Corporate Bonds—1.8%</b>		
<b>Broadcasting &amp; Programming—0.5%</b>		
Liberty Media Corporation, 8.25% due 2/1/2030, Debenture	\$ 12,900,000	\$ 12,740,453
<b>Building Materials &amp; Construction—0.0%</b>		
Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note	\$ 750,000	\$ 768,750
<b>Cable Systems &amp; Satellite TV—0.1%</b>		
CSC Holdings Inc., 7.875% due 12/15/2007	\$ 3,000,000	\$ 2,475,000
<b>Hotels &amp; Motels—0.3%</b>		
HMH Properties, 7.875% due 8/1/2005, Senior Note Series A	\$ 3,450,000	\$ 3,329,250
Park Place Entertainment, 7.00% due 7/15/2004, Senior Notes	2,750,000	<u>2,778,212</u>
		6,107,462
<b>Retail—0.5%</b>		
The Gap, Inc., 6.90% due 9/15/2007	\$ 9,187,000	\$ 8,084,560
Rite Aid Corporation, 7.625% due 4/15/2005, Senior Notes	4,900,000	3,626,000
Ugly Duckling Corporation, 12.00% due 10/23/2003, Subordinated Debenture	650,000	<u>585,000</u>
		12,295,560
<b>Medical Products—0.3%</b>		
CONMED Corporation, 9.00% due 3/15/2008	\$ 5,610,000	\$ 5,666,100
<b>Machinery &amp; Industrial Processing—0.1%</b>		
Columbus McKinnon Corporation New York, 8.50% due 4/1/2008	\$ 3,000,000	\$ 2,490,000
<b>Electric Utilities—0.0%</b>		
Midland Funding Corporation, 11.75% due 7/23/2005	\$ 500,000	\$ 506,250
Total Corporate Bonds (Cost: \$43,397,142)		43,049,575

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Par Value	Market Value
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### Government and Agency Securities—38.3%

#### U.S. Government Notes—37.9%

United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed	\$156,864,600	\$ 170,859,903
United States Treasury Notes, 3.375% due 1/15/2012, Inflation Indexed	141,993,600	157,058,269
United States Treasury Notes, 5.75% due 11/15/2005	100,000,000	111,070,300
United States Treasury Notes, 4.75% due 11/15/2008	100,000,000	109,824,200
United States Treasury Notes, 3.50% due 11/15/2006	100,000,000	104,250,000
United States Treasury Notes, 3.00% due 11/30/2003	75,000,000	76,315,425
United States Treasury Notes, 7.875% due 11/15/2004	25,000,000	28,171,875
United States Treasury Notes, 5.00% due 8/15/2011	25,000,000	27,764,650
United States Treasury Notes, 5.25% due 5/15/2004	25,000,000	26,454,100
United States Treasury Notes, 2.875% due 6/30/2004	25,000,000	25,522,450
United States Treasury Notes, 3.00% due 2/29/2004	25,000,000	25,500,000
United States Treasury Notes, 3.00% due 1/31/2004	25,000,000	25,475,575
United States Treasury Notes, 7.25% due 8/15/2004	5,000,000	5,514,060
		893,780,807

#### U.S. Government Agencies—0.4%

Fannie Mae, 3.875% due 9/7/2004	\$ 5,000,000	\$ 5,045,315
Federal Home Loan Bank, 5.10% due 12/26/2006	2,035,000	2,108,769
Fannie Mae, Principal Only, Zero Coupon, due 10/3/2011	1,065,000	1,066,354
Federal Home Loan Bank, 3.875% due 12/15/2004	1,000,000	1,038,045
		9,258,483

Total Government and Agency Securities (Cost: \$861,911,517) 903,039,290

Total Fixed Income (Cost: \$908,024,422) 948,890,895

### Short Term Investments—5.7%

#### U.S. Government Bills—3.2%

United States Treasury Bills, 1.55% - 1.62% due 10/10/2002 - 10/31/2002	\$ 75,000,000	\$ 74,944,321
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Total U.S. Government Bills (Cost: \$74,944,321) 74,944,321

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Par Value/ Shares Subject to Call	Market Value
<b>Short Term Investments—5.7% (cont.)</b>		
<b>Repurchase Agreements—2.5%</b>		
IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$58,002,819 collateralized by U.S. Government Agency Securities	\$ 58,000,000	\$ 58,000,000
IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$1,636,138 collateralized by a U.S. Government Agency Security	1,636,088	<u>1,636,088</u>
Total Repurchase Agreement (Cost: \$59,636,088)		59,636,088
Total Short Term Investments (Cost: \$134,580,409)		134,580,409
Total Investments (Cost \$2,446,020,680)—99.1%		\$2,339,820,165

## Call Options Written—0.0%

<b>Broadcasting &amp; Publishing—0.0%</b>		
Gemstar-TV Guide International Inc., November 7.50 Calls	(1,019,000)	\$ (50,950)
Total Call Options Written (Premiums Received: \$(638,100))—0.0%		(50,950)
Other Assets In Excess Of Other Liabilities—0.9%		<u>\$ 20,817,788</u>
Total Net Assets—100%		<u><u>\$2,360,587,003</u></u>

- (a) Non-income producing security.
- (b) A portion of this security has been segregated to cover written option contracts. See footnote number one in the Notes to Financial Statements regarding accounting for options.
- (c) Represents a foreign domiciled corporation.



# THE OAKMARK GLOBAL FUND

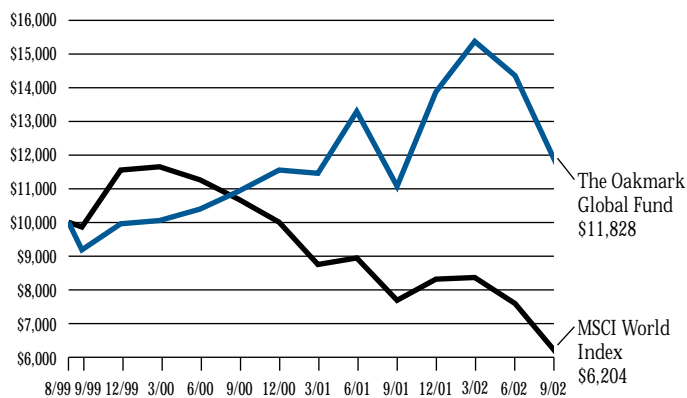
Report from Gregory L. Jackson and Michael J. Welsh, Portfolio Managers



## Fellow Shareholders,

The Oakmark Global Fund declined 18% for the three-month period ending September 30, 2002. This quarter's results are in-line with the 18% decline for the MSCI World Index and the 18% decline for the Lipper Global Fund Index. For the twelve-month period ending September 30, 2002, The Oakmark Global Fund increased 7%, which compares favorably versus the declines of 19% and 16% for the MSCI World Index and the Lipper Global Fund Index respectively. Our number one goal is to generate positive absolute returns, while hopefully outperforming the relative benchmarks in the process. We are happy to report that for the fiscal year ending September 30, 2002, The Oakmark Global Fund succeeded in achieving both objectives.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (9/30/02) AS COMPARED TO THE MSCI WORLD INDEX<sup>19</sup>



## Average Annual Total Returns<sup>4</sup>

	(as of 9/30/02)		
	Total Return Last 3 Months*	1-year	Since Inception (8/4/99)
<b>Oakmark Global Fund</b>	<b>-17.70%</b>	<b>6.84%</b>	<b>5.46%</b> <sup>6</sup>
MSCI World	-18.38%	-19.18%	-13.98%
Lipper Global Fund Index <sup>20</sup>	-17.53%	-15.89%	-9.80%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

## Value Philosophy Remains Unchanged

While investor sentiment continually shifts from optimism to pessimism or from a growth orientation to a value bent, our investing philosophy remains unchanged. Our value philosophy remains paramount to our past and future investment success. As a refresher, the three primary tenets of our value investment philosophy are: 1) To buy businesses that are trading for no more than 70% of our appraised value—offering a margin of safety between what we pay and what we calculate to be the company's underlying intrinsic value. 2) To buy companies that are growing per share value—buying statistically cheap businesses that don't grow has been a deathtrap for many value investors. 3) To invest with management teams that think and act like shareowners—when management's incentives are directly linked to increasing shareholder returns, both parties benefit. It makes no difference to us whether a company is categorized as being a "growth" or "value" business—we are agnostic when it comes to the types of businesses we own. What is important to us is that each company we buy adheres to our three primary investment tenets (our philosophy).

The Oakmark Global Fund has two distinguishing characteristics that differentiate it from other funds of The Oakmark Family: 1) The Global Fund is not limited to investing in any one country or geographic region, but rather we are able to invest anywhere in the world that we find attractive ideas, and 2) we can invest in companies of all sizes—small, mid, or large capitalization companies. In prior reports we have highlighted the benefits of being able to invest globally (point #1) and would now like to discuss the benefits of investing in companies of all sizes (point #2).

While we never target a specific “size” company, our research process often times leads us to companies or industries that are out of favor or which have declined significantly in price. It is important to note that the companies in our portfolio are selected individually on a company by company basis. In other words, we employ a bottom-up investment approach. Often times we find that companies in the same industry or market capitalization range become attractive at similar time intervals. Therefore, our portfolio may at times appear to be weighted towards a particular size company or a particular industry. For example, in late 1999 and early 2000 Morningstar positioned The Oakmark Global Fund in the small-cap value category based upon their proprietary style boxes. During late 1999 and early 2000, we found that most investors focused on large-cap growth companies and seemed to ignore many of the small to mid-size companies such as ITT Educational Services, Nova Corporation, Sterling Commerce, Hite Brewery, Telemig Celular and Denny’s Japan. It just so happens that the Russell 2000 Value Index (a small cap value index) was the number one performing Russell category, returning an aggregate 55.8%, from October 1, 1999 through March 31, 2002. Therefore, targeting the out of favor small and midsize capitalization companies during late 1999 and early 2000 positioned the Fund towards the number one performing category over that two and one-half year time frame.

Today, Morningstar positions The Oakmark Global Fund in the large-cap growth category based upon their proprietary style boxes. Has our investment approach changed? Definitely not! Rather, the once high-flying large capitalization growth companies of 1999 and early 2000 have seen severe share price declines, which now make them attractive investments based upon our three primary investment tenets. Our holdings today include Vivendi Universal, LM Ericsson, Grupo Televisa, GlaxoSmithKline, Liberty Media, Abbott Labs, First Data Corporation and Interpublic Group. Generally speaking, value investors are usually not given the opportunity to own such high quality, fast-growing businesses as those listed above because of the higher valuation levels typically afforded these companies. However, the recent worldwide stock market decline has given us a chance to own what historically have been labeled

### Highlights

- We are indifferent to whether a company is categorized as “growth” or “value”—as long as a business meets our three investment criteria.
- While we never target a specific “size” company, our process often leads us to out-of-favor companies or industries with significant price declines.
- Recent worldwide stock market declines have given us a chance to own former large-cap “growth” businesses at very attractive prices.

“growth” businesses at very attractive prices. Given the valuation levels of the large capitalization companies currently held in the portfolio, we believe the Fund is well-positioned as the economy and stock markets recover in the future.

Our investment philosophy, based upon our three primary tenets, will always be the driving force behind all our investment decisions. As you can see by the examples above, having the ability to own companies of any size and in any geography allows The Oakmark Global Fund the flexibility to move wherever the best ideas are found—we go wherever value leads us. Given the attractive prices and the quality level of the businesses currently held in the portfolio, we remain quite excited about the future prospects for The Oakmark Global Fund.

Thank you for your continued confidence and support.



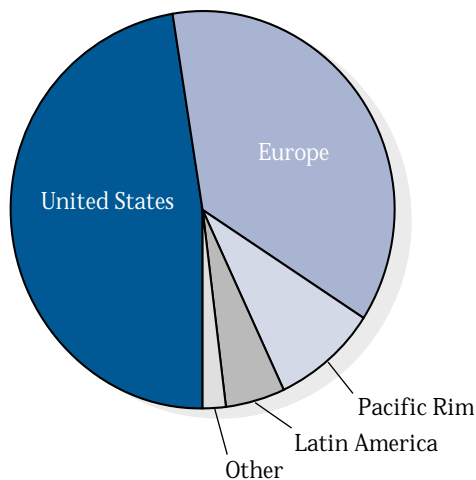
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**Michael J. Welsh, CFA, CPA**  
Portfolio Manager  
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# THE OAKMARK GLOBAL FUND

Global Diversification—September 30, 2002



	% of Fund Net Assets		% of Fund Net Assets
 <b>United States</b>	<b>45.7%</b>	 <b>Pacific Rim</b>	<b>8.5%</b>
		Japan	4.9%
 <b>Europe</b>	<b>35.4%</b>	Australia	2.0%
Great Britain	10.0%	Korea	1.6%
* France	6.3%	 <b>Latin America</b>	<b>4.7%</b>
* Italy	5.7%	Mexico	4.7%
* Netherlands	4.3%	 <b>Other</b>	<b>1.9%</b>
* Germany	3.7%	Israel	1.9%
Sweden	3.1%		
Switzerland	2.3%		

\* Euro currency countries comprise 20.0% of the Fund.

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—September 30, 2002

Name	Description	Shares Held	Market Value
<b>Common Stocks—96.2%</b>			
<b>Food &amp; Beverage—1.6%</b>			
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	4,800	\$ 2,826,532
<b>Household Products—3.7%</b>			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	118,000	\$ 6,584,329
<b>Automobiles—1.7%</b>			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	1,933,500	\$ 3,055,239
<b>Broadcasting &amp; Programming—6.6%</b>			
Liberty Media Corporation, Class A (United States) (a)	Broadcast Services & Programming	1,000,000	\$ 7,180,000
Grupo Televisa S.A. (Mexico) (a)(b)	Television Production & Broadcasting	173,700	4,427,613
			<u>11,607,613</u>
<b>Broadcasting &amp; Publishing—1.4%</b>			
Gemstar-TV Guide International Inc. (United States) (a)	Electronic Program Guide Services	1,000,000	\$ 2,520,000
<b>Educational Services—1.7%</b>			
ITT Educational Services, Inc. (United States) (a)	Postsecondary Degree Programs	161,600	\$ 3,033,232
<b>Home Furnishings—4.3%</b>			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	285,600	\$ 7,615,581
<b>Human Resources—4.0%</b>			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	3,740,000	\$ 6,985,884
<b>Information Services—9.9%</b>			
eFunds Corporation (United States) (a)	Electronic Debit Payment Services	1,225,000	\$ 11,491,725
Ceridian Corporation (United States) (a)	Data Management Services	425,000	6,056,250
			<u>17,547,975</u>

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—96.2% (cont.)</b>			
<b>Marketing Services—3.8%</b>			
The Interpublic Group of Companies, Inc. (United States)	Advertising & Marketing Services	344,000	\$ 5,452,400
Cordiant Communications Group plc (Great Britain) (a)	Advertising & Media Services	2,097,000	1,267,249
			<u>6,719,649</u>
<b>Retail—3.1%</b>			
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	897,700	\$ 2,978,870
Somerfield plc (Great Britain) (a)	Food Retailer	1,403,000	2,361,880
			<u>5,340,750</u>
<b>Bank &amp; Thrifts—7.6%</b>			
U.S. Bancorp (United States)	Commercial Bank	275,000	\$ 5,109,500
Washington Mutual, Inc. (United States)	Thrift	135,000	4,248,450
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Bank	351,100	4,004,920
			<u>13,362,870</u>
<b>Other Financial—2.5%</b>			
Daiwa Securities Group Inc. (Japan)	Stock Broker	807,000	\$ 4,451,866
<b>Managed Care Services—3.7%</b>			
First Health Group Corp. (United States) (a)	Health Benefits Company	240,000	\$ 6,508,800
<b>Medical Products—6.2%</b>			
Cytoc Corporation (United States) (a)	Diagnostic Equipment	400,000	\$ 4,288,000
Ansell Limited (Australia) (a)	Protective Rubber & Plastics Products	934,000	3,499,418
Guidant Corporation (United States) (a)	Medical Instruments	100,000	3,231,000
			<u>11,018,418</u>
<b>Pharmaceuticals—6.2%</b>			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	362,400	\$ 6,911,420
Abbott Laboratories (United States)	Pharmaceuticals	100,000	4,040,000
			<u>10,951,420</u>

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—96.2% (cont.)</b>			
<b>Telecommunications Equipment—3.1%</b>			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	14,923,000	\$ 5,419,470
<b>Computer Services—5.2%</b>			
First Data Corporation (United States)	Data Processing & Management	175,000	\$ 4,891,250
Meitec Corporation (Japan)	Software Engineering Services	181,900	4,263,223
			<u>9,154,473</u>
<b>Computer Software—7.2%</b>			
Synopsys, Inc. (United States) (a)	Electronic Design Automation	220,000	\$ 8,393,000
Novell, Inc. (United States) (a)	Network & Internet Integration Software	2,000,000	4,200,000
			<u>12,593,000</u>
<b>Airport Maintenance—2.2%</b>			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	355,000	\$ 3,905,000
<b>Diversified Conglomerates—6.3%</b>			
Vivendi Universal SA (France)	Multimedia	983,400	\$ 11,023,186
<b>Instruments—1.9%</b>			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	225,000	\$ 3,318,750
<b>Chemicals—2.3%</b>			
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	8,970	\$ 4,010,161
<b>Total Common Stocks (Cost: \$202,352,125)</b>			<b>169,554,198</b>

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Par Value	Market Value
<b>Short Term Investments—3.0%</b>			
<b>Repurchase Agreements—3.0%</b>			
	IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$4,000,194 collateralized by a U.S. Government Agency Security	\$4,000,000	\$ 4,000,000
	IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$1,187,300 collateralized by U.S. Government Agency Securities	1,187,263	<u>1,187,263</u>
	<b>Total Repurchase Agreement (Cost: \$5,187,263)</b>		<b>5,187,263</b>
	<b>Total Short Term Investments (Cost: \$5,187,263)</b>		<b>5,187,263</b>
	<b>Total Investments (Cost \$207,539,388)—99.2%</b>		<b>\$ 174,741,461</b>
	<b>Other Assets In Excess Of Other Liabilities—0.8%</b>		<u><b>1,472,340</b></u>
	<b>Total Net Assets—100%</b>		<u><u><b>\$176,213,801</b></u></u>

- (a) Non-income producing security.  
 (b) Represents an American Depository Receipt.



# THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

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## Fellow Shareholders,

We are disappointed to report that both The Oakmark International and International Small Cap Fund had negative quarters, down 23% and 22% respectively. Global equity markets have witnessed vast price destruction as demonstrated by EAFE<sup>21</sup> (-20%), MSCI ex USA Small<sup>22</sup> (-16%), the Lipper International Funds Index<sup>23</sup> (-20%) and the Lipper International Small Cap Average<sup>24</sup> (-19%) which were also down. As a result, many foreign markets are now trading at 5+ year lows and we are seeing valuations in developed markets that we have rarely seen before. Yes, there has been widespread destruction of price, yet we do not see a correspondingly large fall in business value. To us, this spells opportunity.

## Anatomy of a Bear Market

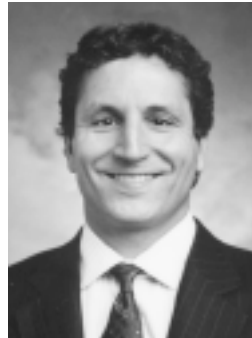
The current weakness we are seeing (especially in Europe) has roots that date back to 1996 when equity markets around the world began an aggressive move upward which did not end until the Spring of 2000. The last two years in particular saw share prices move exponentially upward, much of the strength fueled by technology, media and telecommunications ("TMT") companies. After 2 years of price declines in foreign equities, we are now seeing pre-hype prices. We believe this to be a very good thing. The bear market started off by hammering away at inconceivably priced "fluff" stocks, later moving on to real businesses that were over-priced, and now, marking what we think could be an end to the bear market, has moved to reasonably priced, high-quality businesses. Simply put, no stock has been spared.

## Signs of Light at the Tunnel's End

The fact that stable, well-financed, well-run foreign stocks are trading at dirt cheap prices reminds us of the Singapore stock market getting crushed at the end of the Pacific Rim crisis in 1998. Though share prices throughout Asia were hard hit in '97 through mid '98, Singapore, known for high-quality companies and seen as the safe haven of Asia, didn't feel the heat until the summer of 1998. This event marked the bottom of Asian share prices in August/September of that year.

Today we worry about war, corporate scandal and slowing economies. Yes, there is always something to worry about. In the past it was inflation, unemployment, the cold war, European unification, the Euro, Y2K (remember Y2K?), Russia, Mexico, U.S. Banks, hedge funds, etc., etc., etc. The point is, we will always have some negative macro influences. They should not be ignored, but do need to be put into perspective.

Today, European share prices are at 5-6 year lows. Many of the higher-quality companies have sustainable dividend yields greater than 4% and price-to-cashflow ratios of under 10x's. Outside the US, most corporate tax rates have been chopped to the degree that the U.S. has higher corporate tax rates than most of Europe and Asia. Interest rates are at extremely low levels. The tech/telecom revolution and legitimate restructuring continue to boost pro-



## Highlights

- After two years of price declines in foreign equities, we are now seeing pre-hype prices that are attractive.
- Today, European prices are at five-to-six year lows; many higher-quality companies have sustainable dividend yields greater than 4%, and price-to-cash flow ratios of under 10x's
- Developing world is rapidly becoming developed, especially China, now a member of the WTO, and seeing an influx of foreign direct investment.

ductivity. The developing world is rapidly becoming developed, especially when you look at East Asia and parts of Latin America. Especially noteworthy are events in China, now a member of the World Trade Organization, which is currently seeing such an influx of Foreign Direct Investment that it has even surpassed the levels of FDI in the USA. China is the world's most populous place: an economically healthy China may help propel world GDP growth for a long, long time.

So, because of these and other reasons, we are extremely optimistic about future investment opportunities. We will continue to work hard to continue to ensure the best of these opportunities find their way into our international funds.

## Housekeeping

At the end of September, we will have completed the 10th year of managing The Oakmark International Fund. After 10 years, it has returned 9% per annum, ranking it number 4/84 funds by Lipper<sup>25</sup>. We are proud of our 5-Star rating for this period in Morningstar's<sup>26</sup> Foreign Stock category measured against the performance of 92 funds in that category. We would especially like to thank all of our

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shareholders for your confidence and trust, and others that have been instrumental to our success over the past 10 years. Also, we are delighted to welcome two new members, Jeff Weiss and Natalie Barber to The Oakmark International analytical team. We hope this demonstrates our commitment to our shareholders to constantly improve the strength and depth of our research effort.



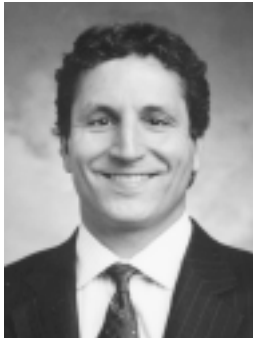
**David G. Herro, CFA**  
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# THE OAKMARK INTERNATIONAL FUND

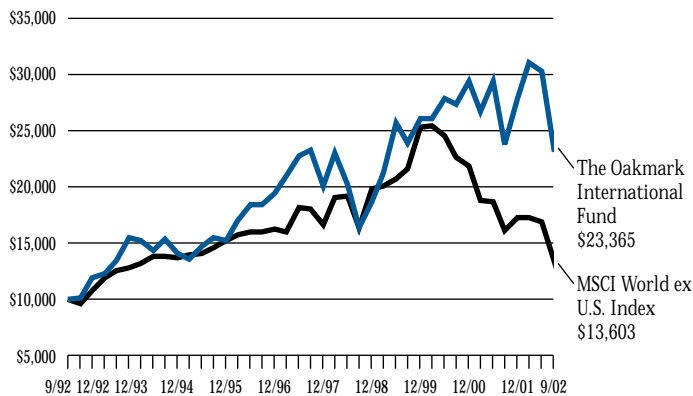
Report from David G. Herro and Michael J. Welsh, Portfolio Managers



The Oakmark International Fund was down 23% for the quarter, under-performing the MSCI World ex-US and the Lipper International Fund indices, each of which declined 20%. Despite this quarter's performance, over the past 12 months the Fund is barely down (2%) relative to large declines in the aforementioned indices (down 15% and 12%, respectively).

It was an extremely rough quarter throughout the world. The major markets of Europe were especially hard hit: Germany -36%, France -27%, the Netherlands -31%, Sweden -29%. The DAX, the German version of the Dow Jones Industrials Index, has now fallen back to 1996 levels, down nearly 70% from its all-time high. From our point of view, share price declines during the quarter had less to do with underlying business performance than with widespread investor fear.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (9/30/02) COMPARED TO THE MSCI WORLD EX U.S. INDEX<sup>27</sup>



Average Annual Total Returns<sup>4</sup>

	(as of 9/30/02)			
	Total Return Last 3 Months*	1-year	5-year	Since Inception (9/30/92)

<b>Oakmark International Fund</b>	<b>-22.93%</b>	<b>-1.53%</b>	<b>0.07%</b>	<b>8.85%</b>
MSCI World ex. U.S.	-19.62%	-15.31%	-5.47%	3.12%
MSCI EAFE <sup>21</sup>	-19.73%	-15.53%	-5.65%	2.95%
Lipper International Fund Index <sup>23</sup>	-19.61%	-12.37%	-4.43%	4.75%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

## Portfolio Update

During the quarter we continued to increase our weighting in European companies, which now represent over 70 percent of the portfolio. We have continued to add to two of our worst performers for the quarter, L.M. Ericsson and Vivendi Universal. In addition to adding to our favorite names we initiated positions in four more: Publicis Groupe, the global advertising giant headquartered in France; Bayerische Motoren Werke (BMW), the German auto maker; jewelry retailer Signet Group, of the UK; and, SanPaolo IMI, a highly-profitable Italian financial institution.

Each of these businesses trade at significant discounts to our estimate of intrinsic value. Under normal circumstances, these are companies we would not be able to afford because the market values them so highly. With their current share prices down significantly we can now be buyers at our prices.

## Looking Forward

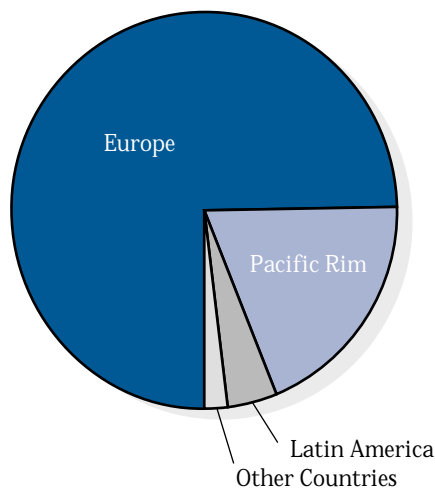
We remain optimistic based on the large number of attractive absolute return opportunities in the portfolio. We want to thank you for your continued confidence.

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Portfolio Manager  
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**Michael J. Welsh, CFA, CPA**  
Portfolio Manager  
102521.2142@compuserve.com

# THE OAKMARK INTERNATIONAL FUND

International Diversification—September 30, 2002



	% of Fund Net Assets		% of Fund Net Assets
<span style="display: inline-block; width: 15px; height: 15px; background-color: #005596; border: 1px solid black; margin-right: 5px;"></span> <b>Europe</b>	<b>71.4%</b>	<span style="display: inline-block; width: 15px; height: 15px; background-color: #a0b0c0; border: 1px solid black; margin-right: 5px;"></span> <b>Pacific Rim</b>	<b>18.2%</b>
Great Britain	22.1%	Japan	8.7%
* France	14.6%	Korea	4.6%
* Netherlands	11.4%	Australia	2.5%
Sweden	6.7%	Hong Kong	1.7%
* Italy	3.8%	Singapore	0.7%
Switzerland	3.8%		
* Germany	3.6%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #808080; border: 1px solid black; margin-right: 5px;"></span> <b>Latin America</b>	<b>4.0%</b>
* Finland	2.1%	Mexico	3.4%
* Greece	2.1%	Brazil	0.5%
* Ireland	1.2%	Panama	0.1%
		<span style="display: inline-block; width: 15px; height: 15px; background-color: #d0d0d0; border: 1px solid black; margin-right: 5px;"></span> <b>Other</b>	<b>1.9%</b>
		Israel	1.9%

\* Euro currency countries comprise 38.8% of the Fund.

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—September 30, 2002

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5%</b>			
<b>Food &amp; Beverage—8.4%</b>			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	3,150,200	\$ 38,865,432
Pernod-Ricard SA (France)	Manufactures Wines, Spirits, & Fruit Juices	363,300	32,650,352
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	49,700	29,266,378
Fomento Economico Mexicano S.A. de C.V. (Mexico) (b)	Soft Drink & Beer Manufacturer	600,400	20,293,520
			<u>121,075,682</u>
<b>Household Products—2.9%</b>			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	755,000	\$ 42,128,547
<b>Apparel—0.2%</b>			
Fila Holdings S.p.A. (Italy) (a)(b)(c)	Athletic Footwear & Apparel	5,894,760	\$ 3,006,328
<b>Automobiles—0.7%</b>			
Bayerische Motoren Werke (BMW) AG (Germany)	Luxury Automobile Manufacturer	313,100	\$ 10,052,663
<b>Automotive—3.1%</b>			
Autoliv Inc (Sweden) (d)	Automotive Safety Systems Manufacturer	1,248,000	\$ 26,225,268
Compagnie Generale des Etablissements Michelin (France)	Tire Manufacturer	664,500	18,650,915
			<u>44,876,183</u>
<b>Broadcasting &amp; Programming—3.3%</b>			
Grupo Televisa S.A. (Mexico) (a)(b)	Television Production & Broadcasting	1,003,100	\$ 25,569,019
Tokyo Broadcasting System, Inc. (Japan)	Television & Radio Broadcasting	1,511,000	22,017,198
			<u>47,586,217</u>
<b>Building Materials &amp; Construction—1.1%</b>			
Kumkang Korea Chemical Co., Ltd. (Korea)	Building Materials	162,140	\$ 15,515,155

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Home Furnishings—3.0%</b>			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	1,638,584	\$ 43,693,170
<b>Human Resources—2.8%</b>			
Michael Page International plc (Great Britain) (c)	Recruitment Consultancy Services	21,562,900	\$ 40,276,985
<b>Marketing Services—5.3%</b>			
Aegis Group plc (Great Britain)	Media Services	31,735,500	\$ 34,122,335
Publicis Groupe (France)	Advertising & Media Services	1,461,700	27,572,281
Cordiant Communications Group plc (Great Britain) (a)(c)	Advertising & Media Services	24,209,270	14,630,031
			<u>76,324,647</u>
<b>Publishing—6.7%</b>			
Wolters Kluwer NV (Netherlands)	Reference Material Publisher	2,430,200	\$ 43,921,199
John Fairfax Holdings Limited (Australia)	Newspaper Publisher	23,642,600	36,459,726
Independent News & Media PLC (Ireland)	Newspaper Publisher	14,132,000	18,143,792
			<u>98,524,717</u>
<b>Retail—4.0%</b>			
Somerfield plc (Great Britain) (a)	Food Retailer	15,128,500	\$ 25,468,068
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	63,102,300	24,676,515
Signet Group plc (Great Britain)	Jewelry Retailer	6,245,100	7,891,110
			<u>58,035,693</u>
<b>Bank &amp; Thrifts—7.5%</b>			
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Banking	2,742,200	\$ 31,279,672
BNP Paribas SA (France)	Commercial Banking	758,300	24,698,626
Sanpaolo IMI S.p.A. (Italy)	Banking Services	3,732,800	20,976,261
United Overseas Bank Limited, Foreign Shares (Singapore)	Commercial Banking	1,426,968	9,552,991
Kookmin Bank (Korea)	Commercial Banking	231,168	8,460,594
Svenska Handelsbanken AB (Sweden)	Commercial Banking	508,000	6,322,902

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Bank &amp; Thrifts—7.5% (cont.)</b>			
Uniao de Bancos Brasileiros S.A. (Brazil) (e)	Commercial Banking	784,000	\$ 5,566,400
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama) (b)	Latin American Trade Bank	515,400	\$ 1,061,724
			<u>107,919,170</u>
<b>Other Financial—5.6%</b>			
Daiwa Securities Group Inc. (Japan)	Stock Broker	7,285,000	\$ 40,188,154
Euronext (Netherlands)	Stock Exchange	2,125,200	40,087,988
			<u>80,276,142</u>
<b>Medical Products—1.7%</b>			
Gambro AB, Class A (Sweden)	Manufacturer of Dialysis Products	6,144,000	\$ 24,431,398
<b>Pharmaceuticals—9.6%</b>			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	3,418,800	\$ 65,200,781
Aventis S.A. (France)	Pharmaceuticals	613,300	32,101,839
Takeda Chemical Industries, Ltd. (Japan)	Pharmaceuticals & Food Supplements	739,000	29,786,890
Novartis AG (Switzerland)	Pharmaceuticals	298,500	11,777,840
			<u>138,867,350</u>
<b>Telecommunications—3.1%</b>			
Panafon Hellenic Telecom S.A. (Greece)	Mobile Telecommunications	6,717,900	\$ 29,722,999
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	64,860	12,572,029
Telemig Celular Participacoes S.A. (Brazil)	Mobile Telecommunications	1,806,000,000	1,949,866
			<u>44,244,894</u>
<b>Telecommunications Equipment—2.8%</b>			
Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a)	Mobile & Wired Telecommunications Products	109,949,200	\$ 39,929,394
<b>Computer Services—2.3%</b>			
Meitec Corporation (Japan)	Software Engineering Services	1,402,000	\$ 32,858,925

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Aerospace—1.4%</b>			
Rolls-Royce plc (Great Britain)	Aviation & Marine Power	12,558,195	\$ 19,711,971
<b>Airport Maintenance—0.2%</b>			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	242,000	\$ 2,662,000
<b>Diversified Conglomerates—3.5%</b>			
Vivendi Universal SA (France)	Multimedia	4,551,100	\$ 51,014,463
<b>Instruments—1.9%</b>			
Orbotech, Ltd. (Israel) (a)(c)	Optical Inspection Systems	1,841,200	\$ 27,157,700
<b>Machinery &amp; Industrial Processing—2.1%</b>			
Metso Corporation (Finland)	Paper & Pulp Machinery	3,490,700	\$ 30,337,255
<b>Other Industrial Goods &amp; Services—4.2%</b>			
Enodis plc (Great Britain) (c)	Food Processing Equipment	33,585,320	\$ 26,095,013
Chargeurs SA (France) (c)	Wool, Textile Production & Trading	1,050,201	24,632,990
FKI plc (Great Britain)	Industrial Manufacturing	8,299,300	10,519,299
			<u>61,247,302</u>
<b>Transportation Services—2.5%</b>			
Associated British Ports Holdings Plc (Great Britain)	Port Operator	5,533,899	\$ 35,744,061
<b>Chemicals—5.6%</b>			
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	95,600	\$ 42,739,281
Akzo Nobel N.V. (Netherlands)	Chemical Producer	1,152,800	<u>37,115,272</u>
			<u>79,854,553</u>
<b>Total Common Stocks (Cost: \$1,739,391,715)</b>			<b>1,377,352,565</b>



# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Par Value	Market Value
<b>Short Term Investments—5.5%</b>			
<b>U.S. Government Bills—2.1%</b>			
	United States Treasury Bills, 1.615% - 1.67% due 10/3/2002 - 10/17/2002	\$30,000,000	\$ 29,987,835
	<b>Total U.S. Government Bills (Cost: \$29,987,835)</b>		<b>29,987,835</b>
<b>Repurchase Agreements—3.4%</b>			
	IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$47,002,285 collateralized by U.S. Government Agency Securities	\$47,000,000	\$ 47,000,000
	IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$2,554,729 collateralized by a U.S. Government Agency Security	2,554,650	<u>2,554,650</u>
	<b>Total Repurchase Agreement (Cost: \$49,554,650)</b>		<b>49,554,650</b>
	<b>Total Short Term Investments (Cost: \$79,542,485)</b>		<b>79,542,485</b>
	<b>Total Investments (Cost \$1,818,934,200)—101.0%</b>		<b>\$ 1,456,895,050</b>
	<b>Foreign Currencies (Cost \$2,256,583)—0.2%</b>		<b>\$ 2,275,134</b>
	<b>Other Liabilities In Excess Of Other Assets—(1.2%)</b>		<b><u>(16,906,490)</u></b>
	<b>Total Net Assets—100%</b>		<b><u>\$1,442,263,694</u></b>

- (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) Represents a Swedish Depository Receipt.
- (e) Represents a Global Depository Receipt.

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

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

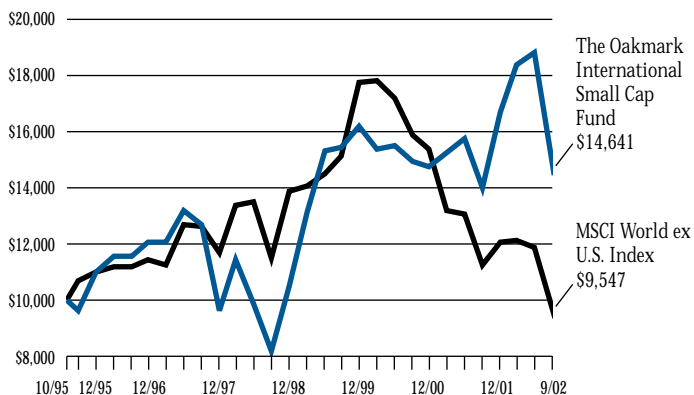


The Oakmark International Small Cap Fund was down 22% for the quarter, under-performing the MSCI World ex-US Index and the Lipper International Small Cap Average, which declined 20%, and 19%, respectively.

Over the past twelve months your Fund has returned a positive 5%, relative to declines of 15% in the MSCI World ex-US index and 6% in the Lipper International Small Cap Average.

Until this quarter, overseas small caps had held up extremely well throughout big price declines in the major markets. This quarter proved that no equity market area in the world would remain unscathed by this bear market.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (9/30/02) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX<sup>26</sup>



### Average Annual Total Returns<sup>4</sup>

(as of 9/30/02)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
<b>Oakmark International Small Cap Fund</b>	<b>-22.25%</b>	<b>4.68%</b>	<b>2.93%</b>	<b>5.66%</b>
MSCI World ex. U.S.	-19.62%	-15.31%	-5.47%	-0.67%
Lipper International Small Cap Average <sup>24</sup>	-18.67%	-6.06%	0.69%	6.09%

The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Past performance is no guarantee of future results. Investment return and principal value vary, and you may have a gain or loss when you sell shares. Average annual total return measures annualized change, while total return measures aggregate change.

\* Not annualized

### Portfolio Update

Throughout the quarter we eliminated a number of positions to better concentrate the Fund in our best ideas. We sold a number of winners that achieved their sell targets, especially in Asia, including Dairy Farm (Hong Kong), Jusco Stores (HK), Jardine Strategic Holdings (Singapore) and Haw Par Brothers (Singapore). Most of the investments we made during the dark days of Asia in 1997-98 have continued to pay off handsomely. We also sold some losers where the underlying fundamentals were poorer than we had expected, including United Services Group and House of Fraser.

The proceeds from these sales were re-deployed primarily into existing positions trading at more significant discounts to intrinsic value. We also initiated a new position in Australia-based credit services company Baycorp Advantage.

### Looking Forward

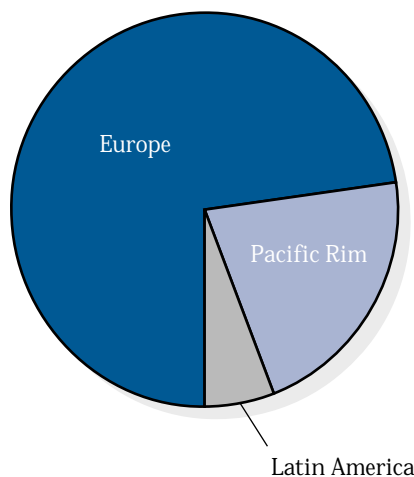
We are optimistic regarding long-term equity market performance, and believe investing during this current period of extreme pessimism will be rewarding. We want to thank you for your continued confidence.

**David G. Herro, CFA**  
Portfolio Manager  
dherro@oakmark.com

**Michael J. Welsh, CFA, CPA**  
Portfolio Manager  
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# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## International Diversification—September 30, 2002



% of Fund  
Net Assets

% of Fund  
Net Assets

	<b>69.5%</b>
<b>Europe</b>	
Switzerland	16.9%
* Italy	13.2%
Great Britain	12.5%
Denmark	7.6%
* France	7.2%
* Germany	2.6%
Sweden	2.6%
* Netherlands	2.4%
* Spain	2.1%
* Belgium	1.2%
* Finland	1.2%

	<b>20.5%</b>
<b>Pacific Rim</b>	
Australia	5.1%
Japan	4.7%
New Zealand	4.3%
Philippines	2.0%
Hong Kong	1.9%
Singapore	0.9%
Korea	0.8%
Thailand	0.8%

	<b>5.5%</b>
<b>Latin America</b>	
Mexico	4.8%
Panama	0.7%

\* Euro currency countries comprise 29.9% of the Fund.

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—September 30, 2002

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5%</b>			
<b>Food &amp; Beverage—6.4%</b>			
Campari Group (Italy) (a)	Soft Drinks, Wines, & Spirits Producer	235,200	\$ 7,642,128
Grupo Continental, S.A. (Mexico)	Soft Drink Manufacturer	2,760,000	4,596,845
Baron De Ley, S.A. (Spain) (a)	Wines & Spirits Manufacturer	150,985	3,917,193
Hite Brewery Co., Ltd. (Korea)	Brewer	57,700	2,784,248
Alaska Milk Corporation (Philippines) (b)	Milk Producer	49,394,000	1,997,430
Mikuni Coca-Cola Bottling Co., Ltd. (Japan)	Soft Drink Manufacturer	310,000	1,822,107
			<u>22,759,951</u>
<b>Other Consumer Goods &amp; Services—0.5%</b>			
Royal Doulton plc (Great Britain) (a)(b)	Tableware & Giftware	22,373,000	\$ 1,755,889
<b>Apparel—0.3%</b>			
Kingmaker Footwear Holdings Limited (Hong Kong)	Athletic Footwear Manufacturer	4,395,000	\$ 1,127,010
<b>Automobiles—2.3%</b>			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	5,177,200	\$ 8,180,804
<b>Broadcasting &amp; Programming—1.4%</b>			
ABS-CBN Broadcasting Corporation (Philippines) (a)	Television & Broadcasting Operator	11,920,000	\$ 5,002,194
<b>Broadcasting &amp; Publishing—1.8%</b>			
Tamedia AG (Switzerland) (a)	TV Broadcasting & Publishing	146,880	\$ 6,466,978
<b>Building Materials &amp; Construction—3.2%</b>			
Fletcher Building Limited (New Zealand)	Building Materials Manufacturer	8,129,200	\$ 11,420,319
<b>Home Furnishings—3.3%</b>			
Natuzzi S.p.A. (Italy) (c)	Home Furnishings	1,078,300	\$ 11,775,036

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Hotels &amp; Motels—1.8%</b>			
Jarvis Hotels plc (Great Britain)	Hotel Operator	3,845,700	\$ 6,338,223
<b>Human Resources—1.2%</b>			
Solvus S.A. (Belgium)	Temporary Staffing Services	623,254	\$ 4,308,680
<b>Information Services—2.0%</b>			
Baycorp Advantage Limited (Australia)	Credit Reference Services	4,213,500	\$ 7,275,619
<b>Marketing Services—2.3%</b>			
Asatsu-DK, Inc. (Japan)	Advertising Services Provider	445,100	\$ 8,349,165
<b>Publishing—3.6%</b>			
Edipresse S.A. (Switzerland)	Newspaper & Magazine Publisher	18,274	\$ 5,019,377
Recoletos Grupo de Comunicacion, S.A. (Spain)	Publisher	880,000	3,563,261
Matichon Public Company Limited, Foreign Shares (Thailand) (b)	Newspaper Publisher	2,039,500	2,733,156
VLT AB, Class B (Sweden)	Newspaper Publisher	178,450	1,480,737
			<u>12,796,531</u>
<b>Retail—10.4%</b>			
Carpetright plc (Great Britain)	Carpet Retailer	1,589,200	\$ 15,715,273
D.F.S. Furniture Company plc (Great Britain)	Furniture Retailer & Manufacturer	1,972,100	11,933,179
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	2,904,600	9,638,439
			<u>37,286,891</u>
<b>Bank &amp; Thrifts—5.9%</b>			
Jyske Bank A/S (Denmark) (a)	Commercial Banking	441,900	\$ 10,898,925
Vontobel Holding AG (Switzerland)	Commercial Banking	662,536	8,078,065
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama) (b)(c)	Multinational Bank	1,153,100	2,375,386
			<u>21,352,376</u>
<b>Financial Services—4.6%</b>			
Van der Moolen Holding N.V. (Netherlands)	International Trading Firm	528,400	\$ 8,740,951

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Financial Services—4.6% (cont.)</b>			
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	41,100	\$ 7,934,363
			<u>16,675,314</u>
<b>Other Financial—3.5%</b>			
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	2,480,000	\$ 6,738,743
JCG Holdings Limited (Hong Kong)	Consumer Finance	12,851,000	5,684,533
			<u>12,423,276</u>
<b>Medical Products—3.1%</b>			
Ansell Limited (Australia) (a)	Protective Rubber & Plastics Products	2,949,425	\$ 11,050,611
<b>Computer Services—2.5%</b>			
Morse Plc (Great Britain)	Business & Technology Solutions	4,369,800	\$ 9,088,250
<b>Computer Systems—1.5%</b>			
Lectra (France) (a)	Manufacturing Process Systems	1,668,500	\$ 5,536,644
<b>Office Equipment—3.8%</b>			
Neopost SA (France) (a)	Mailroom Equipment Supplier	401,200	\$ 13,511,277
<b>Airport Maintenance—8.1%</b>			
Kobenhavns Lufthavne A/S (Copenhagen Airports A/S) (Denmark)	Airport Management & Operations	274,895	\$ 16,447,319
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (c)	Airport Operator	1,129,000	12,419,000
			<u>28,866,319</u>
<b>Diversified Conglomerates—2.0%</b>			
Pargesa Holding AG (Switzerland)	Diversified Operations	4,784	\$ 7,129,174
<b>Instruments—1.2%</b>			
Vaisala Oyj, Class A (Finland)	Atmospheric Observation Equipment	206,800	\$ 4,268,526
<b>Machinery &amp; Industrial Processing—5.4%</b>			
Pfeiffer Vacuum Technology AG (Germany) (b)	Vacuum Pump Manufacturer	545,100	\$ 9,178,710
Alfa Laval (Sweden) (a)	Filtration & Separation Equipment	959,700	7,963,371
Carbone Lorraine SA (France)	Electrical Systems Manufacturer	92,964	2,065,753
			<u>19,207,834</u>

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—September 30, 2002 cont.

Name	Description	Shares Held/ Par Value	Market Value
<b>Common Stocks—95.5% (cont.)</b>			
<b>Other Industrial Goods &amp; Services—4.3%</b>			
Schindler Holding AG (Switzerland)	Elevator & Escalator Manufacturer	67,800	\$ 11,940,662
GFI Industries SA (France)	Industrial Fastener Manufacturer	241,813	3,510,573
			<u>15,451,235</u>
<b>Production Equipment—3.1%</b>			
Interpump Group S.p.A. (Italy)	Pump & Piston Manufacturer	2,588,800	\$ 10,150,095
NSC Groupe (France)	Textile Equipment Manufacturer	12,316	1,155,512
			<u>11,305,607</u>
<b>Transportation Services—2.0%</b>			
Mainfreight Limited (New Zealand) (b)	Logistics Services	7,765,726	\$ 4,013,599
DelGro Corporation Limited (Singapore)	Bus, Taxi, & Car Leasing	3,502,700	3,093,718
			<u>7,107,317</u>
<b>Chemicals—4.0%</b>			
Gurit-Heberlein AG (Switzerland)	Chemical Producer	32,734	\$ 14,190,720
<b>Total Common Stocks (Cost: \$432,335,590)</b>			<b>342,007,770</b>
<b>Short Term Investments—3.6%</b>			
<b>Repurchase Agreements—3.6%</b>			
IBT Repurchase Agreement, 1.75% due 10/1/2002, repurchase price \$10,500,510 collateralized by a U.S. Government Agency Security		\$10,500,000	\$ 10,500,000
IBT Repurchase Agreement, 1.11% due 10/1/2002, repurchase price \$2,163,944 collateralized by a U.S. Government Agency Security		2,163,878	<u>2,163,878</u>
<b>Total Repurchase Agreement (Cost: \$12,663,878)</b>			<b>12,663,878</b>
<b>Total Short Term Investments (Cost: \$12,663,878)</b>			<b>12,663,878</b>
<b>Total Investments (Cost \$444,999,468)—99.1%</b>			<b>\$ 354,671,648</b>
<b>Foreign Currencies (Cost \$756,494)—0.2%</b>			<b>\$ 762,021</b>
<b>Other Assets In Excess Of Other Liabilities—0.7%</b>			<u><b>2,572,499</b></u>
<b>Total Net Assets—100%</b>			<u><u><b>\$358,006,168</b></u></u>

(a) Non-income producing security.

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

(c) Represents an American Depository Receipt.

# THE OAKMARK FAMILY OF FUNDS

## Statements of Assets and Liabilities—September 30, 2002

		The Oakmark Fund	The Oakmark Select Fund	The Oakmark Small Cap Fund
<b>Assets</b>				
Investments in unaffiliated securities, at value	(a)	\$ 3,304,673,916	\$ 3,457,996,525	\$ 339,917,770
Investments in affiliated securities, at value	(b)	0	308,119,623	17,519,140
Cash		0	12,552	374
Foreign currency, at value	(c)	0	0	0
Receivable for:				
Securities sold		2,091,437	19,387,520	291,727
Fund shares sold		6,671,135	3,459,905	564,785
Dividends and interest		5,210,296	3,927,925	201,295
Tax reclaim		0	0	0
Total receivables		13,972,868	26,775,350	1,057,807
Other Assets		5,663	1,986	494
Total assets		\$ 3,318,652,447	\$ 3,792,906,036	\$ 358,495,585
<b>Liabilities and Net Assets</b>				
Options written, at value	(d)	\$ 0	\$ 0	\$ 0
Foreign currency, at value	(c)	0	0	0
Payable for:				
Securities purchased		117,600	689,030	0
Fund shares redeemed		8,337,246	8,651,604	750,211
Due to transfer agent		221,381	142,745	40,356
Trustees fees		467,207	323,179	155,954
Other		827,180	1,047,147	154,975
Total liabilities		9,970,614	10,853,705	1,101,496
Net assets applicable to fund shares outstanding		\$ 3,308,681,833	\$ 3,782,052,331	\$ 357,394,089
<b>Analysis of Net Assets</b>				
Paid in capital		\$ 3,831,067,422	\$ 3,739,480,524	\$ 416,525,955
Accumulated undistributed net realized gain (loss) of investments, forward contracts and foreign currency exchange transactions		(195,307,126)	(76,625,527)	(497,018)
Net unrealized appreciation (depreciation) of investments		(340,513,232)	115,600,882	(58,484,339)
Net unrealized appreciation (depreciation)—other		0	0	0
Accumulated undistributed net investment income (loss)		13,434,769	3,596,452	(150,509)
Net assets applicable to Fund shares outstanding		\$ 3,308,681,833	\$ 3,782,052,331	\$ 357,394,089
<b>Price of Shares</b>				
Net asset value per share: Class I		\$ 28.08	\$ 21.67	\$ 14.10
Class I—Net assets		3,300,948,792	3,717,632,174	356,858,991
Class I—Shares outstanding (Unlimited shares authorized)		117,549,041	171,568,297	25,302,542
Net asset value per share: Class II		\$ 28.04	\$ 21.56	\$ 14.09
Class II—Net assets		7,733,041	64,420,157	535,098
Class II—Shares outstanding (Unlimited shares authorized)		275,825	2,987,328	37,974
(a) Identified cost of investments in unaffiliated securities		\$ 3,645,187,148	\$ 3,348,274,428	\$ 383,383,526
(b) Identified cost of investments in affiliated securities		0	302,240,838	32,537,723
(c) Identified cost of foreign currency		0	0	0
(d) Premiums received on options written		0	0	0



The Oakmark Equity and Income Fund	The Oakmark Global Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
\$ 2,339,820,165	\$ 174,741,461	\$ 1,321,096,003	\$ 332,617,478
0	0	135,799,047	22,054,170
4,800	1,078	2,005	832
0	0	2,275,134	762,021
19,784,672	2,031,764	8,204,243	4,046,830
14,669,900	433,791	9,298,317	314,503
12,571,292	254,357	4,823,089	39,002
13,125	0	1,086,895	295,964
<u>47,038,989</u>	<u>2,719,912</u>	<u>23,412,544</u>	<u>4,696,299</u>
205	10,691	732	88
<u>\$ 2,386,864,159</u>	<u>\$ 177,473,142</u>	<u>\$ 1,482,585,465</u>	<u>\$ 360,130,888</u>
\$ 50,950	\$ 0	\$ 0	\$ 0
0	447,726	0	0
18,798,772	0	36,536,159	609,257
6,485,636	546,829	2,779,240	1,082,406
80,824	22,865	73,718	20,905
133,381	107,802	198,794	124,396
727,593	134,119	733,860	287,756
<u>26,277,156</u>	<u>1,259,341</u>	<u>40,321,771</u>	<u>2,124,720</u>
<u>\$ 2,360,587,003</u>	<u>\$ 176,213,801</u>	<u>\$ 1,442,263,694</u>	<u>\$ 358,006,168</u>
\$ 2,521,771,393	\$ 210,400,457	\$ 1,805,715,911	\$ 436,575,200
(81,534,657)	(1,261,095)	(16,938,571)	8,805,460
(105,613,365)	(32,812,022)	(361,765,517)	(90,334,969)
(601)	18,294	(166,407)	23,896
<u>25,964,233</u>	<u>(131,833)</u>	<u>15,418,278</u>	<u>2,936,581</u>
<u>\$ 2,360,587,003</u>	<u>\$ 176,213,801</u>	<u>\$ 1,442,263,694</u>	<u>\$ 358,006,168</u>
\$ 17.18	\$ 11.30	\$ 12.17	\$ 10.17
2,241,862,902	175,601,074	1,393,787,394	357,719,432
130,507,859	15,544,703	114,538,219	35,173,301
<u>\$ 17.15</u>	<u>\$ 11.24</u>	<u>\$ 12.13</u>	<u>\$ 10.14</u>
118,724,101	612,727	48,476,300	286,736
6,924,284	54,492	3,995,110	28,276
\$ 2,446,020,680	\$ 207,539,388	\$ 1,539,684,625	\$ 389,851,090
0	0	279,249,575	55,148,378
0	(444,039)	2,256,583	756,494
638,100	0	0	0

# THE OAKMARK FAMILY OF FUNDS

## Statements of Operations—September 30, 2002

	The Oakmark Fund	The Oakmark Select Fund	The Oakmark Small Cap Fund
<b>Investment Income:</b>			
Dividends from unaffiliated securities	\$ 50,671,538	\$ 46,220,759	\$ 1,845,226
Dividends from affiliated securities	0	0	0
Interest Income	6,099,174	7,268,233	727,044
Other Income	520,924	0	95,842
Foreign taxes withheld	0	0	0
Total investment income	57,291,636	53,488,992	2,668,112
<b>Expenses:</b>			
Investment advisory fee	34,848,853	40,838,462	4,121,533
Transfer and dividend disbursing agent fees	2,598,857	1,837,559	400,097
Other shareholder servicing fees	2,939,882	4,219,660	332,079
Service Fee—Class II	6,000	170,778	263
Reports to shareholders	1,746,488	1,238,788	270,048
Custody and accounting fees	433,423	527,332	74,622
Registration and blue sky expenses	57,237	139,966	66,288
Trustee fees	173,043	153,218	64,484
Legal fees	73,921	87,233	27,682
Audit fees	23,843	22,590	18,593
Other	325,365	242,519	42,475
Total expenses	43,226,912	49,478,105	5,418,164
Expense offset arrangements	(11,599)	(7,529)	(1,102)
Net expenses	43,215,313	49,470,576	5,417,062
<b>Net Investment Income (loss):</b>	14,076,323	4,018,416	(2,748,950)
<b>Net realized and unrealized gain (loss) on investments and foreign currency transactions:</b>			
Net realized gain (loss) on unaffiliated securities	(42,175,347)	(30,963,843)	99,039
Net realized gain (loss) on affiliated securities	0	(4,535,664)	(1,065,702)
Net realized gain on options	9,979,097	6,335,456	1,292,518
Net realized loss on short sales	(197,816)	(510,036)	0
Net realized loss on foreign currency transactions	0	0	0
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(498,006,779)	(635,685,201)	(51,515,515)
Net change in unrealized appreciation (depreciation)—other	0	0	0
Net realized and unrealized (loss) on investments and foreign currency transactions:	(530,400,845)	(665,359,288)	(51,189,660)
Net decrease in net assets resulting from operations	<u>\$(516,324,522)</u>	<u>\$(661,340,872)</u>	<u>\$(53,938,610)</u>

The Oakmark Equity and Income Fund	The Oakmark Global Fund	The Oakmark International Fund	The Oakmark International Small Cap Fund
\$ 15,494,152	\$ 2,020,348	\$ 26,661,445	\$ 9,093,523
0	0	7,733,163	760,375
29,202,243	174,049	1,080,852	342,349
963	2,897	31,522	32,574
(62,100)	(90,947)	(3,066,633)	(1,079,330)
44,635,258	2,106,347	32,440,349	9,149,491
12,099,581	1,333,497	12,048,977	3,860,436
704,717	188,437	753,702	178,248
1,945,936	128,955	1,027,483	339,434
136,109	1,348	64,867	525
561,536	137,992	533,719	133,178
232,947	136,665	1,274,568	422,731
309,540	85,882	144,392	73,317
75,585	54,012	77,128	53,714
42,499	22,774	37,180	25,599
18,593	23,843	22,844	25,992
72,407	11,986	76,172	19,967
16,199,450	2,125,391	16,061,032	5,133,141
(3,761)	(497)	(1,248)	(216)
16,195,689	2,124,894	16,059,784	5,132,925
28,439,569	(18,547)	16,380,565	4,016,566
(85,663,134)	(2,849,841)	6,020,949	11,352,308
0	0	(8,131,968)	731,075
3,680,523	1,588,746	0	0
0	0	0	0
(2,938)	(37,184)	(744,096)	(31,834)
(107,419,745)	(30,244,164)	(199,327,235)	(70,664,400)
(601)	18,109	(155,750)	21,128
(189,405,895)	(31,524,334)	(202,338,100)	(58,591,723)
<u>\$(160,966,326)</u>	<u>\$(31,542,881)</u>	<u>\$(185,957,535)</u>	<u>\$(54,575,157)</u>

# THE OAKMARK FAMILY OF FUNDS

## Statements of Changes in Net Assets—September 30, 2002

	The Oakmark Fund	
	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment income	\$ 14,076,323	\$ 19,416,042
Net realized gain (loss) on investments	(32,394,066)	195,984,944
Net change in unrealized appreciation (depreciation) of investments	<u>(498,006,779)</u>	<u>126,130,060</u>
<b>Net increase (decrease) in net assets from operations</b>	<b>(516,324,522)</b>	<b>341,531,046</b>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(19,630,178)	(28,565,025)
Net investment income—Class II	<u>(447)</u>	<u>0</u>
<b>Total distributions to shareholders</b>	<b>(19,630,625)</b>	<b>(28,565,025)</b>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	1,648,934,264	1,499,450,622
Proceeds from shares sold—Class II	10,646,454	122,635
Reinvestment of distributions—Class I	19,105,784	27,842,716
Reinvestment of distributions—Class II	347	0
Payments for shares redeemed, net of fees—Class I	(942,439,538)	(769,874,783)
Payments for shares redeemed, net of fees—Class II	<u>(838,834)</u>	<u>(7,515)</u>
<b>Net increase in net assets from Fund share transactions</b>	<b><u>735,408,477</u></b>	<b><u>757,533,675</u></b>
<b>Total increase in net assets</b>	<b>199,453,330</b>	<b>1,070,499,696</b>
<b>Net assets:</b>		
Beginning of period	<u>3,109,228,503</u>	<u>2,038,728,807</u>
End of period	<b><u>\$ 3,308,681,833</u></b>	<b><u>\$ 3,109,228,503</u></b>
Undistributed net investment income	<u>\$ 13,434,769</u>	<u>\$ 18,989,069</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	48,113,112	44,681,731
Shares issued in reinvestment of dividends	562,595	994,363
Less shares redeemed	<u>(28,259,864)</u>	<u>(24,202,141)</u>
<b>Net increase in shares outstanding</b>	<b><u>20,415,843</u></b>	<b><u>21,473,953</u></b>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	298,334	3,601
Shares issued in reinvestment of dividends	10	0
Less shares redeemed	<u>(25,887)</u>	<u>(233)</u>
<b>Net increase in shares outstanding</b>	<b><u>272,457</u></b>	<b><u>3,368</u></b>

## The Oakmark Select Fund

	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment income	\$ 4,018,416	\$ 8,224,650
Net realized loss on investments	(29,674,087)	(46,951,440)
Net change in unrealized appreciation (depreciation) of investments	<u>(635,685,201)</u>	<u>564,071,103</u>
<b>Net increase (decrease) in net assets from operations</b>	<b>(661,340,872)</b>	<b>525,344,313</b>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(8,379,997)	(7,393,194)
Net investment income—Class II	0	(21,608)
Net realized gain—Class I	<u>0</u>	<u>(117,459,365)</u>
<b>Total distributions to shareholders</b>	<b>(8,379,997)</b>	<b>(124,874,167)</b>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	1,260,687,129	2,438,122,791
Proceeds from shares sold—Class II	74,250,948	33,209,296
Reinvestment of distributions—Class I	7,956,922	121,465,993
Payments for shares redeemed, net of fees—Class I	(1,056,777,332)	(569,095,434)
Payments for shares redeemed, net of fees—Class II	<u>(31,085,298)</u>	<u>(6,168,435)</u>
<b>Net increase in net assets from Fund share transactions</b>	<b><u>255,032,369</u></b>	<b><u>2,017,534,211</u></b>
<b>Total increase (decrease) in net assets</b>	<b>(414,688,500)</b>	<b>2,418,004,357</b>
<b>Net assets:</b>		
Beginning of period	<u>4,196,740,831</u>	<u>1,778,736,474</u>
End of period	<b><u>\$ 3,782,052,331</u></b>	<b><u>\$ 4,196,740,831</u></b>
Undistributed net investment income	<b><u>\$ 3,596,452</u></b>	<b><u>\$ 7,958,033</u></b>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	47,211,312	99,937,364
Shares issued in reinvestment of dividends	299,856	5,902,071
Less shares redeemed	<u>(41,080,996)</u>	<u>(23,316,445)</u>
<b>Net increase in shares outstanding</b>	<b><u>6,430,172</u></b>	<b><u>82,522,990</u></b>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	2,801,878	1,337,637
Shares issued in reinvestment of dividends	0	5,804
Less shares redeemed	<u>(1,223,864)</u>	<u>(250,564)</u>
<b>Net increase in shares outstanding</b>	<b><u>1,578,014</u></b>	<b><u>1,092,877</u></b>

# THE OAKMARK FAMILY OF FUNDS

## Statements of Changes in Net Assets—September 30, 2002 (cont.)

	The Oakmark Small Cap Fund	
	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment loss	\$ (2,748,950)	\$ (710,637)
Net realized gain on investments	325,855	1,334,090
Net change in unrealized appreciation (depreciation) of investments	<u>(51,515,515)</u>	<u>(10,475,705)</u>
<b>Net decrease in net assets from operations</b>	<b>(53,938,610)</b>	<b>(9,852,252)</b>
<b>Distributions to shareholders from:</b>		
Net realized gain—Class I	<u>0</u>	<u>(8,165,109)</u>
<b>Total distributions to shareholders</b>	<b>0</b>	<b>(8,165,109)</b>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	326,865,529	133,704,823
Proceeds from shares sold—Class II	777,070	0
Reinvestment of distributions—Class I	0	8,045,937
Payments for shares redeemed, net of fees—Class I	(180,818,640)	(107,824,806)
Payments for shares redeemed, net of fees—Class II	<u>(103,465)</u>	<u>0</u>
<b>Net increase in net assets from Fund share transactions</b>	<b><u>146,720,494</u></b>	<b><u>33,925,954</u></b>
<b>Total increase in net assets</b>	<b>92,781,884</b>	<b>15,908,593</b>
<b>Net assets:</b>		
Beginning of period	264,612,205	248,703,612
End of period	<u>\$ 357,394,089</u>	<u>\$ 264,612,205</u>
Undistributed net investment income (loss)	<u>\$ (150,509)</u>	<u>\$ 0</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	17,912,470	8,459,269
Shares issued in reinvestment of dividends	0	585,160
Less shares redeemed	<u>(10,773,500)</u>	<u>(7,348,265)</u>
<b>Net increase in shares outstanding</b>	<b><u>7,138,970</u></b>	<b><u>1,696,164</u></b>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	44,265	0
Shares issued in reinvestment of dividends	0	0
Less shares redeemed	<u>(6,291)</u>	<u>0</u>
<b>Net increase in shares outstanding</b>	<b><u>37,974</u></b>	<b><u>0</u></b>

## The Oakmark Equity and Income Fund

	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment income	\$ 28,439,569	\$ 5,055,874
Net realized gain (loss) on investments	(81,982,611)	1,909,621
Net realized loss on foreign currency transactions	(2,938)	(518)
Net change in unrealized appreciation (depreciation) of investments	(107,419,745)	(5,101,055)
Net change in unrealized appreciation (depreciation)—other	(601)	0
<b>Net increase (decrease) in net assets from operations</b>	<b>(160,966,326)</b>	<b>1,863,922</b>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(6,931,173)	(897,529)
Net investment income—Class II	(90,128)	(7,433)
Net realized gain—Class I	(1,870,660)	(3,733,470)
Net realized gain—Class II	(33,869)	0
<b>Total distributions to shareholders</b>	<b>(8,925,830)</b>	<b>(4,638,432)</b>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	2,457,322,254	682,515,057
Proceeds from shares sold—Class II	146,887,453	2,887,484
Reinvestment of distributions—Class I	8,525,720	4,457,698
Reinvestment of distributions—Class II	85,801	0
Payments for shares redeemed, net of fees—Class I	(683,906,125)	(118,553,466)
Payments for shares redeemed, net of fees—Class II	(21,792,340)	(111,704)
<b>Net increase in net assets from Fund share transactions</b>	<b>1,907,122,763</b>	<b>571,195,069</b>
<b>Total increase in net assets</b>	<b>1,737,230,607</b>	<b>568,420,559</b>
<b>Net assets:</b>		
Beginning of period	623,356,396	54,935,837
End of period	<u>\$ 2,360,587,003</u>	<u>\$ 623,356,396</u>
Undistributed net investment income	<u>\$ 25,964,233</u>	<u>\$ 5,004,490</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	132,277,123	38,856,265
Shares issued in reinvestment of dividends	477,891	290,529
Less shares redeemed	(37,783,411)	(6,913,372)
<b>Net increase in shares outstanding</b>	<u>94,971,603</u>	<u>32,233,422</u>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	7,935,953	167,044
Shares issued in reinvestment of dividends	4,809	2,544
Less shares redeemed	(1,205,519)	(7,320)
<b>Net increase in shares outstanding</b>	<u>6,735,243</u>	<u>162,268</u>

# THE OAKMARK FAMILY OF FUNDS

## Statements of Changes in Net Assets—September 30, 2002 (cont.)

	The Oakmark Global Fund	
	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment loss	\$ (18,547)	\$ (55)
Net realized gain (loss) on investments	(1,261,095)	1,479,943
Net realized gain (loss) on foreign currency transactions	(37,184)	71,444
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(30,244,164)	(4,901,265)
Net change in unrealized appreciation (depreciation) of forward currency exchange contracts	0	(76,462)
Net change in unrealized appreciation (depreciation)—other	18,109	1,700
<b>Net decrease in net assets from operations</b>	<u>(31,542,881)</u>	<u>(3,424,695)</u>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(11,774)	(435,138)
Net investment income—Class II	(61)	0
Net realized gain—Class I	(1,361,493)	(129,934)
Net realized gain—Class II	(7,099)	0
<b>Total distributions to shareholders</b>	<u>(1,380,427)</u>	<u>(565,072)</u>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	228,014,650	42,948,303
Proceeds from shares sold—Class II	754,996	0
Reinvestment of distributions—Class I	1,321,517	560,498
Payments for shares redeemed, net of fees—Class I	(69,082,440)	(18,542,262)
Payments for shares redeemed, net of fees—Class II	(75,625)	0
<b>Net increase in net assets from Fund share transactions</b>	<u>160,933,098</u>	<u>24,966,539</u>
<b>Total increase in net assets</b>	128,009,790	20,976,772
<b>Net assets:</b>		
Beginning of period	48,204,011	27,227,239
End of period	<u>\$ 176,213,801</u>	<u>\$ 48,204,011</u>
Undistributed net investment loss	<u>\$ (131,833)</u>	<u>\$ (159,043)</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	16,329,528	3,516,235
Shares issued in reinvestment of dividends	108,677	52,629
Less shares redeemed	(5,343,294)	(1,614,181)
<b>Net increase in shares outstanding</b>	<u>11,094,911</u>	<u>1,954,683</u>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	61,020	0
Less shares redeemed	(6,528)	0
<b>Net increase in shares outstanding</b>	<u>54,492</u>	<u>0</u>



## The Oakmark International Fund

	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment income	\$ 16,380,565	\$ 11,508,911
Net realized loss on investments	(2,111,019)	(13,334,222)
Net realized gain (loss) on foreign currency transactions	(744,096)	2,323,657
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(199,327,235)	(118,037,625)
Net change in unrealized appreciation (depreciation) of forward currency exchange contracts	0	(2,048,003)
Net change in unrealized appreciation (depreciation)—other	(155,750)	169,583
<b>Net decrease in net assets from operations</b>	<b>(185,957,535)</b>	<b>(119,417,699)</b>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(10,170,790)	(24,851,611)
Net investment income—Class II	(76,332)	(3,245)
Net realized gain—Class I	0	(24,703,666)
<b>Total distributions to shareholders</b>	<b>(10,247,122)</b>	<b>(49,558,522)</b>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	1,172,930,611	282,295,504
Proceeds from shares sold—Class II	71,056,423	2,588,328
Reinvestment of distributions—Class I	9,816,822	47,893,421
Reinvestment of distributions—Class II	1,669	0
Payments for shares redeemed, net of fees—Class I	(339,595,271)	(205,510,100)
Payments for shares redeemed, net of fees—Class II	(16,218,827)	(327,974)
<b>Net increase in net assets from Fund share transactions</b>	<b>897,991,427</b>	<b>126,939,179</b>
<b>Total increase (decrease) in net assets</b>	<b>701,786,770</b>	<b>(42,037,042)</b>
<b>Net assets:</b>		
Beginning of period	740,476,924	782,513,966
End of period	<u>\$ 1,442,263,694</u>	<u>\$ 740,476,924</u>
Undistributed net investment income	<u>\$ 15,418,278</u>	<u>\$ 9,923,928</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	78,310,031	18,753,874
Shares issued in reinvestment of dividends	726,633	3,302,548
Less shares redeemed	(23,511,785)	(13,850,522)
<b>Net increase in shares outstanding</b>	<u>55,524,879</u>	<u>8,205,900</u>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	4,928,274	172,064
Shares issued in reinvestment of dividends	124	446
Less shares redeemed	(1,088,826)	(23,339)
<b>Net increase in shares outstanding</b>	<u>3,839,572</u>	<u>149,171</u>

# THE OAKMARK FAMILY OF FUNDS

## Statements of Changes in Net Assets—September 30, 2002 (cont.)

	The Oakmark International Small Cap Fund	
	Year Ended September 30, 2002	Year Ended September 30, 2001
<b>From Operations:</b>		
Net investment income	\$ 4,016,566	\$ 1,844,218
Net realized gain on investments	12,083,383	1,136,757
Net realized gain (loss) on foreign currency transactions	(31,834)	591,541
Net change in unrealized appreciation (depreciation) of investments and foreign currencies	(70,664,400)	(12,360,111)
Net change in unrealized appreciation (depreciation) of forward currency exchange contracts	0	(289,441)
Net change in unrealized appreciation (depreciation)—other	21,128	28,453
<b>Net decrease in net assets from operations</b>	<u>(54,575,157)</u>	<u>(9,048,583)</u>
<b>Distributions to shareholders from:</b>		
Net investment income—Class I	(2,120,585)	(2,566,080)
Net investment income—Class II	(921)	0
Net realized gain—Class I	(1,891,258)	(3,663,064)
Net realized gain—Class II	(1,136)	0
<b>Total distributions to shareholders</b>	<u>(4,013,900)</u>	<u>(6,229,144)</u>
<b>From Fund share transactions:</b>		
Proceeds from shares sold—Class I	428,499,905	72,931,617
Proceeds from shares sold—Class II	333,324	39,964
Reinvestment of distributions—Class I	3,875,545	6,071,794
Payments for shares redeemed, net of fees—Class I	(134,986,731)	(35,203,678)
Payments for shares redeemed, net of fees—Class II	(34,570)	0
<b>Net increase in net assets from Fund share transactions</b>	<u>297,687,473</u>	<u>43,839,697</u>
<b>Total increase in net assets</b>	239,098,416	28,561,970
<b>Net assets:</b>		
Beginning of period	118,907,752	90,345,782
End of period	<u>\$ 358,006,168</u>	<u>\$ 118,907,752</u>
Undistributed net investment income	<u>\$ 2,936,581</u>	<u>\$ 1,922,975</u>
<b>Fund Share Transactions—Class I:</b>		
Shares sold	34,412,757	6,676,464
Shares issued in reinvestment of dividends	375,172	588,352
Less shares redeemed	(11,505,764)	(3,225,816)
<b>Net increase in shares outstanding</b>	<u>23,282,165</u>	<u>4,039,000</u>
<b>Fund Share Transactions—Class II:</b>		
Shares sold	27,354	3,688
Less shares redeemed	(2,766)	0
<b>Net increase in shares outstanding</b>	<u>24,588</u>	<u>3,688</u>

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements

### 1. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of The Oakmark Fund ("Oakmark"), The Oakmark Select Fund ("Select"), The Oakmark Small Cap Fund ("Small Cap"), The Oakmark Equity and Income Fund ("Equity and Income"), The Oakmark Global Fund ("Global"), 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 Harris Associates Investment Trust (a Massachusetts business trust). These policies are in conformity with accounting principles generally accepted in the United States ("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.

#### Class Disclosure—

Each Fund offers two classes of shares: Class I Shares and Class II Shares. Class I Shares are offered to the general public. Class II Shares are offered to certain retirement plans such as 401(k) and profit sharing plans. Class II Shares pay a service fee at the annual rate of .25% of average net assets of Class II Shares of the Funds. This service fee is paid to an administrator for performing the services associated with the administration of such retirement plans.

Expenses of the Funds that are not directly attributable to a specific class of shares are prorated among the classes based on the relative net assets of each class. Expenses directly attributable to a class of shares are recorded to the specific class.

#### Security valuation—

Investments are stated at value. Securities traded on securities exchanges, securities traded on the NASDAQ National Market, and over-the-counter securities are valued at the last sales price on the day of valuation, or if there are no reported sales that day, at the most recent bid quotation. Debt obligations and money market instruments maturing in more than 60 days from the date of purchase shall be valued at the latest bid quotation. Debt obligations and money market instruments maturing in less than 61 days from the date of purchase are valued on an amortized cost basis, which approximates market value. Options are valued at the last reported sale price on the day of valuation, or if there are no reported sales that day, at the mean of the most recent bid and ask quotations. Securities for which quotations are not readily available, or securities which may have been affected by a significant event after the price was determined, are valued at a fair value as determined by the Pricing Committee appointed by the Board of 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 for securities sold are included with the net realized gain or loss from securities.

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 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, 2002, the Equity and Income, Global, International and Int'l Small Cap Funds had foreign currency transactions. Net unrealized appreciation (depreciation) - other includes the following components:

	Equity and Income	Global	International	Int'l Small Cap
Unrealized appreciation (depreciation) on dividends and dividend reclaims receivable	\$(601)	\$ 4,181	\$ 110,055	\$ 18,659
Unrealized appreciation (depreciation) on open securities purchases and sales	0	14,113	(276,462)	5,237
Net Unrealized appreciation (depreciation) - Other	<u>\$(601)</u>	<u>\$18,294</u>	<u>\$(166,407)</u>	<u>\$23,896</u>

#### 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 an accrual basis. Bond discount is accreted and premium is amortized over the expected life of each applicable security.

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements (cont.)

### Forward foreign currency contracts—

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. At September 30, 2002, the Funds had no forward foreign currency contracts outstanding.

### Distributions to shareholders—

Income dividends and capital gains distributions are determined in accordance with federal income tax regulations, which may differ from GAAP. To the extent these tax and book differences are permanent in nature, such amounts are reclassified among paid in capital, undistributed net investment income and accumulated undistributed net realized gain (loss). These differences are primarily related to foreign currency transactions, deferral of losses on wash sales, and character of capital loss carryforwards. The Funds also utilize tax basis earnings and profits distributed to shareholders on redemption of shares as a part of the dividends paid deduction for income tax purposes.

### Bank Loans—

The Funds have an unsecured line of credit with Investors Bank & Trust. It is a committed line of \$250 million. Borrowings under this arrangement bear interest at .45% above the Federal Funds Effective Rate. For the year ended September 30, 2002, there were no outstanding borrowings.

### Accounting for Options—

When a Fund writes an option, the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current market value of the option written. Premiums received from writing options that expire are recorded by the Fund on the expiration date as realized gains from option transactions. The difference between the premium and the amount paid on effecting a closing purchase transaction including brokerage commissions, is also treated as a realized gain, or if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or a loss. If a put option is exercised, the premium reduces the cost basis of the security or currency purchased by the Fund. In writing an option, the Fund bears the market risk of an unfavorable change in the price of the security or currency underlying the written option. Exercise of an option written by the Fund could result in the Fund selling or buying a security or currency at a price different from the current market value.

During the year ended September 30, 2002, Oakmark, Select, Small Cap, Equity and Income, and Global wrote option contracts. At September 30, 2002, Equity and Income had outstanding option contracts. Portfolio securities valued at \$2,567,880 were being held in escrow by the custodian as cover for options written by Equity and Income.

## 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. Each fee is calculated on the total net assets as determined at the end of each preceding calendar month. Annual fee rates are as follows:

Fund	Advisory Fees	Fund	Advisory Fees
Oakmark Fund	1.00% up to \$2 billion; 0.90% on the next \$1 billion; 0.80% on the next \$2 billion; and 0.75% over \$5 billion	Equity and Income Fund	0.75%
Select Fund	1.00% up to \$1 billion; 0.95% on the next \$500 million; 0.90% on the next \$500 million; 0.85% on the next \$500 million; 0.80% on the next \$2.5 billion; and 0.75% over \$5 billion	Global Fund	1.00%
Small Cap Fund	1.00%	International Fund	1.00% up to \$2 billion; 0.95% on the next \$1 billion; and 0.85% over \$3 billion
		International Small Cap Fund	1.25% up to \$500 million; and 1.10% over \$500 million

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements (cont.)

The Adviser has voluntarily agreed to reimburse the Funds to the extent that annual expenses are greater than 1.0% for Class I shares of the Equity and Income Fund, and greater than 1.5% for Class I shares of all other domestic funds; are greater than 1.75% for Class I shares of the Global Fund, and greater than 2.0% for Class I shares of all other international funds; are greater than 1.25% for Class II shares of the Equity and Income Fund, and greater than 1.75% for Class II shares of all other domestic funds; are greater than 2.0% for Class II shares of the Global Fund, and greater than 2.25% for Class II shares of all other international funds.

During the year ended September 30, 2002, the Funds incurred brokerage commissions, including commissions paid to affiliates of the Adviser, as follows:

Fund	Total Commissions	Commissions Paid to Affiliates
Oakmark	\$6,780,742	\$1,944,252
Select	7,103,318	1,010,280
Small Cap	653,247	68,113
Equity and Income	4,727,959	787,956
Global	896,230	194,583
International	3,824,992	0
Int'l Small Cap	1,711,855	0

CDC IXIS Asset Management Services Co., an affiliate of the adviser, provides transfer agent services to the Funds. During the year ended September 30, 2002, the Funds incurred the following transfer agent expenses:

Fund	Transfer Agent fees
Oakmark	\$2,598,857
Select	1,837,559
Small Cap	400,097
Equity and Income	704,717
Global	188,437
International	753,702
Int'l Small Cap	178,248

The Funds' independent Trustees may participate in a Deferred Compensation Plan which may be terminated at any time. The obligations of the Plan are paid solely out of the assets of the Funds.

### 3. FEDERAL INCOME TAXES

It is the policy of each Fund to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its net taxable income, including any net realized gains on investments, to its shareholders. Therefore, no federal income tax provision is required.

Fund	Cost of Investments for Federal Income Tax Purposes	Gross Unrealized Appreciation	Gross Unrealized (Depreciation)	Net Unrealized Appreciation (Depreciation)
Oakmark	\$3,652,370,429	\$247,594,858	\$(595,291,371)	\$(347,696,513)
Select	3,653,927,245	692,943,112	(580,754,209)	112,188,903
Small Cap	415,921,249	50,149,302	(108,633,643)	(58,484,339)
Equity and Income	2,446,194,767	92,373,384	(198,160,836)	(105,787,452)
Global	207,674,350	8,586,205	(41,519,093)	(32,932,888)
International	1,820,971,241	107,877,031	(471,953,223)	(364,076,192)
Int'l Small Cap	445,238,103	12,236,363	(102,802,819)	(90,566,456)

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements (cont.)

As of September 30, 2002, the net capital loss carryovers noted below are available to offset future realized capital gains and thereby reduce future taxable gains distributions.

Fund	Net Capital Loss Carryover	Years of Expiration
Oakmark	\$165,547,384	2008-2010
Select	49,038,583	2009-2010
Equity and Income	3,347,886	2010
Global	463,447	2010
International	14,901,531	2010

For the year ended September 30, 2002, the Funds have elected to defer to October 1, 2002 Post October capital losses of:

Fund	Amount
Oakmark	\$22,576,461
Select	24,174,966
Small Cap	497,018
Equity and Income	78,012,684
Global	662,686

For the year ended September 30, 2002, Global has elected to defer to October 1, 2002 Post October currency losses of \$28,715.

At September 30, 2002, the components of distributable earnings (excluding unrealized (depreciation) disclosed below) on a tax basis were as follows:

Fund	Undistributed Ordinary Income	Undistributed Long-Term Gain	Total Distributable Earnings
Oakmark	\$13,888,257	\$ 0	\$13,888,257
Select	3,909,462	0	3,909,462
Equity and Income	25,952,231	0	25,952,231
International	15,610,363	0	15,610,363
Int'l Small Cap	3,056,360	9,044,095	12,100,455

Pursuant to Section 852 of the Internal Revenue Code, Int'l Small Cap designates \$11,433,302 as capital gain dividends for the year ended September 30, 2002.

For corporate shareholders, a portion of the ordinary dividends paid during the Funds' year ended September 30, 2002 qualified for the dividends received deduction, as follows:

Fund	
Oakmark	100.00%
Select	100.00%
Equity and Income	48.23%
Global	49.97%

International and Int'l Small Cap paid qualifying foreign taxes of \$2,971,519 and \$1,023,528 and earned \$34,394,608 and \$9,853,898 foreign source income during the year ended September 30, 2002, respectively. Pursuant to Section 853 of the Internal revenue Code, International and Int'l Small Cap designated \$0.02507 and \$0.02908 per share as foreign taxes paid and \$0.29017 and \$0.27993 per share as income earned from foreign sources for the year ended September 30, 2002, respectively.

During the year ended September 30, 2002, the tax character of distributions paid was as follows:

Fund	Distributions Paid from Ordinary Income	Distributions Paid from Long-Term Capital Gain
Oakmark	\$19,630,625	\$ 0
Select	8,379,997	0
Equity and Income	7,028,935	1,896,895
Global	11,596	1,361,554
International	10,247,122	0
Int'l Small Cap	4,821,309	2,389,207

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements (cont.)

### 4. INVESTMENT TRANSACTIONS

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

	Oakmark	Select	Small Cap	Equity & Income	Global	International	Int'l Small Cap
Purchases at cost	\$2,294,297	\$1,691,592	\$231,562	\$2,583,815	\$269,893	\$1,156,420	\$413,133
Proceeds from sales	1,471,091	1,364,181	81,723	1,007,679	110,669	278,168	123,782

Purchases at cost and proceeds from sales of long-term U.S. Government securities during the year ended September 30, 2002 were \$386,583 and \$107,684, respectively for Equity and Income.

Transactions in options written during the year ended September 30, 2002 were as follows:

	Oakmark		Select		Small Cap	
	Number of Contracts	Premiums Received	Number of Contracts	Premiums Received	Number of Contracts	Premiums Received
Options outstanding at September 30, 2001	0	\$ 0	0	\$ 0	0	\$ 0
Options written	172,645	16,125,038	104,615	10,534,128	9,325	1,683,351
Options terminated in closing purchase transactions	(97,910)	(9,243,078)	(67,380)	(6,668,372)	(5,800)	(1,167,798)
Options expired	(50,745)	(5,804,083)	(25,389)	(3,500,703)	(3,325)	(413,956)
Options exercised	(23,990)	(1,077,877)	(11,846)	(365,053)	(200)	(101,597)
Options outstanding at September 30, 2002	0	\$ 0	0	\$ 0	0	\$ 0

	Equity & Income		Global	
	Number of Contracts	Premiums Received	Number of Contracts	Premiums Received
Options outstanding at September 30, 2001	0	\$ 0	450	\$ 141,020
Options written	49,964	5,314,503	26,135	3,011,740
Options terminated in closing purchase transactions	(30,549)	(3,674,211)	(24,925)	(2,852,310)
Options expired	(9,194)	(999,677)	(1,610)	(291,350)
Options exercised	(31)	(2,515)	(50)	(9,100)
Options outstanding at September 30, 2002	10,190	\$ 638,100	0	\$ 0

### 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, 2002, is set forth below:

#### Summary of Transactions with Affiliated Companies The Oakmark Select Fund

Affiliates	Purchases (Cost)	Sales Proceeds	Dividend Income	Market Value September 30, 2002
Dun & Bradstreet Corporation	\$109,946,411	\$ 3,432,695	\$0	\$178,848,893
Toys 'Я' Us, Inc.	210,755,208	10,492,421	0	129,270,730
TOTALS	\$320,701,619	\$13,925,116	\$0	\$308,119,623

# THE OAKMARK FAMILY OF FUNDS

## Notes to Financial Statements (cont.)

### Summary of Transactions with Affiliated Companies The Oakmark Small Cap Fund

Affiliates	Purchases (Cost)	Sales Proceeds	Dividend Income	Market Value September 30, 2002
Department 56, Inc.	\$10,772,852	\$510,789	\$0	\$ 7,942,000
Optimal Robotics Corp., Class A	6,384,338	200,906	0	5,833,140
R.G. Barry Corporation	10,857,418	31,219	0	3,744,000
TOTALS	\$28,014,608	\$742,914	\$0	\$17,519,140

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

Affiliates	Purchases (Cost)	Sales Proceeds	Dividend Income	Market Value September 30, 2002
Chargeurs SA	\$ 19,034,755	\$ 0	\$1,216,916	\$ 24,632,990
Cordiant Communications Group plc	50,280,582	8,718,722	0	14,630,031
Enodis plc	53,457,790	8,846,818	5,650,112	26,095,013
Fila Holding S.p.A	83,867,401	205,149	0	3,006,328
Michael Page International plc	17,905,974	0	866,135	40,276,985
Orbotech, Ltd.	17,949,095	0	0	27,157,700
TOTALS	\$242,495,597	\$17,770,689	\$7,733,163	\$135,799,047

### Summary of Transactions with Affiliated Companies The Oakmark Int'l Small Cap Fund

Affiliates	Purchases (Cost)	Sales Proceeds	Dividend Income	Market Value September 30, 2002
Alaska Milk Corporation	\$ 3,024,829	\$ 0	\$216,616	\$ 1,997,430
Banco Latinoamericano	10,642,049	86,525	0	2,375,386
Mainfreight Limited	6,734,113	0	141,073	4,013,599
Matichon Public Company Limited, Foreign Shares	3,448,354	0	163,123	2,733,15
Pfeiffer Vacuum Technology AG	10,695,295	0	239,563	9,178,710
Royal Daulton plc	8,302,272	0	0	1,755,889
TOTALS	\$42,846,912	\$86,525	\$760,375	\$22,054,170





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# THE OAKMARK FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$ 32.01	\$ 26.95	\$ 34.37	\$ 33.54	\$ 41.21
Income From Investment Operations:					
Net Investment Income	0.12	0.07	0.49	0.36	0.47
Net Gains or Losses on Securities (both realized and unrealized)	<u>(3.85)</u>	<u>5.38</u>	<u>(2.91)</u>	<u>2.51</u>	<u>(1.73)</u>
Total From Investment Operations:	(3.73)	5.45	(2.42)	2.87	(1.26)
Less Distributions:					
Dividends (from net investment income)	(0.20)	(0.39)	(0.26)	(0.44)	(0.40)
Distributions (from capital gains)	<u>0.00</u>	<u>0.00</u>	<u>(4.74)</u>	<u>(1.60)</u>	<u>(6.01)</u>
Total Distributions	<u>(0.20)</u>	<u>(0.39)</u>	<u>(5.00)</u>	<u>(2.04)</u>	<u>(6.41)</u>
Net Asset Value, End of Period	<u>\$ 28.08</u>	<u>\$ 32.01</u>	<u>\$ 26.95</u>	<u>\$ 34.37</u>	<u>\$ 33.54</u>
Total Return	(11.77)%	20.42%	(7.55)%	7.98%	(4.06)%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$3,300.9	\$3,109.1	\$2,038.7	\$4,772.8	\$6,924.0
Ratio of Expenses to Average Net Assets	1.17%	1.15%	1.21%	1.11%	1.08%
Ratio of Net Investment Income to Average Net Assets	0.38%	0.73%	1.42%	1.02%	1.22%
Portfolio Turnover Rate	44%	57%	50%	13%	43%

## Financial Highlights—Class II

For a share outstanding throughout each period

	Year Ended September 30, 2002	April 5, 2001 through September 30, 2001 (a)
Net Asset Value, Beginning of Period	\$ 31.97	\$32.09
Net Investment Income	0.16	0.05
Net Gains or Losses on Securities (both realized and unrealized)	<u>(3.92)</u>	<u>(0.17)</u>
Total From Investment Operations:	(3.76)	(0.12)
Less Distributions:		
Dividends (from net investment income)	(0.17)	0.00
Distributions (from capital gains)	<u>0.00</u>	<u>0.00</u>
Total Distributions	<u>(0.17)</u>	<u>0.00</u>
Net Asset Value, End of Period	<u>\$ 28.04</u>	<u>\$31.97</u>
Total Return	(11.85)%	(0.37)%
Ratios/Supplemental Data:		
Net Assets, End of Period (\$million)	\$ 7.7	\$ 0.1
Ratio of Expenses to Average Net Assets	1.44%	1.32%*
Ratio of Net Investment Income to Average Net Assets	0.35%	0.46%*
Portfolio Turnover Rate	44%	57%

\* Data has been annualized.

(a) The date which Class II shares were first sold to the public was April 5, 2001.

# THE OAKMARK SELECT FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$ 25.20	\$ 21.45	\$ 20.92	\$ 16.76	\$ 16.34
Income From Investment Operations:					
Net Investment Income	0.02	0.03	0.13	0.19	0.03
Net Gains or Losses on Securities (both realized and unrealized)	<u>(3.50)</u>	<u>5.17</u>	<u>4.32</u>	<u>4.73</u>	<u>0.56</u>
Total From Investment Operations:	(3.48)	5.20	4.45	4.92	0.59
Less Distributions:					
Dividends (from net investment income)	(0.05)	(0.09)	(0.20)	(0.05)	0.00
Distributions (from capital gains)	<u>0.00</u>	<u>(1.36)</u>	<u>(3.72)</u>	<u>(0.71)</u>	<u>(0.17)</u>
Total Distributions	<u>(0.05)</u>	<u>(1.45)</u>	<u>(3.92)</u>	<u>(0.76)</u>	<u>(0.17)</u>
Net Asset Value, End of Period	<u>\$ 21.67</u>	<u>\$ 25.20</u>	<u>\$ 21.45</u>	<u>\$ 20.92</u>	<u>\$ 16.76</u>
Total Return	(13.85)%	25.75%	24.53%	30.07%	3.64%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$3,717.6	\$4,161.4	\$1,772.0	\$1,638.9	\$1,227.9
Ratio of Expenses to Average Net Assets	1.07%	1.08%	1.17%	1.16%	1.22%
Ratio of Net Investment Income to Average Net Assets	0.09%	0.26%	0.76%	0.98%	0.17%
Portfolio Turnover Rate	32%	21%	69%	67%	56%

## Financial Highlights—Class II

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	December 31, 1999 through September 30, 2000 (a)
Net Asset Value, Beginning of Period	\$ 25.10	\$21.40	\$18.42
Net Investment Income (Loss)	(0.04)	0.00	0.10
Net Gains or Losses on Securities (both realized and unrealized)	<u>(3.50)</u>	<u>5.10</u>	<u>2.88</u>
Total From Investment Operations:	(3.54)	5.10	2.98
Less Distributions:			
Dividends (from net investment income)	0.00	(0.06)	0.00
Distributions (from capital gains)	<u>0.00</u>	<u>(1.34)</u>	<u>0.00</u>
Total Distributions	<u>0.00</u>	<u>(1.40)</u>	<u>0.00</u>
Net Asset Value, End of Period	<u>\$ 21.56</u>	<u>\$25.10</u>	<u>\$21.40</u>
Total Return	(14.10)%	25.28%	16.18%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$ 64.4	\$ 35.4	\$ 6.8
Ratio of Expenses to Average Net Assets	1.36%	1.40%	1.41%*
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.19)%	(0.08)%	0.59%*
Portfolio Turnover Rate	32%	21%	69%

\* Data has been annualized.

(a) The date which Class II shares were first sold to the public was December 31, 1999.

# THE OAKMARK SMALL CAP FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$14.57	\$15.10	\$13.88	\$12.63	\$ 20.34
Income From Investment Operations:					
Net Investment Income (Loss)	(0.11)	0.00	0.00	0.14	(0.12)
Net Gains or Losses on Securities (both realized and unrealized)	<u>(0.36)</u>	<u>(0.02)</u>	<u>1.22</u>	<u>1.20</u>	<u>(4.73)</u>
Total From Investment Operations:	(0.47)	(0.02)	1.22	1.34	(4.85)
Less Distributions:					
Dividends (from net investment income)	0.00	0.00	0.00	0.00	0.00
Distributions (from capital gains)	<u>0.00</u>	<u>(0.51)</u>	<u>0.00</u>	<u>(0.09)</u>	<u>(2.86)</u>
Total Distributions	0.00	(0.51)	0.00	(0.09)	(2.86)
Net Asset Value, End of Period	<u>\$14.10</u>	<u>\$14.57</u>	<u>\$15.10</u>	<u>\$13.88</u>	<u>\$ 12.63</u>
Total Return	(3.23)%	0.07%	8.79%	10.56%	(26.37)%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$356.9	\$264.6	\$248.7	\$437.1	\$ 618.0
Ratio of Expenses to Average Net Assets	1.33%	1.27%	1.50%(a)	1.48%	1.45%
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.67)%	(0.28)%	(0.41)% (a)	(0.44)%	(0.40)%
Portfolio Turnover Rate	22%	47%	28%	68%	34%

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

	September 30, 2000
Ratio of Expenses to Average Net Assets	1.59%
Ratio of Net Income (Loss) to Average Net Assets	(0.50)%

## Financial Highlights—Class II

For a share outstanding throughout each period

	April 10, 2002 through September 30, 2002 (b)
Net Asset Value, Beginning of Period	\$ 19.71
Net Investment Income (Loss)	(0.20)(c)
Net Gains or Losses on Securities (both realized and unrealized)	<u>(5.42)</u>
Total From Investment Operations:	<u>(5.62)</u>
Net Asset Value, End of Period	<u>\$ 14.09</u>
Total Return	(28.51)%
Ratios/Supplemental Data:	
Net Assets, End of Period (\$million)	\$ 0.5
Ratio of Expenses to Average Net Assets	1.48%*
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.85)%*
Portfolio Turnover Rate	22%

\* Data has been annualized.

(b) The date which Class II shares were first sold to the public was April 10, 2002.

(c) Computed using average shares outstanding throughout the period.

# THE OAKMARK EQUITY AND INCOME FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$ 17.45	\$16.50	\$15.68	\$13.99	\$14.49
Income From Investment Operations:					
Net Investment Income	0.33(a)	0.08	0.35	0.39	0.29
Net Gains or Losses on Securities (both realized and unrealized)	<u>(0.40)</u>	<u>2.11</u>	<u>2.28</u>	<u>1.72</u>	<u>0.04</u>
Total From Investment Operations:	(0.07)	2.19	2.63	2.11	0.33
Less Distributions:					
Dividends (from net investment income)	(0.16)	(0.24)	(0.45)	(0.21)	(0.24)
Distributions (from capital gains)	<u>(0.04)</u>	<u>(1.00)</u>	<u>(1.36)</u>	<u>(0.21)</u>	<u>(0.59)</u>
Total Distributions	<u>(0.20)</u>	<u>(1.24)</u>	<u>(1.81)</u>	<u>(0.42)</u>	<u>(0.83)</u>
Net Asset Value, End of Period	<u>\$ 17.18</u>	<u>\$17.45</u>	<u>\$16.50</u>	<u>\$15.68</u>	<u>\$13.99</u>
Total Return	(0.47)%	14.40%	18.51%	15.32%	2.57%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$2,241.9	\$620.1	\$ 54.5	\$ 60.3	\$ 57.7
Ratio of Expenses to Average Net Assets	0.96%	0.98%	1.24%	1.18%	1.31%
Ratio of Net Investment Income to Average Net Assets	1.71%	2.07%	3.04%	2.65%	2.39%
Portfolio Turnover Rate	73%	124%	87%	81%	46%

(a) Computed using average shares outstanding throughout the period.

## Financial Highlights—Class II

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	July 13, 2000 through September 30, 2000 (b)
Net Asset Value, Beginning of Period	\$17.40	\$16.49	\$15.51
Net Investment Income	0.30(c)	0.07	0.30
Net Gains or Losses on Securities (both realized and unrealized)	<u>(0.40)</u>	<u>2.08</u>	<u>0.68</u>
Total From Investment Operations:	(0.10)	2.15	0.98
Less Distributions:			
Dividends (from net investment income)	(0.11)	(0.24)	0.00
Distributions (from capital gains)	<u>(0.04)</u>	<u>(1.00)</u>	<u>0.00</u>
Total Distributions	<u>(0.15)</u>	<u>(1.24)</u>	<u>0.00</u>
Net Asset Value, End of Period	<u>\$17.15</u>	<u>\$17.40</u>	<u>\$16.49</u>
Total Return	(0.60)%	14.07%	6.32%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$118.7	\$ 3.3	\$ 0.4
Ratio of Expenses to Average Net Assets	1.20%	1.23%	1.32%*
Ratio of Net Investment Income to Average Net Assets	1.50%	1.95%	2.59%*
Portfolio Turnover Rate	73%	124%	87%

\* Data has been annualized.

(b) The date which Class II shares were first sold to the public was July 13, 2000.

(c) Computed using average shares outstanding throughout the period.

# THE OAKMARK GLOBAL FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	August 4, 1999 through September 30, 1999 (a)
Net Asset Value, Beginning of Period	\$10.83	\$10.91	\$ 9.18	\$10.00
Income From Investment Operations:				
Net Investment Income (Loss)	0.00(b)(c)	0.03	0.11	0.01
Net Gains or Losses on Securities (both realized and unrealized)	<u>0.76(d)</u>	<u>0.12</u>	<u>1.63</u>	<u>(0.83)</u>
Total From Investment Operations:	0.76	0.15	1.74	(0.82)
Less Distributions:				
Dividends (from net investment income)	(0.00)	(0.17)	(0.01)	0.00
Distributions (from capital gains)	<u>(0.29)</u>	<u>(0.06)</u>	<u>0.00</u>	<u>0.00</u>
Total Distributions	<u>(0.29)</u>	<u>(0.23)</u>	<u>(0.01)</u>	<u>0.00</u>
Net Asset Value, End of Period	<u>\$11.30</u>	<u>\$10.83</u>	<u>\$10.91</u>	<u>\$ 9.18</u>
Total Return	6.84%	1.37%	18.97%	(8.20)%
Ratios/Supplemental Data:				
Net Assets, End of Period (\$million)	\$175.6	\$ 48.2	\$ 27.2	\$ 24.0
Ratio of Expenses to Average Net Assets	1.55%	1.75%(e)	1.75%(e)	1.75%*(e)
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.01)%	0.00(e)	0.54%(e)	0.98%*(e)
Portfolio Turnover Rate	86%	114%	147%	7%

\* Data has been annualized.

(a) The date which Fund shares were first offered for sale to the public was August 4, 1999.

(b) Amount rounds to less than \$(0.01) per share.

(c) Computed using average shares outstanding throughout the period.

(d) The amount shown for a share outstanding does not correspond with the aggregate net realized and unrealized gain/loss for the period due to the timing of purchases and redemption of Fund shares in relation to the fluctuating market values of the Fund.

(e) If the Fund had paid all of its expenses and there had been no expense reimbursement by the Advisers, ratios would have been as follows:

	September 30, 2001	September 30, 2000	September 30, 1999
Ratio of Expenses to Average Net Assets	1.80%	1.96%	2.22%*
Ratio of Net Income (Loss) to Average Net Assets	(0.05)%	0.34%	0.51%*

# THE OAKMARK GLOBAL FUND

## Financial Highlights—Class II

For a share outstanding throughout each period

	<b>October 10, 2001 through September 30, 2002 (a)</b>
Net Asset Value, Beginning of Period	\$11.25
Net Investment Income (Loss)	(0.03)
Net Gains or Losses on Securities (both realized and unrealized)	<u>0.31(b)</u>
Total From Investment Operations:	0.28
Less Distributions:	
Dividends (from net investment income)	(0.00)
Distributions (from capital gains)	<u>(0.29)</u>
Total Distributions	<u>(0.29)</u>
Net Asset Value, End of Period	<u>\$11.24</u>
Total Return	2.31%
Ratios/Supplemental Data:	
Net Assets, End of Period (\$million)	\$ 0.6
Ratio of Expenses to Average Net Assets	1.86%*
Ratio of Net Investment Income (Loss) to Average Net Assets	(0.26)%*
Portfolio Turnover Rate	86%

\* Data has been annualized.

(a) The date which Class II shares were first offered for sale to the public was October 10, 2001.

(b) The amount shown for a share outstanding does not correspond with the aggregate net realized and unrealized gain/loss for the period due to the timing of purchases and redemption of Fund shares in relation to the fluctuating market values of the Fund.

# THE OAKMARK INTERNATIONAL FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$12.51	\$ 15.40	\$ 13.95	\$10.42	\$ 18.77
Income From Investment Operations:					
Net Investment Income (Loss)	0.14	0.20	1.02	(0.34)	0.41
Net Gains or Losses on Securities (both realized and unrealized)	<u>(0.31)</u>	<u>(2.07)</u>	<u>0.92</u>	<u>4.89</u>	<u>(5.32)</u>
Total From Investment Operations:	(0.17)	(1.87)	1.94	4.55	(4.91)
Less Distributions:					
Dividends (from net investment income)	(0.17)	(0.51)	(0.49)	(0.24)	(0.58)
Distributions (from capital gains)	<u>0.00</u>	<u>(0.51)</u>	<u>0.00</u>	<u>(0.78)</u>	<u>(2.86)</u>
Total Distributions	<u>(0.17)</u>	<u>(1.02)</u>	<u>(0.49)</u>	<u>(1.02)</u>	<u>(3.44)</u>
Net Asset Value, End of Period	<u>\$12.17</u>	<u>\$ 12.51</u>	<u>\$ 15.40</u>	<u>\$13.95</u>	<u>\$ 10.42</u>
Total Return	(1.53)%	(13.10)%	14.27%	46.41%	(29.90)%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$1,393.8	\$ 738.5	\$ 782.4	\$811.1	\$ 756.1
Ratio of Expenses to Average Net Assets	1.31%	1.30%	1.30%	1.29%	1.32%
Ratio of Net Investment Income (Loss) to Average Net Assets	1.34%	1.40%	1.87%	1.94%	1.95%
Portfolio Turnover Rate	24%	58%	64%	54%	43%

## Financial Highlights—Class II

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	November 4, 1999 through September 30, 2000 (a)
Net Asset Value, Beginning of Period	\$12.47	\$15.37	\$14.36
Net Investment Income	0.15	0.17	0.96
Net Gains or Losses on Securities (both realized and unrealized)	<u>(0.37)</u>	<u>(2.10)</u>	<u>0.54</u>
Total From Investment Operations:	(0.22)	(1.93)	1.50
Less Distributions:			
Dividends (from net investment income)	(0.12)	(0.49)	(0.49)
Distributions (from capital gains)	<u>0.00</u>	<u>(0.48)</u>	<u>0.00</u>
Total Distributions	<u>(0.12)</u>	<u>(0.97)</u>	<u>(0.49)</u>
Net Asset Value, End of Period	<u>\$12.13</u>	<u>\$12.47</u>	<u>\$15.37</u>
Total Return	(1.76)%	(13.44)%	10.79%
Ratios/Supplemental Data:			
Net Assets, End of Period (\$million)	\$ 48.5	\$ 1.9	\$ 0.1
Ratio of Expenses to Average Net Assets	1.58%	1.64%	1.50%*
Ratio of Net Investment Income to Average Net Assets	1.33%	0.62%	1.98%*
Portfolio Turnover Rate	24%	58%	64%

\* Data has been annualized.

(a) The date which Class II shares were first sold to the public was November 4, 1999.



# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Financial Highlights—Class I

For a share outstanding throughout each period

	Year Ended September 30, 2002	Year Ended September 30, 2001	Year Ended September 30, 2000	Year Ended September 30, 1999	Year Ended September 30, 1998
Net Asset Value, Beginning of Period	\$10.00	\$11.51	\$12.64	\$ 6.89	\$ 12.20
Income From Investment Operations:					
Net Investment Income	0.11	0.13	0.23	0.24	0.18
Net Gains or Losses on Securities (both realized and unrealized)	0.36(a)	(0.81)	(0.66)	5.71	(4.09)
Total From Investment Operations:	0.47	(0.68)	(0.43)	5.95	(3.91)
Less Distributions:					
Dividends (from net investment income)	(0.16)	(0.34)	(0.11)	(0.20)	(0.06)
Distributions (from capital gains)	(0.14)	(0.49)	(0.59)	0.00	(1.34)
Total Distributions	(0.30)	(0.83)	(0.70)	(0.20)	(1.40)
Net Asset Value, End of Period	<u>\$10.17</u>	<u>\$10.00</u>	<u>\$11.51</u>	<u>\$12.64</u>	<u>\$6.89</u>
Total Return	4.68%	(6.18)%	(3.44)%	88.02%	(35.20)%
Ratios/Supplemental Data:					
Net Assets, End of Period (\$million)	\$357.7	\$118.9	\$ 90.3	\$155.4	\$ 51.8
Ratio of Expenses to Average Net Assets	1.64%	1.74%	1.77%	1.79%	1.96%
Ratio of Net Investment Income to Average Net Assets	1.28%	1.83%	1.99%	2.31%	2.17%
Portfolio Turnover Rate	42%	49%	40%	126%	69%

## Financial Highlights—Class II

For a share outstanding throughout each period

	Year Ended September 30, 2002	January 8, 2001 through September 30, 2001 (b)
Net Asset Value, Beginning of Period	\$ 9.97	\$10.73
Net Investment Income	0.13(c)	0.15
Net Gains or Losses on Securities (both realized and unrealized)	0.30(c)(d)	(0.91)
Total From Investment Operations:	0.43	(0.76)
Less Distributions:		
Dividends (from net investment income)	(0.12)	0.00
Distributions (from capital gains)	(0.14)	0.00
Total Distributions	(0.26)	0.00
Net Asset Value, End of Period	<u>\$10.14</u>	<u>\$ 9.97</u>
Total Return	4.25%	(7.08)%
Ratios/Supplemental Data:		
Net Assets, End of Period (\$million)	\$ 0.3	\$ 0.0
Ratio of Expenses to Average Net Assets	1.87%	1.97%*
Ratio of Net Investment Income to Average Net Assets	1.06%	1.76%*
Portfolio Turnover Rate	42%	49%

\* Data has been annualized.

- The amount shown for a share outstanding does not correspond with the aggregate net realized and unrealized gain/loss for the period due to the timing of purchases and redemption of Fund shares in relation to the fluctuating market values of the Fund.
- The date which Class II shares were first sold to the public was January 8, 2001.
- Computed using average shares outstanding throughout the period.
- The amount shown for a share outstanding does not correspond with the aggregate net realized and unrealized gain/loss for the period due to the timing of purchases and redemption of Fund shares in relation to the fluctuating market values of the Fund.

# THE OAKMARK FAMILY OF FUNDS

## Independent Auditors' Report

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

*We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of Harris Associates Investment Trust comprising The Oakmark Fund, The Oakmark Select Fund, The Oakmark Small Cap Fund, The Oakmark Equity and Income Fund, The Oakmark Global Fund, The Oakmark International Fund, and The Oakmark International Small Cap Fund (collectively, the "Funds") as of September 30, 2002, and the related statements of operations, changes in net assets and financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits. The Funds' financial statements and financial highlights for the periods ended prior to September 30, 2002, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those statements and financial highlights in their report dated October 26, 2001.*

*We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2002, by correspondence with the Funds' custodian and brokers. 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 position of each of the Funds as of September 30, 2002, the results of their operations, the changes in their net assets, and their financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.*

### **DELOITTE & TOUCHE LLP**

Chicago, Illinois  
October 25, 2002

This material must be preceded or accompanied by a prospectus. To order a prospectus, which explains management fees and expenses and the special risks of investing in the funds, visit [www.oakmark.com](http://www.oakmark.com) or call 1-800-OAKMARK. Please read the prospectus carefully before investing.

The discussion of investments and investment strategy of the funds represents the investments of the funds and the views of fund managers and Harris Associates L.P., the funds' investment adviser, at the time of this article, and are subject to change without notice.

Past performance is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than original cost.

Investing in value stocks presents the risk that value stocks may fall out of favor with investors and underperform growth stocks during given periods.

Because the Oakmark Select Fund is non-diversified, the performance of each holding will have a greater impact on the Fund's total return, and may make the Fund's return more volatile than a more diversified fund.

Investing in foreign securities represents risks which in some way may be greater than in U.S. investments. Those risks include: currency fluctuation; different regulation, accounting standards, trading practices and levels of available information; generally higher transaction costs; and political risks.

The stocks of smaller companies often involve more risk than the stocks of larger companies. Stocks of small companies tend to be more volatile and have a smaller public market than stocks of larger companies. Small companies may have a shorter history of operations than larger companies, may not have as great an ability to raise additional capital and may have a less diversified product line, making them more susceptible to market pressure.

The Oakmark Equity and Income Fund invests in medium and lower-quality debt securities which have higher yield potential but present greater investment and credit risk than higher-quality securities.

1. The Dow Jones Industrial Average is an unmanaged index that includes only 30 big companies.
2. The S&P 500 Index is a broad market-weighted average of U.S. blue-chip companies. This index is unmanaged and investors cannot actually make investments in this index.
3. The NASDAQ Composite Index is a market value weighted index of all common stocks listed on NASDAQ.
4. Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.

The performance information for The Oakmark Select Fund, The Oakmark Small Cap Fund, The Oakmark Global Fund, The Oakmark International Fund and The Oakmark International Small Cap Fund does not reflect the imposition of a 2% redemption fee on shares held by an investor less than 90 days. The purpose of this redemption fee is to deter market timers.

5. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.
6. During the period since inception (8/4/99 - 9/30/02), IPOs contributed an annualized 2.71% to the performance of The Oakmark Global Fund. As the IPO environment changes and the total net assets of the Fund grow, the impact of IPOs on performance is expected to diminish. "IPO" stands for Initial Public Offering, which is the first sale of stock by a company to the public.
7. The Price-Earnings Ratio ("P/E") is the most common measure of how expensive a stock is.
8. Book Value refers to a company's common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill.
9. The Price to Book Ratio is a stock's capitalization divided by its book value.

10. The Lipper Large Cap Value Fund Index measures the performance of the thirty largest U.S. large-cap value funds tracked by Lipper.
11. The S&P MidCap 400 is an unmanaged broad market-weighted index of 400 stocks that are in the next tier down from the S&P 500 and that are chosen for market size, liquidity, and industry group representation.
12. The Lipper Mid Cap Value Fund Index measures the performance of the thirty largest U.S. mid-cap value funds tracked by Lipper.
13. NAV stands for Net Asset Value. NAV is the dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities divided by the number of shares outstanding.
14. The Russell 2000 Index is an unmanaged, market-weighted index, with dividends reinvested, of 2,000 small companies, formed by taking the largest 3,000 small companies and eliminating the largest 1,000 of those companies. This index is unmanaged and investors cannot actually make investments in this index.
15. The S&P Small Cap 600 Index measures the performance of selected U.S. stocks with small market capitalizations.
16. The Lipper Small Cap Value Fund Index measures the performance of the thirty largest U.S. small-cap value funds tracked by Lipper.
17. The Lipper Balanced Fund Index measures the performance of the thirty largest U.S. balanced funds tracked by Lipper.
18. The Lehman Govt./Corp. Bond Index is an unmanaged index that includes the Lehman Government and Lehman Corporate indices.
19. The MSCI World Index is made up of 20 country sub-indexes, including the stock exchanges of the U.S., Europe, Canada, Australia and New Zealand and the Far East. This index is unmanaged and investors cannot actually make investments in this index.
20. The Lipper Global Fund Index is an unmanaged index that includes 30 mutual funds that invest in securities throughout the world.
21. The MSCI EAFE Index is the Morgan Stanley Europe, Australia, and Far East Index, which is an unmanaged, market-value weighted index designed to measure the overall condition of overseas markets.
22. The Morgan Stanley Small Cap World Ex US Index includes stocks having market capitalizations between \$200-\$800 million across 23 developed markets. This index is unmanaged and investors cannot actually make an investment in this index.
23. The Lipper International Funds Index reflects the net asset value weighted total return of the 30 largest international equity funds.
24. The Lipper International Small Cap Average includes 100 mutual funds that invest in securities whose primary markets are outside of the U.S.
25. Lipper, Inc. is an independent monitor of mutual fund performance. The Oakmark International Fund ranked #35 out of 816, #27 out of 404 and #4 out of 84 funds in the International Funds category for one, five and ten years, respectively, as of 9/30/02.
26. For funds at least three-years old, Morningstar calculates ratings based on a Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars. Overall Ratings are derived from a weighted-average of the performance figures associated with three-, five- and ten-year (if applicable) Morningstar metrics. The Oakmark International Fund was rated against the following numbers of U.S.-domiciled Foreign Stock funds over the following time periods: 630 funds in the last three years, 449 funds in the last five years, and 92 funds in the last ten years. With respect to these Foreign Stock funds, The Oakmark International Fund received a Morningstar Rating of 5 stars, 4 stars and 5 stars for the three-, five- and ten-year periods, respectively. Past performance is no guarantee of future results.
27. The Morgan Stanley World Ex U.S. Index is made up of 19 country sub-indexes, excluding the U.S. This index is unmanaged and investors cannot actually make investments in this index.

# THE OAKMARK FAMILY OF FUNDS

## Trustees and Officers

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The board of trustees has overall responsibility for the conduct of the affairs of Harris Associates Investment Trust (“Trust”), and its seven series, The Oakmark Family of Funds. Each trustee serves until the next annual meeting of shareholders and until the election and qualification of his or her successor, or until he or she dies, resigns or is removed. Each trustee must retire at the end of the calendar year in which the trustee attains the age of 72. The board of trustees may fill any vacancy on the board provided that after such appointment, at least two-thirds of the trustees have been elected by the shareholders. No person shall be appointed or elected to serve as a trustee after attaining the age of 65. The shareholders may remove a trustee by a vote of two-thirds of the outstanding shares of the Trust at any meeting of shareholders called for the purpose of removing such trustee.

The board of trustees elects or appoints the officers of the Trust. The president, any vice president, treasurer and secretary serves until the election and qualification of his or her successor, or until he or she dies, resigns, or is removed or disqualified. Each other officer shall serve at the pleasure of the board of trustees. The board of trustees may remove any officer at any time, with or without cause, by the vote of a majority of the trustees then in office.

The names and ages of the trustees and officers, the position each holds with the Trust, the date each was first elected to office, their principal business occupations during the last five years and other directorships held are shown below.

Name and Age at September 30, 2002, Positions Held with the Trust, Date First Elected or Appointed to Office, Principal Occupations During Past 5 Years, Other Directorships Held

### Trustee who is an “interested person”\*

Peter S. Voss, 55, Trustee, 1995

President and Chief Executive Officer, CDC IXIS Asset Management North America, L.P., formerly known as Nvest Companies, L.P. and its predecessor firms (investment management); Director, Harris Associates, Inc. (“HAI”). Chairman of the Board, AEW Real Estate Income Fund (an closed-end investment company); Chairman of the Board and Chief Executive Officer, CDC Nvest Funds (an open-end investment company—14 portfolios).

### Trustees who are not “interested persons”

Victor A. Morgenstern, 59, Trustee and Chairman of the Board of Trustees, 1991

Chairman of the Board and Chief Executive Officer, Resolute Advisors (private investment management firm); Principal, Valor Equity Partners, LLC (private equity fund); formerly, Chairman of the Board, HAI, 1996-2000 and President and Chief Executive Officer, prior thereto; Chairman, Harris Partners, L.L.C., 1995-2000, Director, Bio-Sante Pharmaceuticals, Inc.

Michael J. Friduss, 60, Trustee, 1995

Principal, MJ Friduss & Associates, Inc. (telecommunications consultants). None.

Thomas H. Hayden, 51, Trustee, 1995

Executive Vice President, Campbell Mithun (advertising and marketing communication agency). None.

Christine M. Maki, 41, Trustee, 1996

Vice President—Tax, Hyatt Corporation (hotels and resorts). None.

## Trustees and Officers cont.

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Allan J. Reich, 54, Trustee, 1993

Vice Chairman of the law firm D'Ancona & Pflaum LLC. None.

Marv R. Rotter, 56, Trustee, 1996

Senior Advisor to President and CEO of AXA Advisors, LLC (formerly named Rotter & Associates), since 1999, and General Manager, prior thereto (financial services firm). None.

Burton W. Ruder, 58, Trustee, 1995

President, The Academy Financial Group (venture capital investment and transaction financing firm); Manager, Cedar Green Associates (real estate management firm). None.

Gary N. Wilner, M.D., 62, Trustee, 1993

Senior Attending Physician, Evanston Hospital; Medical Director—CardioPulmonary Wellness Program, Evanston Hospital Corporation. None.

### Officers of the Trust

James P. Benson, 45, Vice President and Portfolio Manager (The Oakmark Small Cap Fund), 2000

Portfolio Manager and Analyst, Harris Associates L.P. ("HALP"), since 1997. None.

Henry R. Berghoef, 53, Vice President and Portfolio Manager (The Oakmark Select Fund), 2000

Associate Director of Research, Portfolio Manager and Analyst, HALP. None.

Kevin G. Grant, 38, Vice President and Portfolio Manager (The Oakmark Fund), 2000

Portfolio Manager and Analyst, HALP. None.

David G. Herro, 41, Vice President and Portfolio Manager (The Oakmark International Fund and The Oakmark International Small Cap Fund), 1992

Portfolio Manager and Analyst, HALP. None.

Gregory L. Jackson, 36, Vice President and Portfolio Manager (The Oakmark Global Fund), 2000

Portfolio Manager and Analyst, HALP, since July 1998; Portfolio Manager and Analyst, Yacktman Asset Management Inc., prior thereto. None.

John J. Kane, 31, Assistant Treasurer, 1999

Manager—Mutual Fund and Institutional Services, HALP. None.

Robert Levy, 52, President, 2001

Director, President and Chief Executive Officer, HAI, since 1997; Chief Executive Officer, Harris Associates Securities L.P. ("HASLP"), since 1995; Chairman of the Board and Chief Investment Officer, since 2001, Chief Executive Officer, since 1997 and President, since 1996, HALP. None.

Clyde S. McGregor, 49, Vice President and Portfolio Manager (The Oakmark Small Cap Fund and The Oakmark Equity and Income Fund), 1995

Portfolio Manager and Analyst, HALP. None.

Anita M. Nagler, 46, Vice President, 2001

Managing Director of Alternative & International Investing Group, HAI since 2001; formerly, Chief Operating Officer and Vice President, HAI, General Counsel, HALP, Chief Operating Officer and General Counsel, HASLP, 2000-2001; Chief Legal Officer, HASLP, prior thereto. None.

## Trustees and Officers cont.

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William C. Nygren, 43, Vice President and Portfolio Manager (The Oakmark Fund and The Oakmark Select Fund), 1996  
Portfolio Manager and Analyst, HALP; formerly, Director of Research, HALP, 1990-1998. None.

John R. Raitt, 47, Vice President, 2002  
Chief Operating Officer, HALP, since 2001; Director of Research, HALP since 1998; Associate Director of Research and Analyst, HALP, prior thereto. None.

Janet L. Reali, 51, Vice President and Secretary, 2001  
Vice President, General Counsel and Secretary, HALP, since 2001; formerly, Senior Executive Vice President, General Counsel and Secretary, Everen Capital Corp. and Everen Securities, Inc. 1995-1999 (broker/dealer). None.

Ann W. Regan, 54, Vice President—Shareholder Operations and Assistant Secretary, 1996  
Director of Mutual Fund Operations, HALP. None.

Kristi L. Rowsell, 36, Treasurer, 2000  
Director, Chief Financial Officer and Treasurer, HAI; Chief Financial Officer, HALP and HASLP, since 1999; Assistant Treasurer, HALP, prior thereto. None.

Edward A. Studzinski, 53, Vice President and Portfolio Manager (The Oakmark Equity and Income Fund), 2000  
Portfolio Manager and Analyst, HALP. None.

Michael J. Welsh, 39, Vice President and Portfolio Manager (The Oakmark Global Fund, The Oakmark International Fund and The Oakmark International Small Cap Fund), 1997  
Portfolio Manager and Analyst, HALP. None.

\* Mr. Voss is a trustee who is an “interested person” of the Funds as defined in the Investment Company Act of 1940, because he is a director of HAI, the general partner and manager of HALP, the investment adviser to the Funds. Mr. Voss is also the President and Chief Executive Officer of CDC IXIS Asset Management North America, L.P. the parent company of HALP.

The business address of the officers and trustees is Two North LaSalle Street, #500, Chicago, Illinois 60602.

The Statement of Additional Information (SAI) contains further information about the trustees and is available without charge upon your request by calling 1-800-625-6275.

# THE OAKMARK FAMILY OF FUNDS

## Investment Philosophy

All Oakmark managers follow a consistent investment philosophy—to invest in companies they believe are trading at a substantial discount to underlying business value. Critical to this philosophy is to invest with management teams who are committed to maximizing the company’s business value.

## Three key tenets of our investment philosophy:

- 1 Buy businesses trading at a significant discount to our estimate of true business value.
- 2 Invest in companies expected to grow shareholder value over time.
- 3 Invest with management teams who think and act as owners.

## Investment Process

We seek to identify undervalued companies through an intensive, in-house research process. This process is not based on macro-economic factors, such as the performance of the economy or the direction of interest rates. Nor is it based on technical factors, such as the performance of the stock market itself. And, while some value managers might use only one summary statistic—such as price-earnings ratio—our investment professionals take a more in-depth approach using a range of valuation measures appropriate for a specific company or industry.

From the universe of thousands of equity securities, our team generates investment ideas through a variety of methods. If a security appears attractive, detailed quantitative and qualitative research follows. This careful process of identifying undervalued stocks results in an “approved list.”

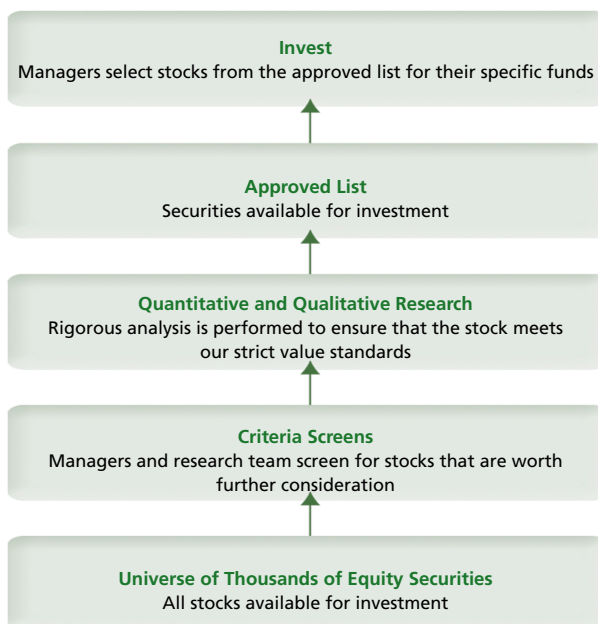
**The Result:** a unified effort aimed at identifying the best values in the marketplace. From the list of approved stocks, each fund manager constructs a relatively focused portfolio, built on a stock-by-stock basis from the bottom up.

## Who Should Invest

Any investor who is seeking a disciplined value manager for the purposes of growing and diversifying a portfolio should consider one of the Oakmark funds, keeping in mind that all equity investments should be considered long-term investments. As value investors, we recognize that patience is a virtue and believe that, over the long term, investors are rewarded for their patience. We generally hold the companies in which we invest for three to five years, a time horizon that we encourage our shareholders to consider as well.

## How to Use Value Funds in an Overall Portfolio

Investment styles tend to move in cycles. One style may be in favor for a few years while the other is out of favor, and vice versa. Diversifying the stock portion of your portfolio to include value and momentum/growth investment styles may help reduce overall volatility—and potentially provide more consistent returns over time.



## Bottom-Up Investment List Process



## The Oakmark Glossary

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**Book value** – A company’s common stock equity as it appears on a balance sheet, equal to total assets minus liabilities, preferred stock, and intangible assets such as goodwill. A company’s book value often differs substantially from economic value, especially in industries such as media.

**Business value/Intrinsic value** – The perceived or estimated actual value of a security, as opposed to its current market price or book value. Business value can be evaluated based on what a knowledgeable buyer would pay for a business if the company were sold in its entirety.

**Growth investing** – Investors who look for companies based on whether the stock of a company is growing earnings and/or revenue faster than the industry as a whole or the overall market. Growth investors generally expect high rates of growth to persist, and the stock, in turn, to deliver returns exceeding the market’s. A growth mutual fund is generally one that emphasizes stocks believed to offer above-average growth prospects, with little to no emphasis on the stock’s current price.

**M & A (Mergers & Acquisitions)** – Merger: the combining of two or more entities into one, through a purchase acquisition or a pooling of interests. Acquisition: can also be called a takeover, and is defined as acquiring control of a corporation, called a target, by stock purchase or exchange, either hostile or friendly.

**Market capitalization (market cap or cap)** – The market price of an entire company on any given day, calculated by multiplying the number of shares outstanding by the price per share.

**Momentum investing** – Approach to investing based on the belief that stock price trends are likely to continue. Momentum investors tend to buy stocks that have been outperforming the market and to sell those stocks when their relative performance deteriorates. Momentum investors do not consider a company’s underlying value or fundamentals in their investment decisions.

**Multiple** – A ratio used to measure a stock’s valuation, usually greater than 1. Sometimes used to mean price/earnings ratio.

**P/B or Price-to-Book Ratio** – A stock’s capitalization divided by its book value. The value is the same whether the calculation is done for the whole company or on a per-share basis.

**P/E or Price-to-Earnings Ratio** – The most common measure of a stock’s valuation. It is equal to a stock’s capitalization divided by its after-tax earnings over a 12-month period. The value is the same whether the calculation is done for the whole company or on a per-share basis. Equivalently, the cost an investor in a given stock must pay per dollar of current annual earnings. Also called earnings multiple.

**Share repurchase** – Program through which a corporation buys back its own shares in the open market, typically an indication that the corporation’s management believes the stock price is undervalued.

**Value investing** – Investors who utilize valuation measures such as business value (including growth rate), price/earnings ratio, price/book ratio, and yield to gauge the attractiveness of a company. Managers who employ a value investment style believe that the true, underlying value of a company is not reflected in its current share price, and, over time, the price has potential to increase as the market recognizes the overall value of the business. Value stocks sell at relatively low prices in relation to their underlying business value, earnings, or book value.

Stocks become undervalued for a variety of reasons, including an overall market decline, or when a specific industry falls into disfavor and investors view all companies in that industry in the same light. Consequently, an individual company’s stock price may fall, even though it may be only temporarily affected by the industry’s problems and its underlying value has remained unchanged.

**“x times earnings” (“12 times earnings”)** – Another way to express a stock’s price-to-earnings (P/E) ratio. A stock with a P/E ratio of 12 sells at 12 times earnings.



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# THE OAKMARK FAMILY OF FUNDS

## *Other Information*

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### *Investment Adviser*

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

### *Transfer Agent*

CDC IXIS Asset Management Services, Inc.  
Attention: The Oakmark Family of Funds  
P.O. Box 8510  
Boston, Massachusetts 02266-8510

### *Legal Counsel*

Bell, Boyd & Lloyd LLC  
Chicago, Illinois

### *Independent Auditors*

Deloitte & Touche LLP  
Chicago, Illinois

### *For More Information:*

Please call 1-800-OAKMARK  
(1-800-625-6275)  
or 617-449-6274

### *Website*

[www.oakmark.com](http://www.oakmark.com)

### *24-hour NAV hotline*

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

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