

The Oakmark Fund

The Oakmark
Select Fund

The Oakmark Equity
and Income Fund

The Oakmark
Global Fund

The Oakmark
International Fund

The Oakmark
International Small
Cap Fund

FIRST QUARTER REPORT

DECEMBER 31, 2004



OAKMARK

THE OAKMARK FUNDS

2005 First Quarter Report

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FORWARD-LOOKING STATEMENT DISCLOSURE

One of our most important responsibilities as mutual fund managers is to communicate with shareholders in an open and direct manner. Some of our comments in our letters to shareholders are based on current management expectations and are considered "forward-looking statements". Actual future results, however, may prove to be different from our expectations. You can identify forward-looking statements by words such as "estimate", "may", "will", "expect", "believe", "plan" and other similar terms. We cannot promise future returns. Our opinions are a reflection of our best judgment at the time this report is compiled, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise.

President's Letter

Dear Fellow Shareholders,

World stock markets rose sharply in the fourth quarter, bringing most of the broad market indexes to double-digit gains for the full year. Each of our Funds produced significant positive returns during the quarter. More importantly, every one of our Funds achieved a new all-time high asset value during the quarter.

Maintaining a Consistent Investment Discipline

We have often written about how important a long-term focus is to our investing discipline. While this sounds simple, even the most sophisticated investors find it difficult to maintain such a focus in practice. The news media, brokerage firm analysts, and market makers all eagerly highlight the latest “news” and build fear, uncertainty, or hype around recent industry and company developments. With such intense scrutiny of short-term issues, investors find it challenging to maintain a proper perspective about the true long-term significance of the challenges and opportunities that companies face.

Our value investing process examines a company's intrinsic business value and its ability to grow that value over the long term. Often, current marketplace concerns fade when we view them in relation to their impact on a business' long-term value. Frequently, these problems are simply short-term setbacks that are a normal part of any company's growth and evolution. They may also create an attractive investment opportunity. After analyzing a company faced with such questions, if we believe that the market is valuing the business at a substantial discount to its intrinsic value, we will buy the stock. Then, we patiently wait for the “crisis-du-jour” to fade and for the market to recognize the true, underlying value of the firm.

Mutual fund investors often face the same difficulties as professional investors in maintaining a long-term investment focus. Mutual fund industry commentators often steer investors' focus to the most recent 3-6 months of a fund's performance. Human nature leads investors to want to own the current “winners,” raising doubts about funds that have lagged for a quarter or two. As a result, financial advisors often find that the hottest funds in the hottest sectors are the easiest to sell—leading many investors to buy into the latest fad at the peak of overvaluation. In contrast, we believe that to invest successfully in funds, one must resist the temptation to chase short-term trends and should instead choose fund managers with disciplined, long-term strategies, patiently giving them time to let their strategies work.

At Oakmark, we recognize that there will be periods when our performance differs significantly (in either direction) from that of the market. Given our long-term value approach and the volatility of short-term investor sentiment, the market may lag in recognizing the undervaluation of our holdings. Over the past decade, all of our Funds have had quarters near the top and near the bottom of their peer groups. Our long-term investors should expect more of the same. We like to emphasize, however, that all of our Funds have



generated substantial long-term returns. We believe that following a patient, disciplined and long-term mutual fund investment strategy has richly rewarded our investors. *Please see our website (www.oakmark.com/peerperformance) for details of our long term investment results and performance relative to our peers.*

Chad Clark Named International Small Cap Fund Co-Manager

As we recently announced, Chad Clark will become co-portfolio manager of The Oakmark International Small Cap Fund effective January 28, 2005. He will join current co-manager, David Herro, Chief Investment Officer of International Equities, who has managed the International Small Cap Fund since its inception in November 1995. This change reflects the increasing strength and depth of our international investing team. Chad succeeds Michael Welsh, who continues as co-manager of The Oakmark International Fund and The Oakmark Global Fund.

Oakmark Trustee Morgenstern to Retire

Victor Morgenstern, who stepped down as Chairman of the Oakmark Board of Trustees in October, has resigned from the Board effective year-end 2004. Once again, I would like to thank Victor for his many years of service to Oakmark shareholders, first as CEO of the Funds' advisor and then as a Trustee and Oakmark Board Chairman.

Thank you for your continued investment and confidence in The Oakmark Funds. We welcome your comments and questions. You can reach us via e-mail at ContactOakmark@oakmark.com.

A handwritten signature in dark ink, appearing to read "John R. Raitt". The signature is fluid and cursive.

John R. Raitt
President of The Oakmark Funds
President and CEO of Harris Associates L.P.

THE OAKMARK FUNDS

Summary Information

<i>Performance for Period Ended December 31, 2004¹</i>	The Oakmark Fund—Class I (OAKMX)	The Oakmark Select Fund—Class I (OAKLX)	The Oakmark Equity and Income Fund—Class I (OAKBX)
3 Months*	8.44%	7.69%	5.11%
1 Year	11.73%	9.73%	10.36%
<i>Average Annual Total Return for:</i>			
3 Year	6.21%	7.40%	9.98%
5 Year	9.63%	14.45%	13.47%
10 Year	11.78%	N/A	N/A
Since inception	16.73% (8/5/91)	20.62% (11/1/96)	14.31% (11/1/95)
<i>Top Five Equity Holdings as of December 31, 2004²</i>	Washington Mutual, Inc. 2.8%	Washington Mutual, Inc. 16.3%	Burlington Resources Inc. 3.6%
<i>Company and % of Total Net Assets</i>	McDonald's Corporation 2.5%	Yum! Brands, Inc. 7.5%	XTO Energy, Inc. 3.1%
	Liberty Media Corporation, Class A 2.5%	H&R Block, Inc. 7.0%	Diageo plc 2.7%
	Time Warner Inc. 2.4%	First Data Corporation 5.7%	Nestle SA 2.6%
	Yum! Brands, Inc. 2.4%	Time Warner Inc. 5.1%	General Dynamics Corporation 2.5%
<i>Sector Allocation as of December 31, 2004</i>	Consumer Discretionary 42.5%	Consumer Discretionary 41.6%	U.S. Government Securities 32.1%
	Financials 16.1%	Financials 23.8%	Consumer Discretionary 12.7%
	Consumer Staples 12.3%	Industrials 12.0%	Energy 10.2%
	Industrials 9.6%	Information Technology 11.5%	Industrials 10.1%
	Information Technology 8.5%	Health Care 7.0%	Consumer Staples 9.9%
<i>Sector and % of Market Value</i>	Health Care 7.5%	Energy 4.1%	Health Care 9.8%
	Energy 3.5%		Financials 7.8%
			Information Technology 5.4%
			Foreign Government Securities 1.6%
			Materials 0.4%

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data call 1-800-OAKMARK.

* Not annualized

The Oakmark Global Fund—Class I (OAKGX)		The Oakmark International Fund—Class I (OAKIX)		The Oakmark International Small Cap Fund—Class I (OAKEX)	
13.00%		13.07%		13.41%	
15.63%		19.09%		28.95%	
19.01%		14.58%		23.06%	
18.56%		9.93%		13.92%	
N/A		11.54%		N/A	
17.01% (8/4/99)		12.39% (9/30/92)		13.16% (11/1/95)	
Diageo plc	5.0%	GlaxoSmithKline plc	3.6%	Gurit-Heberlein AG	3.4%
Bank of Ireland	4.3%	Bank of Ireland	3.5%	Julius Baer	
Takeda Pharmaceutical Company Limited	4.1%	Diageo plc	3.4%	Holding Ltd.,	
First Data Corporation	4.1%	Bayerische Motoren Werke (BMW) AG	3.1%	Zurich	3.4%
Nestle SA	4.0%	Euronext NV	3.1%	Neopost SA	3.3%
				Saurer AG	3.3%
				Interpump Group S.p.A	3.1%
Health Care	17.3%	Financials	26.1%	Industrials	34.1%
Consumer Discretionary	16.8%	Consumer Discretionary	20.3%	Information Technology	15.5%
Financials	16.7%	Consumer Staples	16.8%	Financials	12.0%
Consumer Staples	15.5%	Health Care	12.0%	Consumer Discretionary	12.0%
Information Technology	12.4%	Industrials	9.1%	Materials	9.8%
Industrials	9.1%	Materials	9.0%	Consumer Staples	9.2%
Materials	6.5%	Telecommunication Services	4.5%	Health Care	5.7%
Energy	3.6%	Energy	1.7%	Telecommunication Services	1.7%
Telecommunication Services	2.1%	Information Technology	0.5%		

THE OAKMARK AND OAKMARK SELECT FUNDS

At Oakmark, we are long-term investors. We attempt to identify growing businesses that are managed to benefit their shareholders. We will purchase stock in those businesses only when priced substantially below our estimate of intrinsic value. After purchase, we patiently wait for the gap between stock price and intrinsic value to close.



My high school-aged son came home recently telling me how excited he was that one of his school projects was a contest to create and trade a phantom \$100,000 stock portfolio. At the end of one month, the student with the most money wins. I only wish that studying the stock market had been part of the curriculum back when I was in high school! I could see my son's relief: after years of frustration from a father's job that was difficult to

understand, much less explain, finally a payoff. Since this is Dad's profession, he can help me win the contest! A healthy discussion followed covering how we select stocks for The Oakmark Funds. We talked about how buying a stock is like investing in a business partnership—not only do you need a good business plan and partners that you trust, but the price has to be attractive relative to what you believe the business is worth. We also talked about how the emotions of fear and greed can push stock prices away from fair value and discussed the benefit of staying rational when other investors aren't. We covered the importance of being a patient investor because it often takes several years for a stock's price to reflect its underlying business value. And we even discussed a topic that throws off some academics in finance—diversification. Diversification is a wonderful tool for the investor trying to minimize the risk of loss, but for an investor trying to maximize the probability of significant outperformance, diversification is counter-productive. I went to bed that night feeling great. I'd had a wonderful father-son discussion concerning my profession. My son had a high level of interest in my job and an understanding of why our mutual funds have been such good investments for our shareholders. The next day, he returned with a follow-up request that burst my bubble: "Dad, what I'm really looking for isn't a stock like you'd invest in. What I need is one that is at rock bottom now compared to where it will be in a month." And in the snap of a finger, I was on autopilot dealing with just another investor with unrealistic expectations! Now I'm not sure if I should be rooting for my son's choice, TASER International, to go up so he wins his contest, or to see it fall to a rational price so that he learns a lesson!

It is understandable why a school contest utilizes such a short time horizon, it unfortunately just isn't practical to spend a rational investment time frame, like five years, on a stock market study module. What is less understandable is why so many investors who don't have those same

Highlights

- A long-term horizon is the most important aspect of our investment approach.
- Many investors miss the big picture by focusing on short-term news.
- In the long term a stock's price needs to reflect business value.

constraints also often look out only a month or so! The quarterly letters from all of our fund managers continually stress the importance of a long time horizon. This repetition isn't because we forgot we'd already written about looking at the long term or because we think our readers haven't understood! We keep writing about a long-term horizon because it is probably the single most important aspect of the Oakmark approach to investing. As we all know, in the short-run, just about anything can happen in the stock market. In the very long-run, however, the laws of economics demand that stock prices reflect fundamental business value. By looking long-term, we can rely on estimates of business value and how that value will change over time. We can search for opportunities to invest at prices below our value estimates and look to benefit from the long-term convergence of price and value. Only by looking at the long-term do stock price movements begin to look rational.

The financial media, with their need to create urgency for viewers and readers, often shifts focus to near-term issues that may affect today's trading but won't even be remembered in a few years. Combined with the fact that bad news sells better than good news, it is no surprise that the media seems to highlight the news items that might cause a market decline. Even though I work on stocks every day, I was somewhat taken aback to see that in late December, the S&P 500³ had reached a level that was 50% higher than it was as recently as March 2003. The magnitude of the gain had just snuck up on me. Over nearly two years when the attention centered on a lingering war, higher oil prices, expectations for higher interest rates, a declining dollar, the likelihood of more terrorist attacks, and a deep political division in the U.S., the stock market quietly marched upward and produced outstanding returns. Seems like the media barely even mentioned the viewpoint that an amazing rebound in corporate earnings combined with the lowest long-term interest rates in a generation *justified* a stock market move of this magnitude. Instead, the commentary on the market

increase was usually tempered by a mention that an investor who bought an S&P index fund in early 2000 had still lost money. I'm pleased to say that like the market, Oakmark and Oakmark Select are also more than 50% above their March 2003 lows. More important, unlike the market, both Oakmark and Oakmark Select also reached new all-time high NAVs⁴ during the last week of 2004.

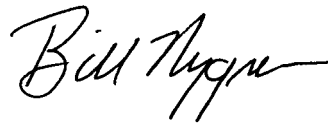
Another fact that kind of snuck up was the performance of both Funds' largest holding, Washington Mutual. It was a disappointing year for Washington Mutual's mortgage banking division. Because of problems in that division, Washington Mutual fell short of 2004 earnings expectations and instead showed a significant decline in earnings. I received far more shareholder e-mail expressing frustration with Washington Mutual and questioning our judgment for holding that stock than I did on any other topic. But a funny thing happened—by the end of the year, Washington Mutual stock had not only increased, but it had a total return of 10%. That Washington Mutual could perform so well in a year when earnings were so disappointing is evidence of our risk-reducing stock selection criteria. It also shows Washington Mutual's success in its other business, retail banking.

Since Washington Mutual has been held in both Funds for such a long time, it provides a good example of how a long-term focus can provide more clarity than focusing on short-term results. Washington Mutual was first purchased in Oakmark in early 1998. After briefly underperforming our other holdings, it became one of my favorite 20 stocks and was purchased in Select. Washington Mutual started 1998 at just over \$28, after earning \$1.43 and paying a

dividend of 47¢ per share in 1997. Since then, on a per-share basis, the dividend has increased more than three-fold, and earnings have grown at a double-digit rate (using 2005 consensus) as have retail banking deposits. During that period, the stock, which many have oddly considered disappointing, has returned an average of 9% per year (while the S&P returned 5%). It's amazing how the attention on quarterly earnings shortfalls and the focus on bad quarters rather than good have obscured a great retail banking success story.

I'll end this with a "hot tip" from Oakmark. Instead of reading the plethora of stories telling you where to invest your money for 2005, do yourself a favor, beat the rush and start investing now for 2010 and beyond!

Happy New Year,



William C. Nygren, CFA
Portfolio Manager

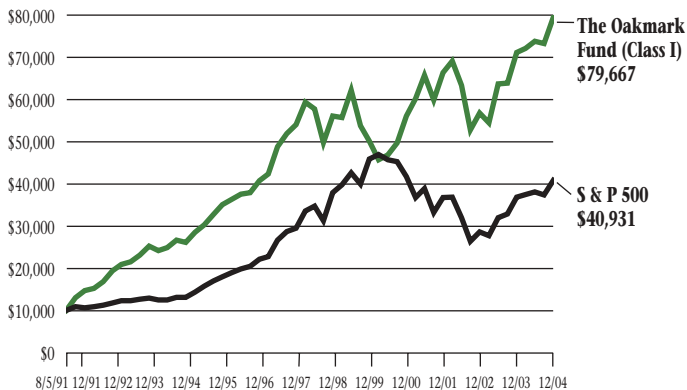
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THE OAKMARK FUND

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 (12/31/04) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX³



Annual Average Total Returns (as of 12/31/04)

	Total Return Last 3 Months*	1-year	5-year	10-year	Since Inception (8/5/91)
Oakmark Fund (Class I)	8.44%	11.73%	9.63%	11.78%	16.73%
S&P 500	9.23%	10.88%	-2.30%	12.06%	11.08%
Dow Jones Average ⁵	7.55%	5.27%	0.67%	13.09%	12.40%
Lipper Large Cap Value Index ⁶	8.80%	12.00%	1.42%	11.28%	10.78%

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.

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data, call 1-800-OAKMARK or visit www.oakmark.com.

* Not annualized

The Oakmark Fund had a very strong quarter, increasing in value by 8%. Our increase nearly mirrored the increase in the S&P 500, which gained 9%. For all of 2004, your Fund increased in value by 12% slightly bettering the 11% gain in the S&P 500. S&P 500 earnings are estimated to have grown by about 20% in 2004. Because a good part of that earnings growth is just cyclic recovery, we believe that stock price growth was consistent with business value growth in 2004. For this reason, we look to the New Year with the same optimism with which we started last year. To us, stocks look modestly undervalued and, therefore, are the asset class with the highest long-term expected return. So, unlike many value funds, our portfolio continues to be over 90% invested in equities. We also believe that growth and consistency of earnings are being undervalued, so we have continued to increase our investments in what we call growth companies at value prices. During the quarter we sold five holdings—three that met price targets (Carnival, Liberty International and Sprint) and two that were fundamentally disappointing (Chiron and Merck). Our only addition is discussed below.

Pulte Homes (PHM—\$63)

PHM is the largest homebuilder in the United States. With expected earnings in 2005 of over \$8 per share, its eight times P/E⁷ multiple is among the lowest in the market. PHM earnings have grown 20% per year for the last decade. The bears say that growth has been due solely to an unsustainable boom in the housing market. Though we agree that the housing market and, thus, PHM earnings are somewhat above trend, we believe PHM has become a better business due to the economies of scale enjoyed by large builders. In addition, PHM's balance sheet has benefited greatly from its strong earnings performance—book value that was just \$15 per share in 2000 should be \$43 per share by the end of 2005. With nearly three times the equity it had five years ago and with growing cost advantages, we believe PHM will weather a stagnant housing environment much better than many investors expect.

Best wishes,

William C. Nygren, CFA
Portfolio Manager
bnynren@oakmark.com

Kevin G. Grant, CFA
Portfolio Manager
kgrant@oakmark.com

THE OAKMARK FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—90.9%		
Apparel Retail—4.0%		
The Gap, Inc.	7,066,700	\$ 149,248,704
Limited Brands	6,000,047	138,121,082
		<u>287,369,786</u>
Broadcasting & Cable TV—7.7%		
Liberty Media Corporation, Class A (a)	16,199,400	\$ 177,869,412
Comcast Corporation, Special Class A (a)	4,725,000	155,169,000
The DIRECTV Group, Inc. (a)	6,800,000	113,832,000
EchoStar Communications Corporation, Class A	3,175,000	105,537,000
		<u>552,407,412</u>
Department Stores—1.8%		
Kohl's Corporation (a)	2,650,500	\$ 130,325,085
Home Improvement Retail—2.1%		
The Home Depot, Inc.	3,581,500	\$ 153,073,310
Homebuilding—1.3%		
Pulte Homes, Inc.	1,500,000	\$ 95,700,000
Household Appliances—2.1%		
The Black & Decker Corporation	1,722,200	\$ 152,121,926
Housewares & Specialties—1.9%		
Fortune Brands, Inc.	1,745,600	\$ 134,725,408
Leisure Products—1.0%		
Mattel, Inc.	3,874,300	\$ 75,510,107
Motorcycle Manufacturers—1.7%		
Harley-Davidson, Inc.	1,962,500	\$ 119,221,875
Movies & Entertainment—6.5%		
Time Warner Inc. (a)	8,997,700	\$ 174,915,288
The Walt Disney Company	5,950,000	165,410,000
Viacom Inc., Class B	3,629,490	132,077,141
		<u>472,402,429</u>
Publishing—2.6%		
Gannett Co., Inc.	1,555,500	\$ 127,084,350
Knight-Ridder, Inc.	916,000	61,317,040
		<u>188,401,390</u>
Restaurants—4.9%		
McDonald's Corporation	5,700,000	\$ 182,742,000
Yum! Brands, Inc.	3,674,000	173,339,320
		<u>356,081,320</u>

THE OAKMARK FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Shares Held	Market Value
Common Stocks—90.9% (cont.)		
Specialty Stores—0.9%		
Toys 'R' Us, Inc. (a)	3,125,000	\$ 63,968,750
Brewers—2.1%		
Anheuser-Busch Companies, Inc.	2,950,000	\$ 149,653,500
Distillers & Vintners—1.8%		
Diageo plc (b)	2,221,000	\$ 128,551,480
Hypermarkets & Super Centers—2.1%		
Wal-Mart Stores, Inc.	2,800,000	\$ 147,896,000
Packaged Foods & Meats—4.3%		
General Mills, Inc.	2,506,000	\$ 124,573,260
Kraft Foods Inc., Class A	2,645,000	94,188,450
H.J. Heinz Company	2,310,000	90,066,900
		<u>308,828,610</u>
Soft Drinks—1.0%		
Coca-Cola Enterprises, Inc.	3,500,000	\$ 72,975,000
Integrated Oil & Gas—1.7%		
ConocoPhillips	1,435,335	\$ 124,630,138
Oil & Gas Exploration & Production—1.5%		
Burlington Resources Inc.	2,442,200	\$ 106,235,700
Asset Management & Custody Banks—1.2%		
The Bank of New York Company, Inc.	2,500,000	\$ 83,550,000
Diversified Banks—1.9%		
U.S. Bancorp	4,300,000	\$ 134,676,000
Life & Health Insurance—1.5%		
AFLAC Incorporated	2,767,000	\$ 110,237,280
Other Diversified Financial Services—3.7%		
Citigroup Inc.	3,100,000	\$ 149,358,000
JP Morgan Chase & Co.	3,000,000	117,030,000
		<u>266,388,000</u>
Thrifts & Mortgage Finance—6.4%		
Washington Mutual, Inc.	4,687,300	\$ 198,179,044
Fannie Mae	2,095,000	149,184,950
MGIC Investment Corporation	1,640,600	113,053,746
		<u>460,417,740</u>
Health Care Distributors—1.0%		
AmerisourceBergen Corp	1,200,000	\$ 70,416,000

THE OAKMARK FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—90.9% (cont.)		
Health Care Equipment—2.1%		
Baxter International Inc.	4,300,000	\$ 148,522,000
Pharmaceuticals—3.7%		
Abbott Laboratories	3,087,300	\$ 144,022,545
Bristol-Myers Squibb Company	4,905,400	<u>125,676,348</u>
		269,698,893
Aerospace & Defense—3.1%		
Raytheon Company	3,000,000	\$ 116,490,000
Honeywell International, Inc.	3,050,000	<u>108,000,500</u>
		224,490,500
Building Products—2.1%		
Masco Corporation	4,233,600	\$ 154,653,408
Diversified Commercial Services—2.1%		
H&R Block, Inc.	3,029,300	\$ 148,435,700
Environmental Services—1.4%		
Waste Management, Inc.	3,474,300	\$ 104,020,542
Computer Hardware—1.8%		
Sun Microsystems, Inc. (a)	24,370,000	\$ 131,110,600
Data Processing & Outsourced Services—4.5%		
First Data Corporation	3,615,000	\$ 153,782,100
SunGard Data Systems, Inc. (a)	3,203,700	90,760,821
Automatic Data Processing, Inc.	1,800,000	<u>79,830,000</u>
		324,372,921
Office Electronics—1.4%		
Xerox Corporation (a)	5,972,400	\$ 101,590,524
Total Common Stocks (Cost: \$4,901,257,934)		6,552,659,334
Short Term Investments—9.3%		
U.S. Government Bills—6.2%		
United States Treasury Bills, 1.72% - 2.215% due 1/6/2005 - 4/7/2005	\$450,000,000	\$ 448,589,195
Total U.S. Government Bills (Cost: \$448,521,726)		448,589,195

THE OAKMARK FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Short Term Investments—9.3% (cont.)		
Repurchase Agreements—3.1%		
IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$1,233,731 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$1,295,229	\$ 1,233,551	\$ 1,233,551
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$223,528,869 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$234,675,000	223,500,000	<u>223,500,000</u>
Total Repurchase Agreements (Cost: \$224,733,551)		224,733,551
Total Short Term Investments (Cost: \$673,255,277)		673,322,746
Total Investments (Cost \$5,574,513,211)—100.2%		\$ 7,225,982,080
Other Liabilities In Excess Of Other Assets—(0.2)%		<u>(12,284,515)</u>
Total Net Assets—100%		<u>\$7,213,697,565</u>

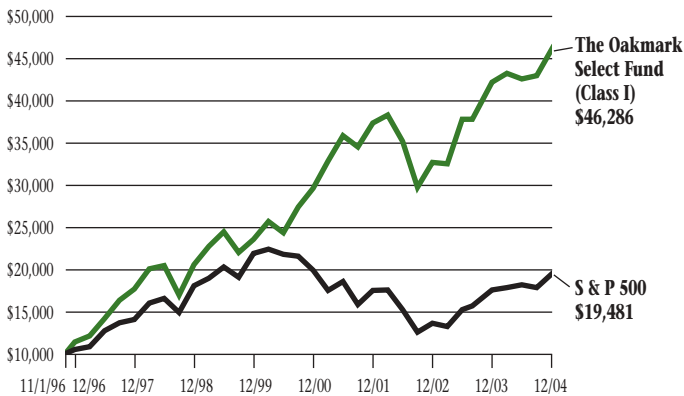
- (a) Non-income producing security.
 (b) Represents an American Depository Receipt.

THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/04) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX³



Annual Average Total Returns

(as of 12/31/04)

Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/96)
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Oakmark Select Fund (Class I)	7.69%	9.73%	14.45%	20.62%
S&P 500	9.23%	10.88%	-2.30%	8.50%
S&P MidCap 400 ⁸	12.16%	16.48%	9.53%	14.46%
Lipper Mid Cap Value Index ⁹	11.83%	19.54%	10.85%	11.28%

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.

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data, call 1-800-OAKMARK or visit www.oakmark.com.

* Not annualized

The Oakmark Select Fund, like the stock market, had a very strong quarter, increasing in value by 8%. For the year, your Fund increased by 10%. Though we are pleased with the level of absolute returns, we are always disappointed when market indices and other mutual funds increase in value more than we do. Our belief that better values had emerged in large-cap, higher quality businesses did not help our performance in 2004. Last year, the market leaders were again smaller companies and companies in industries that benefited from the cyclic rebound in corporate earnings. The increasing performance gap between stocks of high quality and low quality businesses has strengthened our conviction that today's better values are generally in large, high quality companies. Typically we like these businesses, but because of large premium P/E⁷ multiples, we don't like them as stocks. Today, the P/E spreads across the market are very small, so the best performing businesses are likely to also be the best performing stocks. We believe that the portfolio is well-positioned to benefit from a return to higher P/E premiums for better businesses.

During the quarter, we sold two positions. We were displeased with Chiron's communications to shareholders regarding their flu vaccine problems, and Sprint reached—and then exceeded—our sell target as investors put a higher value on wireless customers than we did. Those stocks were replaced by McDonald's and Liberty Media.

Select Fund Re-opened

On November 10, 2004, The Oakmark Select Fund was again opened to new investors. The Fund closed to new investors in mid-2001 to prevent unchecked growth and its resulting loss of investment flexibility. For three years, that achieved our goal of relatively stable cash flow. But early in 2004, sales from existing investors began to exceed their additional purchases. By re-opening, we hope to restore a balance between purchases and sales. And for those who expressed concern that we would be flooded with cash from new investors, take comfort that since re-opening, redemptions have continued to somewhat exceed purchases. Turns out we were right when we said that if we ever re-opened, it would most likely be at a time when nobody cared!

Best wishes,

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THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Shares Held	Market Value
Common Stocks—92.1%		
Apparel Retail—7.3%		
Limited Brands	9,280,981	\$ 213,648,183
The Gap, Inc.	10,060,000	<u>212,467,200</u>
		426,115,383
Broadcasting & Cable TV—2.4%		
Liberty Media Corporation, Class A (a)	12,750,000	\$ 139,995,000
Leisure Products—3.3%		
Mattel, Inc.	9,735,700	\$ 189,748,793
Movies & Entertainment—5.1%		
Time Warner Inc. (a)	15,240,000	\$ 296,265,600
Publishing—3.0%		
Knight-Ridder, Inc.	2,606,500	\$ 174,479,110
Restaurants—10.8%		
Yum! Brands, Inc.	9,207,000	\$ 434,386,260
McDonald's Corporation	6,000,000	<u>192,360,000</u>
		626,746,260
Specialty Stores—6.5%		
Toys 'Я' Us, Inc. (a)	10,544,600	\$ 215,847,962
Office Depot, Inc. (a)	9,104,600	<u>158,055,856</u>
		373,903,818
Oil & Gas Exploration & Production—3.8%		
Burlington Resources Inc.	5,103,600	\$ 222,006,600
Asset Management & Custody Banks—1.4%		
Janus Capital Group, Inc.	4,831,200	\$ 81,212,472
Specialized Finance—4.2%		
Moody's Corporation	2,823,600	\$ 245,229,660
Thrifts & Mortgage Finance—16.3%		
Washington Mutual, Inc.	22,417,400	\$ 947,807,672
Health Care Services—3.3%		
IMS Health Incorporated	8,303,441	\$ 192,722,865
Pharmaceuticals—3.1%		
Bristol-Myers Squibb Company	6,990,200	\$ 179,088,924
Diversified Commercial Services—11.0%		
H&R Block, Inc.	8,259,800	\$ 404,730,200
The Dun & Bradstreet Corporation (a)	3,934,900	<u>234,716,785</u>
		639,446,985

THE OAKMARK SELECT FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Common Stocks—92.1% (cont.)		
Data Processing & Outsourced Services—5.7%		
First Data Corporation	7,815,400	\$ 332,467,116
Office Electronics—4.9%		
Xerox Corporation (a)	16,746,400	\$ 284,856,264
Total Common Stocks (Cost: \$3,238,189,077)		5,352,092,522
 Short Term Investments—7.9%		
U.S. Government Bills—4.5%		
United States Treasury Bills, 1.695% - 2.125% due 1/6/2005 - 3/24/2005	\$260,000,000	\$ 259,449,400
Total U.S. Government Bills (Cost: \$259,427,613)		259,449,400
Repurchase Agreements—3.4%		
IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$2,353,004 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$2,470,294	\$ 2,352,661	\$ 2,352,661
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$196,025,317 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$205,800,000	196,000,000	<u>196,000,000</u>
Total Repurchase Agreements (Cost: \$198,352,661)		198,352,661
Total Short Term Investments (Cost: \$457,780,274)		457,802,061
Total Investments (Cost \$3,695,969,351)—100.0%		\$ 5,809,894,583
Other Assets In Excess Of Other Liabilities—0.0%		<u>1,870,222</u>
Total Net Assets—100%		<u>\$5,811,764,805</u>

(a) Non-income producing security.

THE OAKMARK EQUITY AND INCOME FUND

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



"The believer is happy; the doubter is wise."
Hungarian Proverb

Our Results

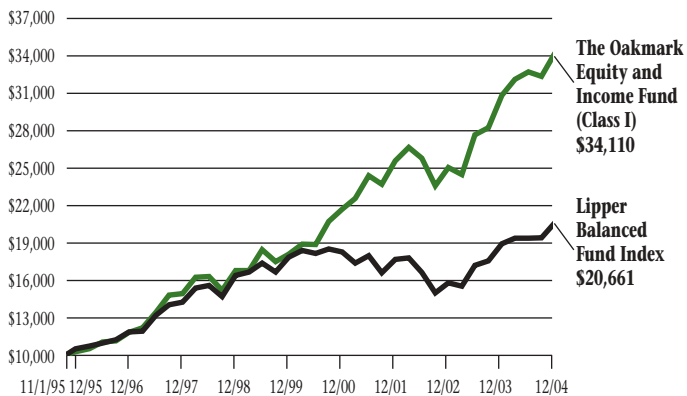
The Oakmark Equity and Income Fund increased 5% for the quarter ended December 31, bringing the calendar year gain to 10%. For the calendar year 2004, the Fund trailed the stock market averages while outperforming our primary benchmark, the Lipper Balanced Fund Index, which gained 9% during the year. We are pleased with this result, as we have consistently said that it is absolute positive returns that preserve and grow your capital. We are even more pleased that, looking back over the past three-year and five-year periods, we have grown and compounded the capital of our long-term investors (ourselves included) at a 10% and 13% rate annualized respectively.

Please do not think for one moment that those returns are going to make us slack off. We started the year 2004 cautiously pessimistic and remained that way during the year. We have ushered in 2005 feeling similarly but without any great convictions, believing as did Nietzsche that "convictions are more dangerous enemies of truth than lies." Instead, we find much to be thoughtful about in the current environment. The domestic savings rate is at an all-time low and, we would argue, at a low that is unsustainable if we want to continue to be masters of our own destiny. Indeed, over the past several years the largest purchasers of our ongoing issues of U.S. Treasury securities have been the central banks of China and Japan. Despite recent corrections, the price of energy remains substantially higher than it was forecast to be two years ago. (And, we believe that many have not adjusted their forecasts from \$18 or \$24 a barrel to reflect higher prices, which is more realistic when looking out over several years.) In addition, demand from emerging market countries such as China and India is substantially higher than was forecast. Finally, inflation appears to be making a comeback, and if one follows the logic of Mr. William Gross of PIMCO, government reports are understating the rate of inflation by anywhere from one to one and a half per cent. Our experience makes us justly leery of the cheery consensus (as one finds at Bubblehead Financial Business Network), but it also makes us leery of doomsday scenarios. And while there is much to ponder, we refrain from making predictions, which allows us to do what is often best in such circumstances: nothing. Remember: our goal is to position the Fund for a range of potential outcomes so that we may continue to preserve and grow your capital.

Plus ça Change

Particularly strong performers during the quarter were Caremark RX Inc., Diageo PLC, Nestle SA, SAFECO Corporation, and Costco Wholesale Corporation. Over time, we have noted that many

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/04) AS COMPARED TO THE LIPPER BALANCED FUND INDEX¹⁰



Annual Average Total Returns (as of 12/31/04)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
Oakmark Equity & Income Fund (Class I)	5.11%	10.36%	13.47%	14.31%
Lipper Balanced Fund Index	6.40%	8.99%	2.95%	8.23%
S&P 500 ³	9.23%	10.88%	-2.30%	10.10%
Lehman Govt./Corp. Bond ¹¹	0.80%	4.19%	8.00%	6.83%

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.

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* Not annualized

Highlights

- Many recent strong performers were among the worst performers of the quarter before.
- We believe short-term perceptions rarely have anything to do with long-term business values.
- While there is not an abundance of compelling ideas, we continue to find one or two really good ones.

recent strong performers were often among the worst performers of the quarter before. This remained true with both Diageo and Nestle, which transitioned again from worst to best. We reiterate this because it underpins our philosophy of keeping a long-term focus, rather than changing strategy with a “flavor of the day” approach. Short-term perceptions rarely if ever have anything to do with the long-term business value of an enterprise.

One of the worst performers during the quarter was American-Italian Pasta Company, which continued to see its share price decline dramatically (albeit with a slight recovery towards year-end). Pasta consumption in this country fell off a cliff with the low-carb diet craze. In response, pasta companies developed low-carb products that never caught on. While domestic pasta consumption and demand has recovered somewhat, the sector’s overcapacity and lack of pricing power continues. In addition, overseas products seem able to compete at the high end on artisan—like quality and the lower end on price, notwithstanding that most U.S. consumers see pasta as a commodity, rather than a premium product. We thought we had an opportunity to buy a business, albeit at the lower end of the quality spectrum for a consumer food business, after a substantial decline brought on by investor fears of the long-term effects of the low carbohydrate diets with regard to American eating habits. In our initial evaluation, however, we did not sufficiently account for the twin impacts of: (1) having a domestic competitor going through a bankruptcy reorganization and (2) overseas competitors’ willingness to cut prices and erode their margins to maintain the marketshare footholds they had gained (notwithstanding an additional hit from currency). We have since reevaluated the importance of these factors and have subsequently eliminated American-Italian Pasta from the portfolio.

In addition to American-Italian Pasta, the portfolio experienced an unusual amount of turnover in stocks during the quarter. Alamo Group, Monsanto, Rockwell Automation, SYBASE, and Triarc were all sold after hitting our valuation targets. The balance of our Cox Communications was tendered in response to a take-over offer from the controlling family shareholders. Del Monte Foods and Kraft Foods were sold after a reassessment of their competitive prospects and, consequently, our valuations of them. We also eliminated positions in Amerisource Bergen and Watson Pharmaceuticals to reduce the risk profile of our health

care holdings. We initiated new positions in Alliant Techsystems, CONOCO Phillips, EchoStar Communications, Fox Entertainment Group, MBIA Insurance, UST Corporation, and VIACOM Inc. Last year, we explained our low turnover as a result of our portfolio holdings not reaching their valuation targets and due to a lack of compelling values worth moving into. This year more of our valuation targets have been reached, but at the same time, we are finding a few truly compelling names, especially in the media area. At this point, continuing our baseball analogy of last year, we had a good year in terms of singles and doubles, which allowed us once again to show consistent returns with controlled risk. And while we are not seeing an abundance of compelling ideas, we still are finding the one or two really good ones over a twelve-month period.

Growth—Real or Illusory?

One early lesson for aspiring value investors is to learn through experience (usually bad) what the correct price is for perceived growth, all other things being equal. Investors tend to extend past growth rates into the distant future while ignoring that once a business has matured, growing entails taking on more risk. Since growth in a mature or maturing business often plateaus, a revaluation of both market perceptions and business value usually follows. Studies have shown that only one out of ten companies will actually be able to sustain a growth rate that will lead to an outsized shareholder return over time. Indeed, a study by the Corporate Strategy Board over decades shows that when companies hit the stall point, they often will lose more than 50% of their market capitalization over the next ten years. Thus, an industry’s life cycle becomes understandable. A new industry sees substantial growth followed by an influx of entrants. Shortly thereafter comes the shake-out, followed by an exit of competitors and more stable returns for those left. Growth begins a gentle decline, and in a mature industry, this leads to muted growth and returns close to a competitive balance. Data supports the conclusion that it becomes much harder for very large companies to outperform the market over time, simply because they already are, in effect, the market (or a large percentage of it).

Global Tourists?

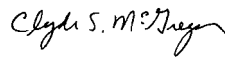
We are on occasion asked why we invest in foreign companies such as Diageo and Nestle. Aren’t there more than enough choices in U.S. companies available? First, Diageo and Nestle are multinationals, with a presence around the world. They also share the fact that they have both strong branded product portfolios and a large presence in some of the fastest growing emerging market countries. This has resulted in both companies having considerably stronger organic (internal) growth than many domestic alternatives. Finally, notwithstanding that faster growth, they have been priced on a valuation basis cheaper than the alternatives we have considered. Does it bother us that they report in non-U.S. currencies (pounds sterling and Swiss francs)? Frankly, we think that issue is a canard. Our focus is upon the true economic effects of what is taking place in the underlying business, reflected in the growth in

business value. We are willing to invest in undervalued, well-run global companies within what we define as our circle of competency, when they meet our criteria and are priced accordingly. In both instances we are not paying for their being positioned for future demand. The best example of future demand one can think of is in Guangdong Province outside of Hong Kong, where there are ninety million middle class consumers waiting to be reached. We can assure you that both Diageo and Nestle are aware of that market's potential.

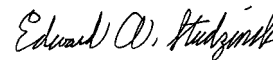
Consistency

Winston Churchill once said, "The only way a man can remain consistent amid changing circumstances is to change with them while preserving the same dominating purpose." Our purpose, which is to make an absolute positive return for you (and ourselves) as shareholders, has not changed. We have to confess that we are entering into our favorite period of the year—when the winter solstice has just passed, the year-end reporting period for most companies is looming, and the weather allows us to take

stock of opportunities with a little less of Wall Street's road shows and conferences that lead to a hyping of stock valuations without any attendant increase in business value. In any event, we look forward to every day in this business, as every day represents a new day in the marketplace, with an ever-changing set of opportunities. We are not going to do anything different this coming year than what we have done in the past, which is searching for business values in the market place with the margin of safety discount to intrinsic value that we like to have. We remain grateful to you, our shareholders and partners, for your patience and confidence in entrusting us with your capital to manage.



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THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Shares Held	Market Value
Equity and Equivalents—59.8%		
Common Stocks—59.8%		
Apparel Retail—2.1%		
The TJX Companies, Inc.	7,240,000	\$ 181,941,200
Auto Parts & Equipment—1.5%		
Delphi Corporation	14,871,300	\$ 134,139,126
Broadcasting & Cable TV—2.5%		
The DIRECTV Group, Inc. (a)	8,026,722	\$ 134,367,326
EchoStar Communications Corporation, Class A	2,500,000	83,100,000
		<u>217,467,326</u>
Household Appliances—0.5%		
The Stanley Works	962,100	\$ 47,133,279
Movies & Entertainment—1.1%		
Fox Entertainment Group, Inc., Class A (a)	1,750,000	\$ 54,705,000
Viacom Inc., Class B	1,187,300	43,205,847
		<u>97,910,847</u>
Publishing—0.7%		
Tribune Company	1,500,000	\$ 63,210,000
Restaurants—1.7%		
Darden Restaurants, Inc.	2,850,000	\$ 79,059,000
McDonald's Corporation	2,000,000	64,120,000
		<u>143,179,000</u>
Specialty Stores—0.4%		
Office Depot, Inc. (a)	2,230,000	\$ 38,712,800
Distillers & Vintners—2.7%		
Diageo plc (b)	4,100,000	\$ 237,308,000
Hypermarkets & Super Centers—1.8%		
Costco Wholesale Corporation	3,200,000	\$ 154,912,000
Packaged Foods & Meats—3.6%		
Nestle SA (b)	3,500,000	\$ 228,333,000
Dean Foods Company (a)	2,500,000	82,375,000
CoolBrands International, Inc. (a)(c)	150,000	1,140,000
		<u>311,848,000</u>
Tobacco—1.1%		
UST Inc.	2,000,000	\$ 96,220,000

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Shares Held	Market Value
Equity and Equivalents—59.8% (cont.)		
Integrated Oil & Gas—1.5%		
ConocoPhillips	1,500,000	\$ 130,245,000
Oil & Gas Exploration & Production—8.0%		
Burlington Resources Inc.	7,150,000	\$ 311,025,000
XTO Energy, Inc.	7,699,416	272,405,338
St. Mary Land & Exploration Company	1,450,000	60,523,000
Cabot Oil & Gas Corporation	1,125,000	49,781,250
		<u>693,734,588</u>
Other Diversified Financial Services—1.9%		
Citigroup Inc.	3,400,000	\$ 163,812,000
Property & Casualty Insurance—3.5%		
SAFECO Corporation	4,000,000	\$ 208,960,000
MBIA Inc.	900,000	56,952,000
The Progressive Corporation	500,000	42,420,000
		<u>308,332,000</u>
Real Estate Investment Trusts—1.2%		
Plum Creek Timber Company, Inc.	2,657,044	\$ 102,136,771
Reinsurance—0.6%		
RenaissanceRe Holdings Ltd. (c)	1,000,000	\$ 52,080,000
Biotechnology—1.9%		
MedImmune, Inc. (a)	5,000,000	\$ 135,550,000
Techne Corporation (a)	750,000	29,175,000
		<u>164,725,000</u>
Health Care Equipment—2.4%		
Hospira, Inc. (a)	3,750,000	\$ 125,625,000
Varian Inc. (a)	1,649,400	67,641,894
CONMED Corporation (a)	570,100	16,202,243
		<u>209,469,137</u>
Health Care Services—2.4%		
Caremark Rx, Inc. (a)	5,250,000	\$ 207,007,500
Pharmaceuticals—2.1%		
Abbott Laboratories	4,000,000	\$ 186,600,000

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Shares Held/ Par Value	Market Value
Equity and Equivalents—59.8% (cont.)		
Aerospace & Defense—6.5%		
General Dynamics Corporation	2,060,300	\$ 215,507,380
Raytheon Company	3,599,700	139,776,351
Rockwell Collins, Inc.	3,107,900	122,575,576
Honeywell International, Inc.	1,889,500	66,907,195
Alliant Techsystems, Inc. (a)	300,000	<u>19,614,000</u>
		564,380,502
Commercial Printing—2.0%		
R.R. Donnelley & Sons Company	4,909,500	\$ 173,256,255
Diversified Commercial Services—0.9%		
ChoicePoint Inc. (a)	1,500,000	\$ 68,985,000
Watson Wyatt & Company Holdings	237,000	<u>6,387,150</u>
		75,372,150
Application Software—1.2%		
Mentor Graphics Corporation (a)	3,640,000	\$ 55,655,600
The Reynolds and Reynolds Company, Class A	1,715,100	<u>45,467,301</u>
		101,122,901
Computer Storage & Peripherals—0.4%		
Imation Corp.	1,215,000	\$ 38,673,450
Data Processing & Outsourced Services—3.4%		
First Data Corporation	4,850,000	\$ 206,319,000
Ceridian Corporation (a)	4,800,000	<u>87,744,000</u>
		294,063,000
Paper Products—0.2%		
Schweitzer-Mauduit International, Inc.	400,000	\$ 13,580,000
Total Common Stocks (Cost: \$4,055,235,424)		5,202,571,832
Total Equity And Equivalents (Cost: \$4,055,235,424)		5,202,571,832
Fixed Income—32.7%		
Corporate Bonds—1.6%		
Broadcasting & Cable TV—0.4%		
Cablevision Systems New York Group, 144A, 8.00% due 4/15/2012 (d)	20,000,000	\$ 21,350,000
Liberty Media Corporation, 8.25% due 2/1/2030, Debenture	12,900,000	<u>14,668,087</u>
		36,018,087
Movies & Entertainment—0.6%		
Time Warner Inc., 5.625% due 5/1/2005	50,000,000	\$ 50,460,450

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Fixed Income—32.7% (cont.)		
Publishing—0.1%		
PRIMEDIA Inc., 8.00% due 5/15/2013	10,000,000	\$ 10,287,500
Health Care Distributors—0.2%		
Omnicare, Inc., 6.125% due 6/1/2013	20,000,000	\$ 20,100,000
Paper Packaging—0.3%		
Sealed Air Corporation, 144A, 5.625% due 7/15/2013 (d)	20,000,000	\$ 20,690,360
Multi-Utilities & Unregulated Power—0.0%		
Midland Funding Corporation, 11.75% due 7/23/2005	172,075	\$ 178,669
Total Corporate Bonds (Cost: \$133,386,305)		137,735,066
Government and Agency Securities—31.1%		
Canadian Government Bonds—1.3%		
Canada Government, 3.00% due 12/1/2005	CAD 125,000,000	\$ 104,479,167
Province of Alberta, 7.25% due 10/28/2005	CAD 10,000,000	8,621,700
		<u>113,100,867</u>
Norwegian Government Bonds—0.1%		
Norway Government, 6.75% due 1/15/2007	NOK 25,000,000	\$ 4,466,631
Swedish Government Bonds—0.1%		
Kingdom of Sweden, 3.50% due 4/20/2006	SEK 50,000,000	\$ 7,637,154
U.S. Government Notes—27.4%		
United States Treasury Notes, 3.375% due 11/15/2008	500,000,000	\$ 498,652,500
United States Treasury Notes, 3.00% due 11/15/2007	500,000,000	496,914,000
United States Treasury Notes, 5.00% due 8/15/2011	400,000,000	425,828,000
United States Treasury Notes, 4.00% due 2/15/2014	400,000,000	394,484,400
United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed	256,601,100	271,766,738
United States Treasury Notes, 3.50% due 11/15/2009	200,000,000	199,062,400
United States Treasury Notes, 4.00% due 11/15/2012	100,000,000	99,832,000
		<u>2,386,540,038</u>
U.S. Government Agencies—2.2%		
Federal Home Loan Bank, 5.00% due 12/20/2011	34,555,000	\$ 34,740,837
Federal Home Loan Mortgage Corporation, 2.75% due 9/8/2009	32,490,000	32,492,794
Fannie Mae, 4.25% due 2/19/2010	12,888,000	12,879,275
Fannie Mae, 3.125% due 11/30/2009	12,697,000	12,702,460

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Fixed Income—32.7% (cont.)		
U.S. Government Agencies—2.2% (cont.)		
Federal Home Loan Mortgage Corporation, 3.00% due 8/17/2009	10,000,000	\$ 10,017,620
Federal Home Loan Mortgage Corporation, 2.00% due 4/27/2007	10,000,000	9,977,270
Federal Home Loan Mortgage Corporation, 2.375% due 9/27/2007	10,000,000	9,971,690
Federal Home Loan Mortgage Corporation, 3.00% due 11/17/2006	10,000,000	9,958,230
Fannie Mae, 3.00% due 10/6/2009	10,000,000	9,937,390
Federal Home Loan Mortgage Corporation, 3.50% due 9/28/2012	8,660,000	8,585,810
Fannie Mae, 3.50% due 10/14/2010	7,550,000	7,531,268
Fannie Mae, 2.25% due 12/30/2008	6,975,000	6,836,783
Federal Home Loan Bank, 3.00% due 12/30/2009	5,000,000	5,063,685
Federal Home Loan Mortgage Corporation, 3.00% due 1/7/2011	4,900,000	4,899,990
Federal Home Loan Bank, 4.52% due 8/26/2009	4,825,000	4,867,523
Fannie Mae, 5.125% due 5/4/2012	4,013,000	4,034,385
Federal Home Loan Bank, 2.25% due 2/22/2007	4,000,000	3,997,816
Federal Home Loan Bank, 3.125% due 7/10/2009	4,000,000	3,880,252
Fannie Mae, 4.125% due 9/14/2012	2,300,000	2,301,799
		194,676,877
Total Government and Agency Securities (Cost: \$2,689,766,977)		2,706,421,567
Total Fixed Income (Cost: \$2,823,153,282)		2,844,156,633

Short Term Investments—7.4%

U.S. Government Bills—4.0%

United States Treasury Bills, 1.84% - 2.04% due 1/6/2005 - 2/17/2005	\$350,000,000	\$ 349,583,292
Total U.S. Government Bills (Cost: \$349,583,292)		349,583,292

Repurchase Agreements—3.4%

IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$1,494,214 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$1,568,696	\$ 1,493,996	\$ 1,493,996
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THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Short Term Investments—7.4% (cont.)		
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$293,537,910 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$308,175,000	\$293,500,000	\$ 293,500,000
Total Repurchase Agreements (Cost: \$294,993,996)		294,993,996
Total Short Term Investments (Cost: \$644,577,288)		644,577,288
Total Investments (Cost \$7,522,965,994)—99.9%		\$ 8,691,305,753
Other Assets In Excess Of Other Liabilities—0.1%		<u>12,796,012</u>
Total Net Assets—100%		<u><u>\$8,704,101,765</u></u>

- (a) Non-income producing security.
- (b) Represents an American Depository Receipt.
- (c) Represents a foreign domiciled corporation.
- (d) Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers.

Key to abbreviations:
 CAD: Canadian Dollar
 NOK: Norwegian Krone
 SEK: Swedish Krona

THE OAKMARK GLOBAL FUND

Report from Clyde S. McGregor and Michael J. Welsh, Portfolio Managers

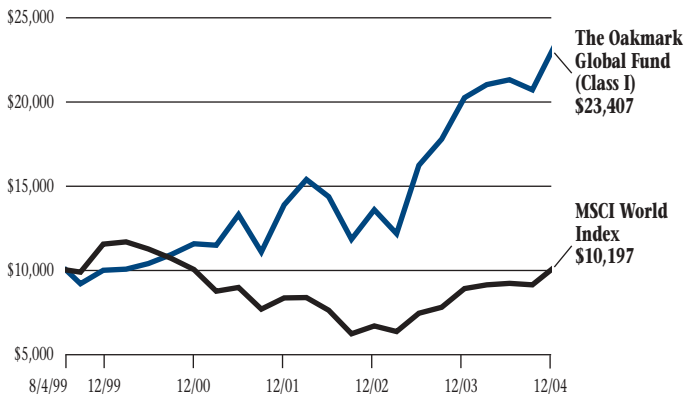


Fellow Shareholders,

The Oakmark Global Fund gained 13% for the three-month period ending December 31, 2004, compared with the 12% increases for both the MSCI World Index and the Lipper Global Fund Index.

Over the past twelve months, The Oakmark Global Fund has returned 16%, compared to gains of 15% for the MSCI World Index and 14% for the Lipper Global Fund Index. Most importantly, since inception the Fund has achieved a 17% annualized return while the MSCI World Index was flat and the Lipper Global Fund Index had a 3% annualized return.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (12/31/04) AS COMPARED TO THE MSCI WORLD INDEX¹²



Annual Average Total Returns

(as of 12/31/04)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (8/4/99)
Oakmark Global Fund (Class I)	13.00%	15.63%	18.56%	17.01%
MSCI World	11.94%	14.72%	-2.45%	0.36%
Lipper Global Fund Index ¹³	12.07%	14.38%	-1.10%	2.68%

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.

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data, call 1-800-OAKMARK or visit www.oakmark.com.

* Not annualized

Looking Back

In this letter we want to take the opportunity to look back a bit at the significant contributors to the Fund's NAV⁴ for calendar year 2004. Fortunately, this year the positive contributors dwarfed the negatives.

U.S. energy independent Burlington Resources provided the most significant positive contribution to the Fund's NAV over the past twelve months. The share price reacted favorably to the continued strong pricing for natural gas in North America. Management continues to make intelligent capital allocation decisions, including share repurchases and increasing dividends.

Bank of Ireland also contributed significantly to performance, as fears about a slowing Irish economy and increased competition gave way to the recognition of the Bank's undervalued franchise. The Bank continues to face challenges—in addition to the economy and competition, problems include the weakness of their UK branch network, Bristol & West, and their Bank of Ireland Asset Management business. But we believe the current valuation reflects an outlook that is far too pessimistic.

Takeda Pharmaceutical also did well over the past twelve months. Despite the closing of a bit of the gap between price and value, Takeda remains very undervalued in our opinion. Management aggressively controls costs, and, in a step that's very rare for Japan, it has instituted a variable compensation scheme for every employee. As Takeda's President

Highlights

- In 2004, the positive contributors to the Fund's NAV dwarfed the negatives.
- In general, we are finding more interesting opportunities in overseas markets.
- We believe the portfolio is made up of quality names that represent attractive values.

Yasuchika Hasegawa told us a few months back, "If you want to be paid well, you have to perform." It may sound elementary, but it's still fairly revolutionary in Japan. With a cash-rich balance sheet and strong profitability, we believe Takeda deserves a valuation far above the single-digit multiple of operating profit reflected by the current share price.

French-based mail and services company Neopost had strong performance in 2004, as sales and profits came in better than original estimates. A global player in franking machines and services, Neopost's results were driven by the integration of their recent Hasler acquisition, market share gains, and postal decertification in Europe.

Efunds, a leading factor in the U.S. market for payment processing, was another standout performer. The company's software is used to process the majority of debit card transactions in the U.S. In September, the company announced the sale of its automatic teller business at a valuation that the stock market deemed quite favorable.

The share price of Grupo Televisa had another very strong run in 2004. This Mexican media conglomerate generated

higher than expected growth this year, on top of exceptional election-year earnings in 2003. An impressive hike in the dividend also helped move the share price.

Other companies that strongly contributed to the Fund's NAV were Laboratory Corp of America, Euronext N.V. (Europe), Ansell (Australia), and Vivendi Universal (France).

Now, the one piece of bad news. Synopsys, a leading player in the electronic design automation industry, was the Fund's only position that significantly hampered performance in 2004. We very much liked the company's position in an oligopolistic market, its strong returns on capital, and the expected long-term secular growth rate. Most attractive for us was its valuation, trading at a single-digit multiple of operating profit. Unfortunately, we overestimated the positives, and as a consequence the value of the business. A succession of disappointments and the clear lack of pricing power caused us to revise our original business value estimates to a substantially lower level. We sold our entire position this past quarter.

Looking Forward

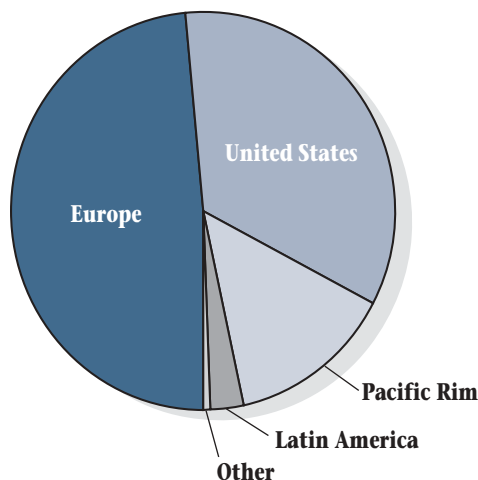
We remain excited about the value and quality of the names in the Fund. Thank you for your continued confidence and support, and all the best to you and your family in the New Year.

Clyde S. McGregor, CFA Portfolio Manager
mgregor@oakmark.com

Michael J. Welsh, CFA, CPA Portfolio Manager
mwelsh@oakmark.com

THE OAKMARK GLOBAL FUND

Global Diversification—December 31, 2004 (Unaudited)



	<u>% of Fund</u>
	<u>Equity Market Value</u>
 Europe	48.5%
Great Britain	13.0%
Switzerland	12.1%
* France	6.5%
* Netherlands	6.4%
* Ireland	4.4%
* Italy	3.3%
* Germany	2.8%
 United States	34.2%

	<u>% of Fund</u>
	<u>Equity Market Value</u>
 Pacific Rim	13.9%
Japan	7.6%
Australia	3.4%
Korea	2.9%
 Latin America	2.8%
Mexico	2.8%
 Other	0.6%
Israel	0.6%

* Euro currency countries comprise 23.4% of the Fund.

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—97.2%			
Apparel Retail—2.4%			
The TJX Companies, Inc. (United States)	Discount Apparel & Home Fashion Retailer	1,501,000	\$ 37,720,130
Apparel, Accessories & Luxury Goods—2.0%			
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	2,557,100	\$ 31,531,701
Broadcasting & Cable TV—3.6%			
Grupo Televisa S.A. (Mexico) (b)	Television Production & Broadcasting	496,500	\$ 30,038,250
Liberty Media Corporation, Class A (United States) (a)	Broadcast Services & Programming	2,356,000	<u>25,868,880</u>
			55,907,130
Household Appliances—1.6%			
Snap-on Incorporated (United States)	Tool & Equipment Manufacturer	728,000	\$ 25,014,080
Motorcycle Manufacturers—0.1%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	1,790,000	\$ 2,133,438
Movies & Entertainment—3.9%			
Vivendi Universal SA (France) (a)	Multimedia	1,430,500	\$ 45,583,397
Time Warner Inc. (United States) (a)	Motion Picture Production, Distribution, & Other Services	833,000	<u>16,193,520</u>
			61,776,917
Publishing—2.7%			
Tribune Company (United States)	Publishing & Broadcast Services	1,003,000	\$ 42,266,420
Distillers & Vintners—5.0%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	5,517,500	\$ 78,644,856
Household Products—2.7%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	513,800	\$ 42,440,049

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.2% (cont.)			
Packaged Foods & Meats—6.6%			
Nestle SA (Switzerland)	Food & Beverage Manufacturer	238,500	\$ 62,237,402
Cadbury Schweppes plc (Great Britain)	Beverage & Confectionary Manufacturer	4,383,000	40,780,484
			<u>103,017,886</u>
Soft Drinks—0.8%			
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	13,430	\$ 12,454,405
Oil & Gas Exploration & Production—3.5%			
Burlington Resources Inc. (United States)	Oil & Natural Gas Exploration & Production	1,260,000	\$ 54,810,000
Asset Management & Custody Banks—2.5%			
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	129,300	\$ 38,816,653
Diversified Banks—7.7%			
Bank of Ireland (Ireland) Australia and New Zealand Banking Group Limited (Australia)	Commercial Bank	4,029,000	\$ 66,952,864
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Bank	2,260,000	36,407,732
		863,600	<u>17,525,888</u>
			120,886,484
Diversified Capital Markets—0.5%			
Credit Suisse Group (Switzerland) (a)	Investment Services & Insurance	190,700	\$ 7,995,667
Investment Banking & Brokerage—1.0%			
Daiwa Securities Group Inc. (Japan)	Stock Broker	2,062,000	\$ 14,896,808
Specialized Finance—3.5%			
Euronext NV (Netherlands)	Stock Exchange	1,814,000	\$ 55,293,765
Thriffs & Mortgage Finance—1.1%			
Washington Mutual, Inc. (United States)	Thrift	415,000	\$ 17,546,200

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.2% (cont.)			
Health Care Distributors—2.3%			
Cardinal Health, Inc. (United States)	Wholesale Drug Distributor	607,500	\$ 35,326,124
Health Care Services—2.8%			
Laboratory Corporation of America Holdings (United States) (a)	Medical Laboratory & Testing Services	892,000	\$ 44,439,440
Health Care Supplies—1.0%			
Ansell Limited (Australia)	Protective Rubber & Plastics Products	2,265,966	\$ 15,831,924
Pharmaceuticals—10.8%			
Takeda Pharmaceutical Company Limited (Japan)	Pharmaceuticals & Food Supplements	1,281,000	\$ 64,531,485
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	2,614,200	61,284,293
Novartis AG (Switzerland)	Pharmaceuticals	394,000	19,802,816
Sanofi-Aventis (France)	Pharmaceuticals	187,185	14,930,838
Santen Pharmaceutical Co., Ltd. (Japan)	Pharmaceuticals	346,800	7,584,028
			<u>168,133,460</u>
Airport Services—0.8%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	463,000	\$ 12,663,050
Diversified Commercial Services—4.2%			
Equifax Inc. (United States)	Credit Reporting & Collection	1,367,000	\$ 38,412,700
Meitec Corporation (Japan)	Software Engineering Services	760,000	<u>28,343,259</u>
			66,755,959
Employment Services—1.1%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	4,815,400	\$ 17,274,804
Environmental Services—2.2%			
Waste Management, Inc. (United States)	Waste Management Services	1,175,000	\$ 35,179,500

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.2% (cont.)			
Office Services & Supplies—0.4%			
United Stationers Inc. (United States) (a)	Business Products Distributor	150,000	\$ 6,930,000
Data Processing & Outsourced Services—9.1%			
First Data Corporation (United States)	Data Processing & Management	1,495,750	\$ 63,629,205
eFunds Corporation (United States) (a)	Electronic Debit Payment Services	2,239,000	53,758,390
Ceridian Corporation (United States) (a)	Data Management Services	1,348,000	24,641,440
			<u>142,029,035</u>
Electronic Equipment Manufacturers—0.6%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	412,700	\$ 8,736,859
Office Electronics—2.4%			
Neopost SA (France)	Mailroom Equipment Supplier	494,750	\$ 38,389,958
Diversified Chemicals—2.7%			
Akzo Nobel N.V. (Netherlands)	Chemical Producer	992,300	\$ 42,240,761
Specialty Chemicals—3.6%			
Lonza Group AG, Registered Shares (Switzerland)	Industrial Organic Chemicals	710,400	\$ 39,880,356
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	25,300	16,621,815
			<u>56,502,171</u>
Wireless Telecommunication Services—2.0%			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	168,000	\$ 31,970,634
Total Common Stocks (Cost: \$1,151,858,660)			1,525,556,268

THE OAKMARK GLOBAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Short Term Investments—3.0%		
Repurchase Agreements—3.0%		
IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$1,619,087 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$1,699,794	\$ 1,618,851	\$ 1,618,851
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$46,005,942 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$48,300,000	46,000,000	<u>46,000,000</u>
Total Repurchase Agreements (Cost: \$47,618,851)		47,618,851
Total Short Term Investments (Cost: \$47,618,851)		47,618,851
Total Investments (Cost \$1,199,477,511)—100.2%		\$ 1,573,175,119
Other Liabilities In Excess Of Other Assets—(0.2)%		<u>(3,864,527)</u>
Total Net Assets—100%		<u>\$1,569,310,592</u>

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

THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

Fellow Shareholders,

Your International Funds, Oakmark International and Oakmark International Small Cap, ended 2004 with acceptable returns achieving 19% and 29%, respectively. This compares to the MSCI World ex U.S. Index¹⁴, which returned 20%. More importantly, the longer term results continue to be quite strong with International gaining 10% and International Small Cap increasing 14% over the last five years compared to the MSCI World ex U.S. Index loss of 1%.

The Currency Pendulum

Invariably, as currency movements aggressively sway from one extreme to the next, analysts and commentators clamor to explain such volatility. In particular, they try to predict future trends by extrapolating from the recent past. Both of these approaches are troubling, especially when it comes to currency forecasting.

Ultimately, the value of a nation's currency is underpinned by that country's production/economic prowess in an absolute—and more importantly—a relative sense. Today, as the dollar hits five-year lows compared to many European and Asian currencies, some experts conveniently proclaim that the dollar's continued fall is not only likely, but certain. The usual reasons given are the "twins": the U.S. budget and current account deficits.

This type of talk is very typical when the dollar declines. Last cycle, we heard the same chatter: "the U.S. dollar has lost its reserve status," "the dollar is in terminal decline," etc. About the time this talk becomes the loudest, the pendulum swings back, and valuations reverse. Recall how the Euro began its life at 1.17 in 1999 and promptly fell to .85 over the next few years. Today, of course, people aren't speaking about a weak Euro; it's at 1.35. Instead, we hear talk of 1.50!

People forget that the more something becomes overvalued, the stronger forces become to counteract that movement. Eventually, these forces become strong enough to reverse the direction of the movement.

We do not believe that the dollar is fundamentally doomed. Consider:

1. The U.S. is still the largest and most stable economy in the world.
2. The U.S. is extremely competitive when you consider regulation, productivity of labor, unit labor costs, and capital's ability to control its destiny.
3. The U.S. is the biggest consumer market in the world. Foreign companies must have a U.S. presence.
4. The U.S. has the largest and deepest capital markets.

To debunk the dollar bears' arguments about the twin deficits, we would remind them:

1. The U.S. debt-to-GDP situation is better than Japan (45% compared to over 100%) and Europe (45% compared to 65% and over). The U.S. fiscal deficit is projected to fall over the next few years, and at 3-3.5% of GDP, it is not much different than the Euro economies or Japan.

Highlights

- We see many reasons that argue against a perpetually weak dollar.
- We selectively hedge currencies where we see significant opportunity or reason for concern.
- It continues to be difficult to find many shareholder-oriented management companies in Japan.

2. Yes, the U.S. has a current account deficit. But, by definition, it also has a capital account surplus. This means that though the U.S. runs a trade deficit, this deficit is largely financed by foreign investors' willingness to invest in America. Why do we feel this will continue? See 1, 2, 3, and 4 above. As long as the U.S. maintains global competitiveness, foreign money will remain. Causality is notoriously difficult to prove. Do we buy foreign goods because we have a capital surplus, or do foreigners invest in our capital because they have a trade surplus? The pundits assume the latter, but for no substantive reason.

Who knows what will happen in the short term? However, we believe that over time, fundamental forces will re-assert themselves, and the pendulum will change directions.

From an investment perspective, a stronger dollar over the long term has important implications. It bodes well, in local currency returns, for those foreign multinationals who are dollar earners. This positive impact should be more than enough to counter the negative currency move felt by U.S.-based investors who hold falling foreign currencies. In our Funds, we have also elected to hedge part of our Swiss franc and Sterling holdings, which should mitigate the later negative.

Happy Anniversary!

Fifteen years ago, on December 29, 1989, the Japanese Nikkei¹⁵ hit its all time high of 38,916. As of this writing, the market sits at 11,488, down 70% from where the market closed on that December day in 1989. We keep trying to find quality Japanese companies to invest in. Though we have had some success, it is proving difficult to find companies that have management teams that are truly concerned with building shareholder value. We will keep trying!

In closing, we would again like to thank all of our shareholders for their continued support and confidence. We will continue to work hard to find suitable investments over the long term.



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



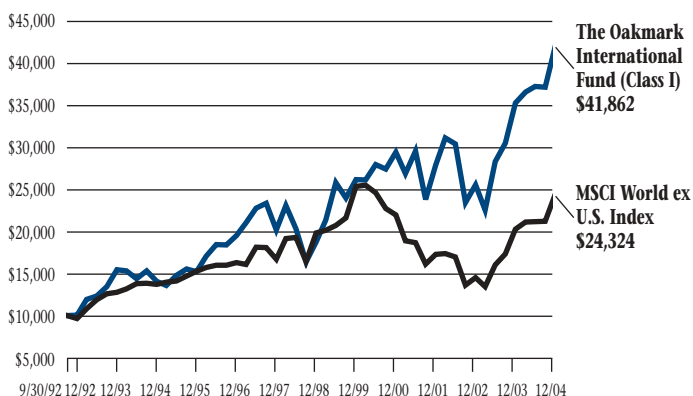
Michael J. Welsh, CFA, CPA
Portfolio Manager
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THE OAKMARK INTERNATIONAL FUND

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



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/04) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX¹⁴



Annual Average Total Returns (as of 12/31/04)

	Total Return Last 3 Months*	1-year	5-year	10-year	Since Inception (9/30/92)
Oakmark International Fund (Class I)	13.07%	19.09%	9.93%	11.54%	12.39%
MSCI World ex. U.S.	15.15%	20.38%	-0.76%	5.93%	7.52%
MSCI EAFE ¹⁶	15.32%	20.25%	-1.13%	5.61%	7.30%
Lipper International Fund Index ¹⁷	14.39%	18.59%	-0.89%	7.20%	8.55%

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.

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data, call 1-800-OAKMARK or visit www.oakmark.com.

* Not annualized

The Oakmark International Fund gained 13% for the quarter, compared to the MSCI World ex U.S. Index, which gained 15%. For the twelve months ended December 31, 2004, the Fund gained 19%, compared to the 20% return of the MSCI World ex U.S. Index.

Big Contributors 2004

At the end of every year, we like to discuss those stocks that had the most significant impact on your Fund's NAV⁴ over the past twelve months. We like to point out the good and the bad. However for the second year in a row, nearly all returns were positive, and none of the Fund's positions had a significant negative contribution. This makes us feel both good and uneasy!

The share price of Grupo Televisa has had a terrific run over the past two years, and for the calendar year ended December 31, 2004, it generated the most significant positive contribution to the NAV. Higher than expected profit growth this year, coupled with the market's continued recognition of the company's improved shareholder orientation, helped drive share price performance.

Bank of Ireland was another strong contributor to NAV growth. The Bank displayed its resilience and the quality of its franchise in 2004, facing down the challenges of increased competition, a slowing Irish economy, and a change in CEO.

Lotte Chilsung Beverage is a stock we have owned since 1995. Adding to a long history of positive surprises, Lotte Chilsung's results in 2004 have held up well despite an awful consumer environment in Korea. A peerless distribution system and robust new product development continue to be the company's major strengths.

A couple of our holdings in the pharmaceutical industry provided significant positive contributions over the past twelve months. Takeda Pharmaceutical, Japan's largest pharma company, continues to be a quality franchise at a very attractive price, despite the gap between price and value closing a bit this year. The share price of Aventis soared last January as Sanofi-Synthelabo launched a takeover bid.

The share price of Cadbury Schweppes plc performed well as the market rewarded the new management team for its success in integrating the recent Adams acquisition as well as for instituting a broad-reaching restructuring plan, which should substantially increase efficiency and profitability.

Other significant winners for the Fund in calendar 2004 included European equity and derivatives exchange Euronext N.V., media and telecom company Vivendi Universal (France), and the flavors and fragrances producer Givaudan S.A. (Switzerland). The stocks with modest declines include Orbotech Ltd. and J. Sainsbury PLC.

Looking Forward

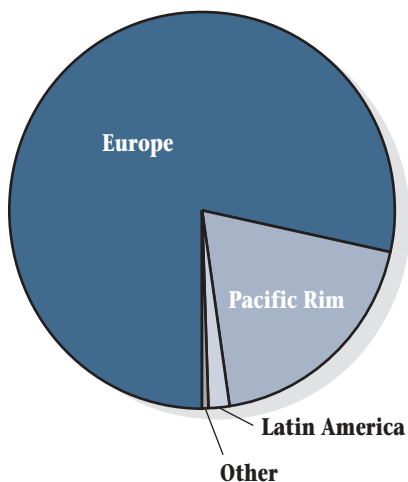
It was a good year of performance, but we still see interesting opportunities. Given the quality of the holdings and the attractive valuation of the portfolio, we remain optimistic about potential price appreciation. Thank you for your continued confidence.

David G. Herro, CFA
Portfolio Manager
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Michael J. Welsh, CFA, CPA
Portfolio Manager
mwelsh@oakmark.com

THE OAKMARK INTERNATIONAL FUND

International Diversification—December 31, 2004 (Unaudited)



	% of Fund Equity Market Value
Europe	78.4%
Great Britain	25.9%
Switzerland	16.0%
* France	11.7%
* Germany	8.2%
* Netherlands	7.7%
* Italy	3.9%
* Ireland	3.6%
* Finland	1.4%

	% of Fund Equity Market Value
Pacific Rim	19.3%
Japan	7.2%
Korea	5.8%
Australia	4.0%
Singapore	1.5%
Hong Kong	0.8%
Latin America	1.8%
Mexico	1.8%
Other	0.5%
Israel	0.5%

* Euro currency countries comprise 36.5% of the Fund.

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—97.1%			
Advertising—4.2%			
Publicis Groupe (France)	Advertising & Media Services	3,685,800	\$ 119,249,332
Aegis Group plc (Great Britain)	Media Services	43,844,900	90,841,020
			<u>210,090,352</u>
Apparel Retail—0.8%			
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	61,424,300	\$ 38,524,529
Apparel, Accessories & Luxury Goods—1.7%			
Swatch Group AG, Bearer Shares (Switzerland)	Watch Manufacturer	570,300	\$ 83,490,259
Swatch Group AG, Registered Shares (Switzerland)	Watch Manufacturer	24,700	732,301
			<u>84,222,560</u>
Automobile Manufacturers—3.1%			
Bayerische Motoren Werke (BMW) AG (Germany)	Luxury Automobile Manufacturer	3,431,500	\$ 154,546,044
Broadcasting & Cable TV—2.3%			
Grupo Televisa S.A. (Mexico) (b)	Television Production & Broadcasting	1,356,800	\$ 82,086,400
British Sky Broadcasting Group plc (Great Britain)	Television Production & Broadcasting	3,019,700	32,556,618
			<u>114,643,018</u>
Movies & Entertainment—2.1%			
Vivendi Universal SA (France) (a)	Multimedia	3,260,300	\$ 103,890,632
Publishing—1.5%			
John Fairfax Holdings Limited (Australia)	Newspaper Publisher	20,630,899	\$ 73,444,350
Specialty Stores—2.2%			
Signet Group plc (Great Britain)	Jewelry Retailer	52,812,500	\$ 111,447,050
Textiles—0.7%			
Chargeurs SA (France)	Wool, Textile Production & Trading	790,182	\$ 33,283,159

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.1% (cont.)			
Tires & Rubber—1.1%			
Compagnie Generale des Etablissements Michelin (France)	Tire Manufacturer	884,300	\$ 56,608,990
Brewers—1.7%			
Heineken Holding NV, Class A (Netherlands)	Brewer	2,323,500	\$ 70,130,752
Heineken NV (Netherlands)	Brewer	497,500	16,554,895
			<u>86,685,647</u>
Distillers & Vintners—4.3%			
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	12,023,000	\$ 171,372,379
Pernod-Ricard SA (France)	Manufactures Wines, Spirits, & Fruit Juices	299,000	45,712,072
			<u>217,084,451</u>
Household Products—2.1%			
Henkel KGaA (Germany)	Consumer Chemical Products Manufacturer	1,251,000	\$ 103,333,012
Packaged Foods & Meats—5.6%			
Nestle SA (Switzerland)	Food & Beverage Manufacturer	575,100	\$ 150,074,339
Cadbury Schweppes plc (Great Britain)	Beverage & Confectionary Manufacturer	14,165,200	131,796,421
			<u>281,870,760</u>
Personal Products—0.9%			
L'Oreal SA (France)	Health & Beauty Aid Manufacturer	600,800	\$ 45,518,601
Soft Drinks—1.6%			
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices & Sports Drinks Manufacturer	83,400	\$ 77,341,577
Integrated Oil & Gas—1.6%			
BP p.l.c. (Great Britain)	Oil & Natural Gas Exploration & Production	6,294,100	\$ 61,338,975
Total SA (France)	Oil & Natural Gas Exploration & Production	100,000	21,799,759
			<u>83,138,734</u>

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.1% (cont.)			
Diversified Banks—16.5%			
Bank of Ireland (Ireland) Australia and New Zealand Banking Group Limited (Australia)	Commercial Bank	10,462,900	\$ 173,869,726
Lloyds TSB Group plc (Great Britain)	Commercial Bank	7,348,800	118,386,346
BNP Paribas SA (France)	Commercial Banking	12,347,600	112,042,518
Kookmin Bank (Korea) (a)	Commercial Banking	1,156,000	83,583,557
UniCredito Italiano S.p.A. (Italy)	Commercial Banking	1,955,068	76,487,881
United Overseas Bank Limited, Foreign Shares (Singapore)	Banking Services	12,956,700	74,348,220
Banco Popolare di Verona e Novara Scrl (Italy)	Commercial Banking	8,395,368	70,985,895
Sanpaolo IMI S.p.A. (Italy)	Commercial Bank	2,938,400	59,631,854
	Banking Services	3,933,600	56,562,926
			<u>825,898,923</u>
Diversified Capital Markets—2.0%			
Credit Suisse Group (Switzerland) (a)	Investment Services & Insurance	2,408,600	\$ 100,987,746
Investment Banking & Brokerage—1.0%			
Daiwa Securities Group Inc. (Japan)	Stock Broker	6,799,000	\$ 49,119,008
Reinsurance—0.3%			
Hannover Rueckversicherung AG (Germany)	Reinsurance	390,800	\$ 15,241,518
Specialized Finance—5.5%			
Euronext NV (Netherlands)	Stock Exchange	5,012,500	\$ 152,789,413
Deutsche Boerse AG (Germany)	Electronic Trading Systems	2,030,500	121,968,143
			<u>274,757,556</u>
Health Care Equipment—1.4%			
Olympus Corporation (Japan)	Optical Equipment Manufacturer	3,251,000	\$ 69,349,165

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—97.1% (cont.)			
Pharmaceuticals—10.3%			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	7,688,600	\$ 180,242,681
Takeda Pharmaceutical Company Limited (Japan)	Pharmaceuticals & Food Supplements	2,776,200	139,853,480
Novartis AG (Switzerland)	Pharmaceuticals	2,693,900	135,397,983
Sanofi-Aventis (France)	Pharmaceuticals	721,008	57,511,304
			<u>513,005,448</u>
Airport Services—0.1%			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	205,700	\$ 5,625,895
Diversified Commercial Services—1.8%			
Meitec Corporation (Japan)	Software Engineering Services	2,424,800	\$ 90,429,913
Employment Services—1.9%			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	25,698,900	\$ 92,192,440
Industrial Conglomerates—0.0%			
Haw Par Corporation Limited (Singapore)	Healthcare & Leisure Products	58,338	\$ 184,082
Industrial Machinery—2.8%			
Enodis plc (Great Britain) (a)	Food Processing Equipment	33,585,320	\$ 71,195,236
Metso Corporation (Finland)	Paper & Pulp Machinery	4,339,200	68,634,745
			<u>139,829,981</u>
Marine Ports & Services—2.2%			
Associated British Ports Holdings plc (Great Britain)	Port Operator	12,131,399	\$ 110,546,160
Electronic Equipment Manufacturers—0.5%			
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	1,237,700	\$ 26,202,109
Diversified Chemicals—2.7%			
Akzo Nobel N.V. (Netherlands)	Chemical Producer	3,107,200	\$ 132,268,964
Fertilizers & Agricultural Chemicals—1.6%			
Syngenta AG (Switzerland) (a)	Crop Protection Products	738,500	\$ 78,251,656

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held/ Par Value	Market Value
Common Stocks—97.1% (cont.)			
Specialty Chemicals—4.6%			
Lonza Group AG, Registered Shares (Switzerland)	Industrial Organic Chemicals	2,267,700	\$ 127,303,890
Givaudan (Switzerland)	Fragrance & Flavor Compound Manufacturer	151,100	99,270,997
			<u>226,574,887</u>
Wireless Telecommunication Services—4.4%			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	672,600	\$ 127,996,716
Vodafone Group Plc (Great Britain)	Mobile Telecommunications	27,049,500	73,297,112
Vodafone Group Plc (Great Britain) (b)	Mobile Telecommunications	606,000	16,592,280
			<u>217,886,108</u>
Total Common Stocks (Cost: \$3,510,280,488)			4,844,025,025
Short Term Investments—3.6%			
U.S. Government Bills—0.6%			
United States Treasury Bill, 2.04% due 1/6/2005		\$ 30,000,000	\$ 29,991,500
Total U.S. Government Bills (Cost: \$29,991,500)			29,991,500
Repurchase Agreements—3.0%			
IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$1,325,953 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$1,392,048		\$ 1,325,760	\$ 1,325,760
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$149,519,310 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$156,975,000		149,500,000	<u>149,500,000</u>
Total Repurchase Agreements (Cost: \$150,825,760)			150,825,760
Total Short Term Investments (Cost: \$180,817,260)			180,817,260
Total Investments (Cost \$3,691,097,748)—100.7%			\$ 5,024,842,285
Other Liabilities In Excess Of Other Assets—(0.7)%			<u>(36,753,194)</u>
Total Net Assets—100%			<u>\$4,988,089,091</u>

(a) Non-income producing security.

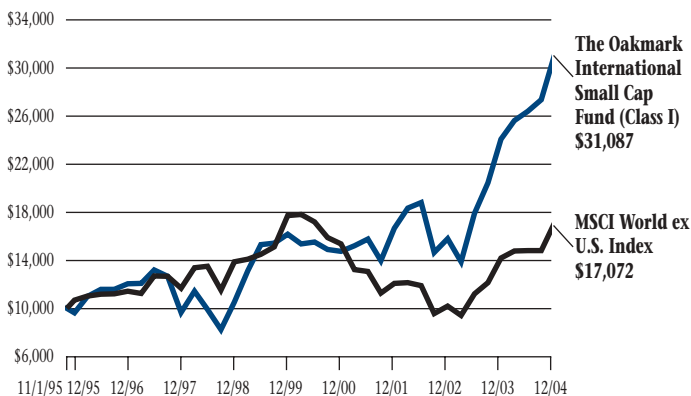
(b) Represents an American Depository Receipt.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

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



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/04) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX¹⁴



Annual Average Total Returns

(as of 12/31/04)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
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Oakmark International Small Cap Fund (Class I)	13.41%	28.95%	13.92%	13.16%
MSCI World ex. U.S.	15.15%	20.38%	-0.76%	6.00%
Lipper International Small Cap Average ¹⁸	14.55%	25.52%	7.76%	11.40%

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.

The performance data quoted represents past performance. The above performance information for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data, call 1-800-OAKMARK or visit www.oakmark.com.

* Not annualized

The Oakmark International Small Cap Fund gained 13% for the quarter, underperforming our benchmark indices. More importantly, however, for the past twelve months your Fund is up 29%, solidly outpacing the relevant benchmarks.

Strong performers for the quarter were Schindler Holding and our airport operators, Grupo Aeroportuario del Sureste ("Asur") and Kobenhaven Lufthave. Asur continued to enjoy strong passenger volumes and increased retail spending per passenger. Towards the close of the quarter, its shareholder structure further simplified, paving the way for renewed cash disbursements to shareholders in 2005. Kobenhaven also enjoyed strong passenger figures, coupled with the finalization of the bidding process for the Brussels airport. Because Kobenhaven remained very disciplined with its bid, the group did not win the auction. As a result, Kobenhaven began returning excess cash to shareholders via share repurchases. Schindler (an elevator and escalator manufacturer) has continued along its recovery path, with profitability and free cash flow steadily increasing. To management's credit, these improvements have come in the face of a raw materials headwind and have coincided with the roll-out of several new products, including the Eurolift and Schindler 700 series.

The most significant detractor from quarterly performance was Lectra, a French software firm focused on developing products for the textile industry. Its core market happened to turn down simultaneously with a meaningful acquisition (Investronica). In addition, with approximately 25% of sales from dollar-based markets, Lectra is suffering from a large currency mismatch and is competitively disadvantaged relative to its U.S. peer, Gerber Scientific. We continue to believe the Investronica deal will be value accretive, because of significant working capital improvements and because an undisciplined price discounter has fallen out of the market. In addition, we expect the textile market and currencies to return to more normal levels, allowing for Lectra to return to historical levels of profitability.

Portfolio Composition

New positions initiated during the quarter include Lotte Confectionary, Korea's largest ice cream and candy company, and Orbotech, an Israeli semiconductor equipment company. Your Fund continued to add to the small-cap Korean banks discussed in last quarter's summary, Pusan and Daegu, and positions that had fallen, including Lectra and Morse.

Following the bid we saw last quarter for DFS, your Fund experienced quite a bit of merger and acquisition activity in this quarter as well. Waterford Wedgford, Royal Doulton's largest shareholder, made a cash offer for the group in October. Similarly, Geest's largest shareholder, Bakkavor Group from Iceland, has made a tentative approach to the group. Finally, Recoletos' management has offered to repurchase Pearson's entire 72% stake for 3% more than we estimated the business to be worth. We're excited that independent entities continue to recognize the value we see in our businesses.

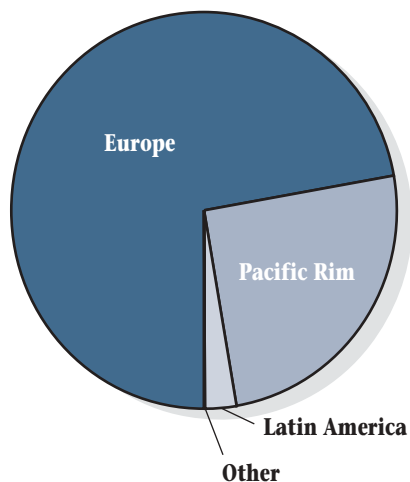
We continue to like the quality and price attractiveness of the portfolio. Thank you for your continued confidence.

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THE OAKMARK INTERNATIONAL SMALL CAP FUND

International Diversification—December 31, 2004 (Unaudited)



	% of Fund Equity Market Value
Europe	72.2%
Switzerland	17.9%
* France	12.4%
Great Britain	11.0%
* Italy	8.5%
Denmark	6.3%
* Spain	4.0%
* Finland	3.7%
* Germany	3.6%
Turkey	2.5%
Sweden	1.9%
* Greece	0.4%

	% of Fund Equity Market Value
Pacific Rim	25.1%
Japan	9.3%
Korea	6.0%
Australia	4.2%
New Zealand	3.2%
Hong Kong	1.7%
Thailand	0.4%
Philippines	0.3%
Latin America	2.6%
Mexico	2.6%
Other	0.1%
Israel	0.1%

* Euro currency countries comprise 32.6% of the Fund.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited)

Name	Description	Shares Held	Market Value
Common Stocks—95.2%			
Advertising—2.5%			
Asatsu-DK, Inc. (Japan)	Advertising Services Provider	459,700	\$ 12,947,716
G2R Inc. (Korea)	Advertising & Marketing Services	485,330	8,321,684
			<u>21,269,400</u>
Apparel, Accessories & Luxury Goods—2.3%			
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	1,615,900	\$ 19,925,727
Home Furnishings—0.5%			
Royal Doulton plc (Great Britain) (a)	Tableware & Giftware	18,373,000	\$ 4,097,436
Home Improvement Retail—2.5%			
Carpetright plc (Great Britain)	Carpet Retailer	987,400	\$ 21,594,201
Motorcycle Manufacturers—0.4%			
Ducati Motor Holding S.p.A. (Italy) (a)	Motorcycle Manufacturer	3,015,650	\$ 3,594,247
Photographic Products—1.3%			
Vitec Group plc (Great Britain)	Photo Equipment & Supplies	1,956,607	\$ 10,735,167
Publishing—1.9%			
Tamedia AG (Switzerland) (a)	Publishing & TV Broadcasting	143,661	\$ 13,231,354
Matichon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	2,039,500	3,672,506
			<u>16,903,860</u>
Agricultural Products—2.2%			
Geest plc (Great Britain)	Fresh Produce Distributor	1,562,400	\$ 19,122,826
Brewers—4.1%			
Davide Campari - Milano S.p.A. (Italy)	Soft Drinks, Wines, & Spirits Producer	301,500	\$ 19,325,242
Kook Soon Dang Brewery Co., Ltd. (Korea)	Wine & Spirits Manufacturer	843,176	10,425,669
Hite Brewery Co., Ltd. (Korea)	Brewer	68,000	5,616,306
			<u>35,367,217</u>

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.2% (cont.)			
Distillers & Vintners—2.0%			
Baron de Ley, S.A. (Spain) (a)	Wines & Spirits Manufacturer	337,037	\$ 17,373,887
Packaged Foods & Meats—0.5%			
Alaska Milk Corporation (Philippines)	Milk Producer	49,394,000	\$ 2,596,210
Lotte Confectionery Co., Ltd. (Korea)	Candy & Snacks Manufacturer	1,880	1,440,147
			<u>4,036,357</u>
Asset Management & Custody Banks—3.4%			
Julius Baer Holding Ltd., Zurich (Switzerland)	Asset Management	97,500	\$ 29,270,098
Diversified Banks—1.9%			
Jyske Bank-Registered (Denmark) (a)	Commercial Banking	444,800	\$ 16,711,283
Multi-Sector Holdings—2.7%			
Pargesa Holding AG (Switzerland)	Diversified Operations	5,754	\$ 20,188,588
Eurazeo (France)	Investment Company	39,500	3,330,229
			<u>23,518,817</u>
Other Diversified Financial Services—1.5%			
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	1,428,700	\$ 13,292,503
Regional Banks—1.5%			
Pusan Bank (Korea)	Commercial Banking	1,033,500	\$ 7,936,945
Daegu Bank (Korea)	Commercial Banking	739,400	5,142,658
			<u>13,079,603</u>
Specialized Finance—0.4%			
Athens Stock Exchange S.A. (Greece) (a)	Exchange Services	293,000	\$ 3,028,715
Health Care Equipment—0.0%			
Golden Meditech Company Limited (China)	Medical Instruments & Supplies	296,000	\$ 74,640

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.2% (cont.)			
Health Care Supplies—2.7%			
Ansell Limited (Australia)	Protective Rubber & Plastics Products	1,733,684	\$ 12,112,959
Coloplast A/S, Class B (Denmark)	Healthcare Products & Services Provider	203,000	11,125,468
			<u>23,238,427</u>
Pharmaceuticals—2.7%			
Santen Pharmaceutical Co., Ltd. (Japan)	Pharmaceuticals	1,072,400	\$ 23,451,879
Air Freight & Logistics—1.7%			
Mainfreight Limited (New Zealand)	Logistics Services	8,935,381	\$ 14,436,113
Airport Services—5.3%			
Kobenhavns Lufthavne A/S (Copenhagen Airports A/S - CPH) (Denmark)	Airport Management & Operations	113,600	\$ 24,095,494
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b)	Airport Operator	785,300	21,477,955
			<u>45,573,449</u>
Construction & Engineering—1.2%			
Tae Young Corp. (Korea)	Heavy Construction	283,560	\$ 10,271,928
Construction & Farm Machinery & Heavy Trucks—0.2%			
Vossloh AG (Germany)	Railroad Equipment Manufacturer	29,000	\$ 1,430,007
Diversified Commercial Services—2.2%			
Prosegur, Compania de Seguridad SA (Spain)	Security & Transportation Services	800,700	\$ 15,728,025
Konami Sports Corporation (Japan)	Fitness Centers	149,400	3,165,069
			<u>18,893,094</u>
Electrical Components & Equipment—3.7%			
Pfeiffer Vacuum Technology AG (Germany)	Vacuum Pump Manufacturer	423,840	\$ 18,973,685
Carbone Lorraine SA (France) (a)	Electrical Systems Manufacturer	236,666	12,520,921
			<u>31,494,606</u>

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.2% (cont.)			
Employment Services—1.0%			
DIS Deutscher Industrie Service AG (Germany)	Recruitment Consultancy Services	227,000	\$ 8,899,375
Industrial Conglomerates—2.4%			
Dogan Sirketler Grubu Holding A.S. (Turkey) (a)(c)	Diversified Holding Company	9,859,711,000	\$ 20,911,264
Industrial Machinery—14.2%			
Saurer AG (Switzerland) (a)	Textile Equipment Manufacturer	478,400	\$ 28,115,258
Interpump Group S.p.A. (Italy)	Pump & Piston Manufacturer	4,700,000	27,116,214
Schindler Holding AG (Switzerland)	Elevator & Escalator Manufacturer	64,200	26,748,827
Kone Oyj, Class B (Finland)	Elevators	187,800	14,544,254
Alfa Laval AB (Sweden)	Filtration & Separation Equipment	807,500	13,061,821
LISI (France)	Industrial Fastener Manufacturer	162,413	9,553,134
Munters AB (Sweden)	Cooling & Moisture Control Systems	77,400	2,329,291
NSC Groupe (France)	Textile Equipment Manufacturer	12,316	1,004,942
			<u>122,473,741</u>
Office Services & Supplies—0.6%			
Societe BIC SA (France)	Consumer & Office Supplies	101,800	\$ 5,109,581
Domino Printing Sciences plc (Great Britain)	Printing Equipment	70,000	<u>344,449</u>
			5,454,030
Computer Storage & Peripherals—1.4%			
Lectra (France)	Manufacturing Process Systems	1,813,100	\$ 12,297,804
Data Processing & Outsourced Services—2.6%			
Baycorp Advantage Limited (Australia) (a)	Credit Reference Services	9,342,300	\$ 22,513,000
Electronic Equipment Manufacturers—1.9%			
Vaisala Oyj, Class A (Finland)	Atmospheric Observation Equipment	627,000	\$ 15,480,135
Orbotech, Ltd. (Israel) (a)	Optical Inspection Systems	29,000	<u>613,930</u>
			16,094,065

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Description	Shares Held	Market Value
Common Stocks—95.2% (cont.)			
Home Entertainment Software—1.5%			
Square Enix Co., Ltd. (Japan)	Entertainment Software	436,800	\$ 12,921,058
IT Consulting & Other Services—4.1%			
Morse plc (Great Britain)	Business & Technology Solutions	10,026,500	\$ 18,465,444
Alten (France) (a)	Systems Consulting & Engineering	456,041	10,145,736
Sopra Group (France)	Computer Engineering	111,930	6,714,305
			<u>35,325,485</u>
Office Electronics—3.3%			
Neopost SA (France)	Mailroom Equipment Supplier	366,200	\$ 28,415,164
Construction Materials—1.3%			
Fletcher Building Limited (New Zealand)	Building Materials Manufacturer	2,414,400	\$ 11,476,829
Industrial Gases—1.3%			
Taiyo Ink Mfg. Co., Ltd. (Japan)	Manufacturer of Resist Inks	291,300	\$ 10,806,795
Specialty Chemicals—6.7%			
Gurit-Heberlein AG (Switzerland)	Chemical Producer	36,075	\$ 29,396,671
Croda International plc (Great Britain)	Chemical Producer	2,573,600	15,848,394
Financiere Marc de Lacharriere SA (Fimalac) (France)	Chemical Storage & Diversified Operations	266,932	12,746,152
Financiere Marc de Lacharriere SA (Fimalac), Warrants (France) (a)	Chemical Storage & Diversified Operations	31,866	148,271
			<u>58,139,488</u>
Alternative Carriers—1.6%			
Asia Satellite Telecommunications Holdings Limited (Hong Kong)	Satellite Operator	7,305,000	\$ 13,909,273
Total Common Stocks (Cost: \$541,803,259)			821,422,858

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—December 31, 2004 (Unaudited) cont.

Name	Par Value	Market Value
Short Term Investments—5.4%		
U.S. Government Bills—2.3%		
United States Treasury Bills, 1.64% - 1.69% due 1/20/2005 - 1/27/2005	\$20,000,000	\$ 19,979,139
Total U.S. Government Bills (Cost: \$19,979,139)		19,979,139
Repurchase Agreements—3.1%		
IBT Repurchase Agreement, 1.75% dated 12/31/2004 due 1/3/2005, repurchase price \$1,489,554 collateralized by a U.S. Government Agency Security with a market value plus accrued interest of \$1,563,804	\$ 1,489,337	\$ 1,489,337
IBT Repurchase Agreement, 1.55% dated 12/31/2004 due 1/3/2005, repurchase price \$25,003,229 collateralized by U.S. Government Agency Securities with an aggregate market value plus accrued interest of \$26,250,000	25,000,000	<u>25,000,000</u>
Total Repurchase Agreements (Cost: \$26,489,337)		26,489,337
Total Short Term Investments (Cost: \$46,468,476)		46,468,476
Total Investments (Cost \$588,271,735)—100.6%		\$ 867,891,334
Foreign Currencies (Cost \$258,837)—0.0%		\$ 257,769
Other Liabilities In Excess Of Other Assets—(0.6)%		<u>(5,260,372)</u>
Total Net Assets—100%		<u>\$862,888,731</u>

- (a) Non-income producing security.
- (b) Represents an American Depository Receipt.
- (c) Effective January 1, 2005, the Republic of Turkey converted to the new Turkish Lira (currency code TRY). TRY is the equivalent to 1,000,000 of the former Turkish Lira (TRL). For Oakmark International Small Cap, its holdings in Dogan Sirketler Grubu Holding A.S. (currently stated in TRL) became equivalent to 9,859,711 shares under the TRY. The currency re-denomination had no impact on the cost and market value of this security.

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 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.

The performance data quoted represents past performance. The above performance for the Fund does not reflect the imposition of a 2% redemption fee on shares held for 90 days or less to deter market timers. If reflected, the fee would reduce the performance quoted. **Past performance does not guarantee future results.** The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Average annual total return measures annualized change, while total return measures aggregate change. To obtain current month end performance data call 1-800-OAKMARK.

The performance information for Class I shares of The Oakmark Fund, The Oakmark Select Fund, The Oakmark Equity & Income 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 for 90 days or less. The purpose of this redemption fee is to deter market timers.

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

The Oakmark Select Fund is open to existing shareholders and investors who purchase directly from Oakmark.

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 returns more volatile than a more diversified fund.

The Oakmark Equity and Income Fund closed to certain new investors as of 5/7/04.

Equity and Income invests in medium- and lower-quality debt securities that have higher yield potential but present greater investment and credit risk than higher-quality securities, which may result in greater share price volatility. An economic downturn could severely disrupt the market in medium or lower grade debt securities and adversely affect the value of outstanding bonds and the ability of the issuers to repay principal and interest.

The Oakmark Global Fund and The Oakmark International Fund closed to certain new investors as of 12/15/03.

The Oakmark International Small Cap Fund closed to new investors as of 5/10/02.

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.

1. Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.
2. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.

3. 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.
4. 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.
5. The Dow Jones Industrial Average is an unmanaged index that includes only 30 big companies. This index is unmanaged and investors cannot actually make investments in this index.
6. The Lipper Large Cap Value Fund Index is an equally weighted index of the largest 30 funds within the large cap value funds investment objective as defined by Lipper Inc. The index is adjusted for the reinvestment of capital gains and income dividends. This index is unmanaged and investors cannot actually make investments in this index.
7. The Price-Earnings Ratio ("P/E") is the most common measure of the expensiveness of a stock.
8. 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. This index is unmanaged and investors cannot actually make investments in this index.
9. The Lipper Mid Cap Value Fund Index measures the performance of the 30 largest U.S. mid-cap value funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
10. The Lipper Balanced Fund Index measures the performance of the 30 largest U.S. balanced funds tracked by Lipper. This index is unmanaged and investors cannot actually make investments in this index.
11. Lehman Brothers Government/Corporate Bond Index is a benchmark index made up of the Lehman Brothers Government and Corporate Bond indexes, including U.S. government Treasury and agency securities as well as corporate and Yankee bonds. This index is unmanaged and investors cannot actually make investments in this index.
12. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of December 2003 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. This index is unmanaged and investors cannot actually make investments in this index.
13. The Lipper Global Fund Index measures the performance of the 30 largest mutual funds that invest in securities throughout the world. This index is unmanaged and investors cannot actually make investments in this index.
14. The MSCI World Index ex U.S. is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of April 2002 the MSCI World Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. This index is unmanaged and investors cannot actually make investments in this index.
15. The Japanese Nikkei Index is an Index of 225 leading stocks traded on the Tokyo Stock Exchange. This index is unmanaged and investors cannot actually make investments in this index.
16. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of December 2003 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. This index is unmanaged and investors cannot actually make investments in this index.
17. The Lipper International Fund Index reflects the net asset value weighted total return of the 30 largest international equity funds. This index is unmanaged and investors cannot actually make investments in this index.
18. The Lipper International Small Cap Average includes 100 mutual funds that invest in securities whose primary markets are outside of the U.S. This index is unmanaged and investors cannot actually make investments in this index.

THE OAKMARK 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 may help reduce overall volatility—and potentially provide more consistent returns over time.



Bottom-Up Investment Process

The Oakmark Glossary

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 FUNDS

Trustees and Officers

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To obtain a prospectus, an application or periodic reports, access our web site at www.oakmark.com, or call 1-800-OAKMARK (1-800-625-6275) or (617) 449-6274.

The Funds will file its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q's are available on the SEC's website at www.sec.gov. The Funds' Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and that information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures the Funds use to determine how to vote proxies relating to portfolio securities is available without charge, upon request, by calling toll-free 1-800-625-6275; on the Funds website at www.oakmark.com; and on the Securities and Exchange Commissions website at www.sec.gov.

This report is submitted for the general information of the shareholders of the Funds. The report is not authorized for distribution to prospective investors in the Funds unless it is accompanied or preceded by a currently effective prospectus of the Funds.

No sales charge to the shareholder or to the new investor is made in offering the shares of the Funds, however, a shareholder may incur a 2% redemption fee on an exchange or redemption of Class I shares held for 90 days or less from any Fund.



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