

The Oakmark Fund

The Oakmark
Select Fund

The Oakmark Small
Cap Fund

The Oakmark Equity
and Income Fund

The Oakmark
Global Fund

The Oakmark
International Fund

The Oakmark
International Small
Cap Fund

THIRD QUARTER REPORT

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THE OAKMARK FAMILY OF FUNDS

2002 Third Quarter Report

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For More Information

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

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

Letter from the President

Dear Fellow Shareholders:

The first half of the year has proven challenging, as the S&P 500¹ and the NASDAQ Composite² posted double-digit declines. We are pleased that all of our funds have performed well versus their benchmarks, and more importantly, 5 of 7 funds are positive year to date ended June 30. Our performance continues to benefit from our strong analytical efforts and focus on limiting risk in our portfolios.

Investor Trust

As equity investors, a sense of trust in company management is essential. Unfortunately, recent events have shaken investors' belief in corporate management, accountants and Wall Street analysts. There have been several cases of fraud and abuse of shareholders' trust. Fortunately, we do not believe this is a long-term concern. In other cycles, the market has struggled due to weakened investor confidence; after all, greed and dishonesty are not new. Ultimately, the unethical and criminal were identified and appropriately punished. It was a cyclical, not secular, problem, and the markets subsequently improved based on fundamentals. We believe this time will be no different.

How do we protect our clients? We do our own analytical work and carefully make sure that management incentives are properly aligned with our clients. We believe the intensity of our efforts and willingness to ask the tough questions will help us limit our mistakes and protect the interest of our shareholders.

Putting Market Volatility to Work

Assessing risk is important to the investment process. Equally important is being disciplined and unemotional—capturing the benefits of volatility, not the negatives. While anticipating the market is more difficult than reacting to it, we have found that buying stocks after a troublesome period offers the greatest investment potential. Buying yesterday's winners or selling on short-term concerns is not what a disciplined value investor does. Instead unemotional decision-making and managing risk with rigor and consistency drive successful investments. We hope to continue delivering strong investment results while managing volatility and risk.



Looking Ahead

The NASDAQ percentage drop since March 2000 is approaching the magnitude of the market drop in 1929-1932, newspapers are loaded with negative news about the market, and for the first time ever, the S&P 500 has a good chance to be down for three straight years—it has been a tough time for many investors. While sources of concern remain, we believe many of the issues affecting the market are already reflected in individual stock prices. The market is not at a record high, and stock prices are closer to more accurately reflecting underlying business values. The best advice we can give is that successful investors stick with a long-term plan and never act emotionally as a result of short-term fears.

Thank you for your continued investment in The Oakmark Family of Funds

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

Robert M. Levy
President and CEO

July 3, 2002

THE OAKMARK FAMILY OF FUNDS

Summary Information

| <i>Performance for Period³ Ended June 30, 2002</i> | The Oakmark Fund (OAKMX) | The Oakmark Select Fund (OAKLX) | The Oakmark Small Cap Fund (OAKSX) |
|---|--------------------------------------|--|---|
| 3 Months* | -8.36% | -8.09% | -6.85% |
| 6 Months* | -4.54% | -5.76% | 4.57% |
| 1 Year | -3.74% | -1.84% | 5.42% |
| <i>Average Annual Total Return for:</i> | | | |
| 3 Year | 0.60% | 12.86% | 7.10% |
| 5 Year | 5.34% | 19.93% | 4.84% |
| 10 Year | 15.33% | N/A | N/A |
| Since inception | 18.46% | 24.88% | 12.83% |
| <i>Value of \$10,000 from inception date</i> | \$63,463 (8/5/91) | \$35,206 (11/1/96) | \$22,369 (11/1/95) |
| <i>Top Five Holdings⁴ as of June 30, 2002</i> | Washington Mutual, Inc. 3.9% | Washington Mutual, Inc. 18.7% | Ralcorp Holdings, Inc. 3.5% |
| | H&R Block, Inc. 3.2% | H&R Block, Inc. 7.8% | Mentor Graphics Corporation 3.0% |
| <i>Company and % of Total Net Assets</i> | Fortune Brands, Inc. 2.5% | Yum! Brands, Inc. 5.0% | Tupperware Corporation 3.0% |
| | Fannie Mae 2.3% | Toys 'Я' Us, Inc. 4.6% | NCO Group, Inc. 3.0% |
| | The Kroger Co. 2.3% | Mattel, Inc. 4.4% | Del Monte Foods Company 2.9% |
| <i>Top Five Industries as of June 30, 2002</i> | Retail 15.1% | Banks & Thrifts 18.7% | Computer Software 7.6% |
| | Pharmaceuticals 9.9% | Retail 18.2% | Food & Beverage 6.4% |
| | Other Consumer Goods & Services 8.4% | Other Consumer Goods & Services 12.2% | Medical Products 5.3% |
| <i>Industries and % of Total Net Assets</i> | Banks & Thrifts 6.2% | Information Services 8.0% | Other Consumer Goods & Services 5.1% |
| | Food & Beverage 6.1% | Computer Services 7.6% | Banks & Thrifts 5.0% |

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

* Not annualized

| The Oakmark Equity and Income Fund (OAKBX) | | The Oakmark Global Fund (OAKGX) | | The Oakmark International Fund (OAKIX) | | The Oakmark International Small Cap Fund (OAKEX) | |
|--|-------|---------------------------------|------|--|------|--|------|
| -3.19% | | -6.60% | | -2.23% | | 2.51% | |
| 0.86% | | 3.54% | | 8.97% | | 12.95% | |
| 5.77% | | 8.15% | | 2.98% | | 19.35% | |
| 11.88% | | N/A | | 5.61% | | 7.12% | |
| 13.99% | | N/A | | 5.95% | | 7.39% | |
| N/A | | N/A | | N/A | | N/A | |
| 15.31% | | 13.29% ⁵ | | 12.04% | | 9.96% | |
| \$25,855 (11/1/95) | | \$14,372 (8/4/99) | | \$30,315 (9/30/92) | | \$18,831 (11/1/95) | |
| Synopsys, Inc. | 3.0% | eFunds Corporation | 5.7% | GlaxoSmithKline plc | 4.4% | Gurit-Heberlein AG | 4.5% |
| CenturyTel, Inc. | 3.0% | Synopsys, Inc. | 5.2% | Telefonaktiebolaget | | Kobenhavns | |
| First Health Group Corp. | 2.9% | Telefonaktiebolaget | | LM Ericsson, Class B | 3.7% | Lufthavne A/S | 4.2% |
| Ceridian Corporation | 2.8% | LM Ericsson, Class B | 5.0% | Hunter Douglas N.V. | 3.0% | Carpetright plc | 3.8% |
| Phillips Petroleum Company | 2.8% | First Health Group Corp. | 4.1% | Henkel KGaA | 3.0% | Neopost SA | 3.7% |
| | | Hunter Douglas N.V. | 4.0% | Meitec Corporation | 2.8% | Ansell Limited | 3.6% |
| U.S. Government Notes | 25.0% | Computer Software | 8.1% | Banks & Thrifts | 9.3% | Retail | 8.8% |
| Oil & Natural Gas | 9.6% | Banks & Thrifts | 7.6% | Pharmaceuticals | 8.8% | Airport Maintenance | 7.5% |
| Pharmaceuticals | 6.9% | Information Services | 7.5% | Food & Beverage | 7.3% | Banks & Thrifts | 6.8% |
| Computer Software | 5.0% | Medical Products | 5.9% | Publishing | 7.4% | Food & Beverage | 6.2% |
| Retail | 4.6% | Telecommunications Equipment | 5.0% | Chemicals | 5.1% | Machinery & Industrial Processing | 5.6% |

THE OAKMARK AND OAKMARK SELECT FUNDS

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



Usually it's pretty easy to tell the difference between the scandal sheets and the business section. Unfortunately, in 2002 there has been great overlap. A handful of corporate scandals, one seemingly worse than the next, has led to a level of distrust in corporate leaders that hasn't been seen for at least a generation. That lack of trust has been frequently cited as one of the leading reasons for the broad market's

continued decline and has resulted in tremendous losses for those companies directly involved in wrongdoing.

A friend and former colleague recently called to tell me he had bought stock in one of the scandal-plagued companies and said, "This would be a perfect stock for you if only you could trust their management!" That statement makes about as much sense to us as saying that Happy Gilmore could play in the NHL if only he could skate! Trust in management and a belief that they are acting in our economic interest is an essential part of our stock selection criteria; when it is lacking, the stock is immediately rejected.

We used to say we wanted management that was focused on "increasing shareholder value." To us, that means that when management makes capital investment decisions, their sole goal is to achieve the highest possible risk-adjusted return on that capital. As management considers their array of choices—re-investing in the business, making acquisitions, paying dividends, paying off debt or repurchasing stock—we want them to make the selection that maximizes per-share business value. Effectively, we want them to make the same decision that a value-maximizing shareholder would select. But, that phrase is so widely used today that it has become meaningless. Most annual reports now cite "shareholder value" as a corporate objective, and there is even a new periodical called "Shareholder Value Magazine."

In a rapidly growing business, there is a natural alignment of economic interests between shareholders and management. Pursuing internal growth opportunities generally provides high rates-of-return on capital and, therefore, grows the value of the business. As the business gets bigger, the job of managing the company also becomes more financially lucrative—bigger businesses usually pay their top managers more than smaller businesses do. A company like First Data Corporation rapidly expanding its highly profitable Western Union franchise is a good example

Highlights

- We want company managements to make decisions that maximize per-share business value.
- Managements can grow value by investing in the business, making acquisitions, paying dividends, paying off debt, or repurchasing stock.
- We favor managements with a willingness to grow value by shrinking.

of management making their own jobs more rewarding at the same time they are growing shareholder value.

But not all companies have such attractive internal growth opportunities. In 1960, Henry Singleton founded Teledyne, a company that grew rapidly for a decade via a combination of internal growth and acquisitions. When the opportunities for value added acquisitions disappeared, Singleton switched gears. From 1970 to 1984 he used his cash to repurchase 82% of Teledyne's grossly undervalued common shares. The result—the stock price increased from \$2 to \$250.

In 1971, Washington Post went public, and its stock subsequently fell to a fraction of its intrinsic business value. Warren Buffett acquired a large stake in Washington Post and convinced its CEO, Katherine Graham, that repurchasing stock with excess cash added much more to per-share value than would any capital expenditure opportunities. Graham repurchased shares in 1979 at an average price of \$22. Washington Post ended last quarter at a per-share price of \$545. It is no wonder she credited Buffett for being a great mentor!

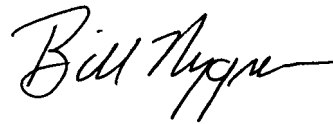
In 1980, Don Kelly was CEO of Esmark, an unwieldy conglomerate which owned Swift, Hunt Wesson, Playtex, Avis, Vickers Oil, Vigero Fertilizer, and other assorted businesses. As is often the case with conglomerates, the stock market valued Esmark well below the sum of the prices the individual businesses would have traded at were they pure plays. In 1981, Mobil Oil purchased shares in Esmark, then exchanged those shares for Esmark's Vickers Oil subsidiary. Not only did this transaction achieve a fair price for the oil division, but the Esmark shares that were returned were worth far more than an equivalent dollar amount of cash. The result—Esmark stock rose from \$9 per share in 1980 to \$60 in 1984 when the company was acquired by Beatrice Foods.

Singleton, Graham and Kelly were among the pioneers of maximizing shareholder value by shrinking the business. They acted against their own economic interests as professional managers but maximized value for the shareholders. Since they were also shareholders, they were maximizing their personal economics as well. At the time, share repurchase was highly controversial, and not many companies would express a desire to repurchase shares or sell off divisions. It was generally viewed as a sign of weakness, a sign of poor internal growth opportunities. Because so few companies talked about repurchasing shares, or selling pieces of their company, those that did really stood out as having their goals aligned with their shareholders. But today, most companies at least pay lip service to the idea of buying back stock when it is undervalued or selling business units when a full valuation is received. These statements have nearly become synonymous with the phrase “shareholder value.” We still monitor company actions to see how they react when presented with opportunities for profitable repurchase or restructuring, but the words alone have become useless.

So what do we look for in the words of management? Any comments that suggest they are more focused on increasing business value than on furthering their own careers. Two of our companies, Mattel and Yum Brands (formerly Tricon Global Restaurants), were on a short list this year of annual reports that did not mention anything about shareholder value. In his letter to shareholders, Mattel CEO, Bob Eckert, spoke of improving Mattel’s performance by building the brand and by doing a better job of managing expenses. Achieving those goals will do more to grow Mattel’s business value than would any amount of asset sales or share repurchases. In the Yum Brands letter to shareholders, CEO David Novak also avoided any discussion of shareholder value. What he spoke of instead was his “customer mania”—a maniacal focus on providing an industry leading level of customer service. Mr. Novak is not serving customers to boost his ego; we believe he is doing it to boost the value of the business.

We like to see our managers own stock in the company they work for, to have a reasonable number of stock options and to have incentive pay packages that focus on variables we believe drive equity values. We favor a willingness to grow value by shrinking—like the shareholder value pioneers, Singleton, Graham and Kelly. Just as important, we like to see managements that state goals that will focus their employees on business issues that will grow the company’s intrinsic value. When management views the investors as their partners, focuses on maximizing per-share business value, and communicates honestly about their results, we believe the probability of achieving above-average returns on their stock increases.

As for the company our friend purchased, it is still on our list of stocks to research more thoroughly if and when the management changes.



William C. Nygren, CFA
Portfolio Manager

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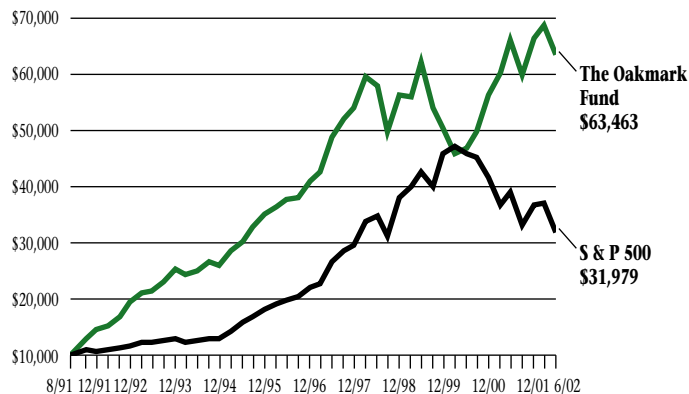
July 3, 2002

THE OAKMARK FUND

Report from Bill Nygren and Kevin Grant, Portfolio Managers



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK FUND FROM ITS INCEPTION (8/5/91) TO PRESENT (6/30/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX¹



Average Annual Total Returns³

| | (as of 6/30/02) | | | | Since Inception (8/5/91) |
|-----------------------------|-----------------|--------|---------|--|--------------------------|
| Total Return Last 3 Months* | 1-year | 5-year | 10-year | | |

| | | | | | |
|---|---------------|---------------|--------------|---------------|---------------|
| Oakmark Fund | -8.36% | -3.74% | 5.34% | 15.33% | 18.46% |
| S&P 500 | -13.40% | -17.99% | 3.66% | 11.42% | 11.24% |
| Dow Jones Average ⁶ | -10.82% | -10.43% | 5.54% | 13.17% | 13.26% |
| Lipper Large Cap Value Index ⁷ | -10.82% | -13.75% | 4.00% | 11.07% | 10.99% |

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

* Not annualized

The Oakmark Fund decreased in value by 8% last quarter. The market as a whole declined much more than the Fund did as shown by the 13% loss in the S&P 500. The market decline led to a number of new stocks falling to our buy targets. In addition to the new addition discussed below, we also discuss our purchases of Abbott Laboratories, Boeing, Bristol-Myers, Duke Energy, and Home Depot on our web site, www.oakmark.com.

AOL Time Warner (AOL—\$15)

Oakmark takes a position in the leading Internet Service Provider—who'd have thought? Near the peak of the Internet bubble, in late 1999, AOL hit a price of \$96, giving it a market capitalization in excess of \$200 billion. The following year, AOL announced they would purchase, for stock, "old media" company, Time Warner, which itself had a market cap of nearly \$100 billion. Today, with AOL having fallen to \$15, the market cap of the combined companies has fallen from \$300 billion to \$68 billion. At Oakmark, we were never comfortable with the valuations placed on Internet stocks, but at the current price for AOL, the market appears to value the world's largest ISP at less than zero—that works for us!

One of the big financial news stories last quarter was the conflicts that are inherent in the jobs of Wall Street research analysts—especially related to Internet stocks. In light of that, consider an article written in Fortune magazine in February 2000 (the peak of the Internet bubble) by Carol Loomis, "AOL + TWX = ??? Do the math and you might wonder if this company's long-term annual return to investors can beat a Treasury bond's." The article took a disciplined quantitative approach to examining the growth AOL would need to achieve to produce acceptable returns for its shareholders. The article concluded by saying "to make the merger work for investors ... will be like pushing a boulder up an alp." Some analysts are able to speak their minds honestly, despite conflicts. Kudos to Carol Loomis who wrote that piece while employed by AOL Time Warner! With AOL down by over 80%, reasonable returns now appear much more achievable.

Best wishes,

William C. Nygren, CFA
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July 3, 2002

THE OAKMARK FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Shares Held | Market Value |
|--|-------------|--------------------|
| Common Stocks—95.8% | | |
| Food & Beverage—6.1% | | |
| H.J. Heinz Company | 2,010,000 | \$ 82,611,000 |
| General Mills, Inc. | 1,855,000 | 81,768,400 |
| Kraft Foods Inc. | 1,895,000 | 77,600,250 |
| | | <u>241,979,650</u> |
| Household Products—3.3% | | |
| Newell Rubbermaid, Inc. | 1,975,000 | \$ 69,243,500 |
| The Clorox Company | 1,440,200 | 59,552,270 |
| | | <u>128,795,770</u> |
| Other Consumer Goods & Services—8.4% | | |
| H&R Block, Inc. | 2,753,300 | \$ 127,064,795 |
| Fortune Brands, Inc. | 1,745,600 | 97,753,600 |
| Mattel, Inc. | 3,216,300 | 67,799,604 |
| Cendant Corporation (a) | 2,395,100 | 38,034,188 |
| | | <u>330,652,187</u> |
| Building Materials & Construction—1.9% | | |
| Masco Corporation | 2,833,000 | \$ 76,802,630 |
| Cable & Satellite TV—3.5% | | |
| AOL Time Warner Inc. (a) | 5,750,000 | \$ 84,582,500 |
| General Motors Corporation, Class H (Hughes Electronics Corporation) (a) | 5,100,000 | 53,040,000 |
| | | <u>137,622,500</u> |
| Hardware—2.0% | | |
| The Black & Decker Corporation | 1,622,200 | \$ 78,190,040 |
| Marketing Services—1.4% | | |
| The Interpublic Group of Companies, Inc. | 2,200,000 | \$ 54,472,000 |
| Publishing—3.3% | | |
| Gannett Co., Inc. | 934,500 | \$ 70,928,550 |
| Knight-Ridder, Inc. | 916,000 | 57,662,200 |
| | | <u>128,590,750</u> |
| Recreation & Entertainment—1.1% | | |
| Carnival Corporation | 1,500,000 | \$ 41,535,000 |
| Retail—15.1% | | |
| The Kroger Co. (a) | 4,490,000 | \$ 89,351,000 |
| J.C. Penney Company, Inc. | 3,702,900 | 81,537,858 |
| Safeway Inc. (a) | 2,727,000 | 79,601,130 |
| Yum! Brands, Inc (a) | 2,439,000 | 71,340,750 |
| McDonald's Corporation | 2,300,000 | 65,435,000 |
| The Home Depot, Inc. | 1,500,000 | 55,095,000 |
| The Gap, Inc. | 3,800,000 | 53,960,000 |
| Toys 'Я' Us, Inc. (a) | 3,000,000 | 52,410,000 |
| CVS Corporation | 1,605,000 | 49,113,000 |
| | | <u>597,843,738</u> |

THE OAKMARK FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held | Market Value |
|---|-------------|----------------|
| Common Stocks—95.8% (cont.) | | |
| TV Programming—2.0% | | |
| Liberty Media Corporation, Class A (a) | 7,701,400 | \$ 77,014,000 |
| Bank & Thrifts—6.2% | | |
| Washington Mutual, Inc. | 4,159,300 | \$ 154,351,623 |
| U.S. Bancorp | 3,800,000 | 88,730,000 |
| | | 243,081,623 |
| Insurance—2.0% | | |
| MGIC Investment Corporation | 1,137,900 | \$ 77,149,620 |
| Other Financial—2.3% | | |
| Fannie Mae | 1,220,000 | \$ 89,975,000 |
| Medical Products—1.9% | | |
| Guidant Corporation (a) | 2,546,100 | \$ 76,968,603 |
| Pharmaceuticals—9.9% | | |
| Merck & Co., Inc. | 1,700,000 | \$ 86,088,000 |
| Schering-Plough Corporation | 3,425,000 | 84,255,000 |
| Bristol-Myers Squibb Company | 3,250,000 | 83,525,000 |
| Abbott Laboratories | 1,950,000 | 73,417,500 |
| Chiron Corporation (a) | 1,822,000 | 64,407,700 |
| | | 391,693,200 |
| Telecommunications—3.3% | | |
| AT&T Corp. | 7,135,000 | \$ 76,344,500 |
| Sprint Corporation | 4,946,000 | 52,477,060 |
| | | 128,821,560 |
| Telecommunications Equipment—1.6% | | |
| Motorola, Inc. | 4,475,000 | \$ 64,529,500 |
| Computer Services—5.1% | | |
| First Data Corporation | 2,200,000 | \$ 81,840,000 |
| Electronic Data Systems Corporation | 1,701,000 | 63,192,150 |
| SunGard Data Systems, Inc. (a) | 2,131,600 | 56,444,768 |
| | | 201,476,918 |
| Office Equipment—1.3% | | |
| Xerox Corporation (a) | 7,427,400 | \$ 51,768,978 |
| Aerospace & Defense—2.5% | | |
| Honeywell International, Inc. | 1,550,000 | \$ 54,606,500 |
| The Boeing Company | 1,000,000 | 45,000,000 |
| | | 99,606,500 |
| Other Industrial Goods & Services—1.0% | | |
| Illinois Tool Works Inc. | 604,200 | \$ 41,266,860 |

THE OAKMARK FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held/ Par Value | Market Value |
|---|---------------------------|------------------------|
| Common Stocks—95.8% (cont.) | | |
| Waste Disposal—1.9% | | |
| Waste Management, Inc. | 2,874,300 | \$ 74,875,515 |
| Oil & Natural Gas—5.2% | | |
| Conoco Inc. | 2,550,000 | \$ 70,890,000 |
| Phillips Petroleum Company | 1,192,700 | 70,226,176 |
| Burlington Resources Inc. | 1,671,100 | 63,501,800 |
| | | 204,617,976 |
| Electric Utilities—3.5% | | |
| TXU Corp. | 1,565,000 | \$ 80,675,750 |
| Duke Energy Corporation | 1,900,000 | 59,090,000 |
| | | 139,765,750 |
| Total Common Stocks (Cost: \$3,536,135,891) | | 3,779,095,868 |
| Short Term Investments—4.5% | | |
| U.S. Government Bills—2.3% | | |
| United States Treasury Bills, 1.65% - 1.885% due 7/5/2002 - 9/5/2002 | \$90,000,000 | \$ 89,833,297 |
| Total U.S. Government Bills (Cost: \$89,833,297) | | 89,833,297 |
| Repurchase Agreements—2.2% | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$89,013,721 collateralized by U.S. Government Agency Securities | \$89,000,000 | \$ 89,000,000 |
| Total Repurchase Agreement (Cost: \$89,000,000) | | 89,000,000 |
| Total Short Term Investments (Cost: \$178,833,297) | | 178,833,297 |
| Total Investments (Cost \$3,714,969,188)—100.3% | | \$ 3,957,929,165 |
| Other Liabilities In Excess Of Other Assets—(0.3%) | | (11,112,086) |
| Total Net Assets—100% | | \$3,946,817,079 |

(a) Non-income producing security.

THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



The Oakmark Select Fund declined by 8% last quarter, bringing the calendar year loss to 6%. The S&P 500 lost 13% for both the quarter and the year-to-date, and even the S&P Midcap Index, which was so strong in the first quarter, lost 9% in the quarter. Although losing less than the market never feels as good as making money, limiting losses in difficult periods is an even more important accomplishment toward achieving our goal of compounding capital at an above average, long-term return.

Stilwell Financial (SV—\$18)

In mid-2000, Kansas City Southern spun-off to shareholders their financial services investments in a company named Stilwell Financial. These investments include the money management firms Janus and Berger as well as a minority interest in DST Systems. Stilwell stock peaked at \$54 per share in late 2000 shortly after the peak in the stock market. As the market declined so did assets under management, earnings, and the stock price—now at \$18.

DST Systems, the leading provider of information processing and computer software to the mutual fund industry, trades publicly under the symbol DST, and closed the quarter at \$46. Stilwell owns 32% of DST—\$8 of market value per Stilwell share. If that \$8 is subtracted from Stilwell's market price, it leaves a price of \$10 per share for the asset management business. At that price, Stilwell sells at a large discount to publicly traded asset management firms and an even larger discount to prices that have been paid in acquisitions.

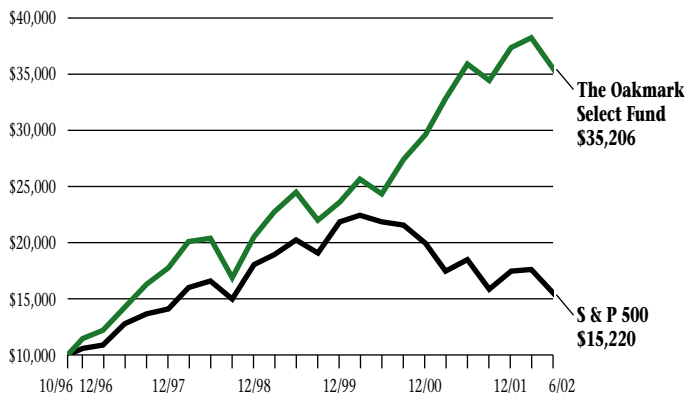
Janus follows an investment approach that is at the other end of the spectrum from The Oakmark Family. However, despite losses in the last two years, Janus has produced long-term returns that are above average. Further, we admire the excellent job Janus has done on some non-investment issues of running their business, such as brand building and customer service. At a price of just twelve times expected next year EPS¹⁰, we are pleased to have the opportunity to invest in one of the leaders in our industry.

Thank you for your continued support.

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THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (6/30/02) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX¹



Average Annual Total Returns³

| | (as of 6/30/02) | | | |
|--|-----------------------------|--------|--------|---------------------------|
| | Total Return Last 3 Months* | 1-year | 5-year | Since Inception (11/1/96) |

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Oakmark Select Fund | -8.09% | -1.84% | 19.93% | 24.88% |
| S&P 500 | -13.40% | -17.99% | 3.66% | 7.69% |
| S&P MidCap 400 ⁸ | -9.31% | -4.72% | 12.57% | 14.56% |
| Lipper Mid Cap Value Index ⁹ | -8.69% | -2.47% | 6.92% | 9.09% |

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

* Not annualized

July 3, 2002

THE OAKMARK SELECT FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Shares Held | Market Value |
|--|-------------|----------------------|
| Common Stocks—93.5% | | |
| Other Consumer Goods & Services—12.2% | | |
| H&R Block, Inc. | 7,938,800 | \$ 366,375,620 |
| Mattel, Inc. | 9,754,000 | 205,614,320 |
| | | <u>571,989,940</u> |
| Information Services—8.0% | | |
| Moody's Corporation | 3,984,000 | \$ 198,204,000 |
| The Dun & Bradstreet Corporation (a) | 5,422,400 | 179,210,320 |
| | | <u>377,414,320</u> |
| Publishing—3.7% | | |
| Knight-Ridder, Inc. | 2,756,500 | \$ 173,521,675 |
| Retail—18.2% | | |
| Yum! Brands, Inc (a) | 8,022,000 | \$ 234,643,500 |
| Toys 'Я' Us, Inc. (a) | 12,380,100 | 216,280,347 |
| Office Depot, Inc. (a) | 12,096,000 | 203,212,800 |
| The Kroger Co. (a) | 10,062,500 | 200,243,750 |
| | | <u>854,380,397</u> |
| Bank & Thrifts—18.7% | | |
| Washington Mutual, Inc. | 23,731,400 | \$ 880,672,254 |
| Investment Management—2.7% | | |
| Stilwell Financial Inc | 7,002,200 | \$ 127,440,040 |
| Health Care Services—4.0% | | |
| IMS Health Incorporated | 10,392,000 | \$ 186,536,400 |
| Pharmaceuticals—4.4% | | |
| Chiron Corporation (a) | 5,811,400 | \$ 205,432,990 |
| Telecommunications—6.8% | | |
| AT&T Corp. | 16,548,000 | \$ 177,063,600 |
| Sprint Corporation | 13,661,500 | 144,948,515 |
| | | <u>322,012,115</u> |
| Computer Services—7.6% | | |
| First Data Corporation | 5,330,400 | \$ 198,290,880 |
| Electronic Data Systems Corporation | 4,344,400 | 161,394,460 |
| | | <u>359,685,340</u> |
| Office Equipment—3.3% | | |
| Xerox Corporation (a) | 22,422,700 | \$ 156,286,219 |
| Oil & Natural Gas—3.9% | | |
| Burlington Resources Inc. | 4,801,800 | \$ 182,468,400 |
| Total Common Stocks (Cost: \$3,745,750,000) | | 4,397,840,090 |

THE OAKMARK SELECT FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held/ Par Value | Market Value |
|---|---------------------------|-------------------------------|
| Short Term Investments—6.7% | | |
| U.S. Government Bills—5.2% | | |
| United States Treasury Bills, 1.64%-1.975% due 7/5/2002 - 11/21/2002 | \$245,000,000 | \$ 244,304,381 |
| Total U.S. Government Bills (Cost: \$244,304,381) | | 244,304,381 |
| Repurchase Agreements—1.5% | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$72,011,100 collateralized by U.S. Government Agency Securities | \$72,000,000 | \$ 72,000,000 |
| Total Repurchase Agreement (Cost: \$72,000,000) | | 72,000,000 |
| Total Short Term Investments (Cost: \$316,304,381) | | 316,304,381 |
| Total Investments (Cost \$4,062,054,381)—100.2% | | \$ 4,714,144,471 |
| Other Liabilities In Excess Of Other Assets—(0.2%) | | (7,427,552) |
| Total Net Assets—100% | | <u>\$4,706,716,919</u> |

(a) Non-income producing security.

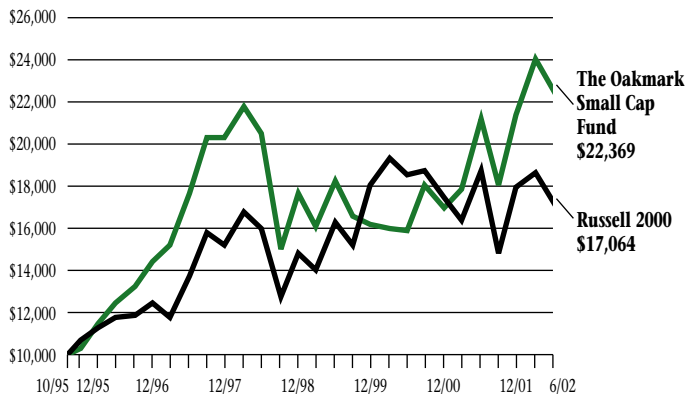
THE OAKMARK SMALL CAP FUND

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



The second calendar quarter of 2002 was a period most investors would just as soon forget. Declining stock market values triggered by accounting scandals and uncertain economic growth caused some investors to seek alternative investments to stocks. Housing prices and transaction activity remained active and even bank deposits, despite low interest rates, generally experienced good growth. For the just concluded quarter, stocks slumped in value as the S&P 500 Index¹ fell by over 13% and the NASDAQ Composite² lost 21%. The Russell 2000 Small Cap Index fell by 8% during the quarter which more than erased a 4% rise in the first quarter of 2002. Year-to-date the Russell 2000 is down by nearly 5%. Your fund experienced a loss of approximately 7% during the last three months bringing the year-to-date result to a gain of not quite 5%. While we are pleased to be able to report a gain for our investors, we are increasing our analytical focus to find those companies that we believe not only offer good investment opportunities, but also have management teams that conduct themselves in an ethical fashion.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (6/30/02) AS COMPARED TO THE RUSSELL 2000 INDEX¹¹



Average Annual Total Returns³

| | (as of 6/30/02) | | | Since Inception (11/1/95) |
|-----------------------------|-----------------|--------|--|---------------------------|
| Total Return Last 3 Months* | 1-year | 5-year | | |

| | | | | |
|--|---------------|--------------|--------------|---------------|
| Oakmark Small Cap Fund | -6.85% | 5.42% | 4.84% | 12.83% |
| Russell 2000 | -8.35% | -8.69% | 4.44% | 8.34% |
| S&P Small Cap 600 ¹² | -6.53% | 0.27% | 8.26% | 11.98% |
| Lipper Small Cap Value Index ¹³ | -4.08% | 5.10% | 8.57% | 12.28% |

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

* Not annualized

Mergers and Acquisitions

Since peaking in 1999-2000, merger and acquisition activity in the United States has declined sharply. This can have a negative impact on small cap stocks since smaller companies are often the targets of larger firms. Despite the sluggish merger and acquisition environment, we were fortunate to have two of our companies agree to be acquired during the second quarter.

In May, Citigroup Inc. agreed to acquire Golden State Bancorp for a combination of cash and stock valued at approximately \$40 per share at the time of the announcement. While we sold our investment in Golden State Bancorp shortly after the deal was announced, this stock illustrates our investment philosophy reasonably well. We bought Golden State in 1999 when the stock was trading in the upper-teens. At that time, we estimated a per share private market value for this company in the mid-\$30's. Management did a good job of growing Golden State's private market value by gaining new customers, cross-selling current customers and maintaining excellent asset quality.

By early this year our estimate of Golden State's value had increased to the mid-\$40's as management's actions had a positive impact on raising the bank's value. Since this stock remained consistently below our estimate of private market value we remained an owner of this security. By exiting this position only after most of the valuation gap had been closed, we were able to keep our trading costs down and have the bulk of the gains achieve long-term tax status.

Silverstream Software Corporation is the other stock held in the Fund's portfolio that agreed to be acquired during the past quarter. Novell Inc. reached an agreement to acquire Silverstream for

\$9.00 per share in cash and this represented a nice premium to our average purchase price of under \$6 per share. Silverstream was a 2001 addition to the portfolio and this is a stock that we were able to buy at below net cash (total cash plus marketable securities minus all debt) per share. While finding stocks trading below net cash is rare, when we do find them we are likely to buy these issues if the operating company has decent prospects, since we are essentially getting the operating company for free. We have reduced our Silverstream holdings and if Novell completes this acquisition our remaining Silverstream shares are likely to be sold in the third quarter.

Freedom To Choose

One of the key advantages small cap investors and small cap fund managers have is the freedom to choose among several thousand potential investments. Many of these investments are likely to be overlooked by the majority of investors, thus presenting a potentially favorable investment opportunity for those of us that focus on small cap stocks. An illustration of how concentrated the market capitalization is in the United States was detailed in a mid-June report published by Lehman Brothers where they looked at all companies with market capitalizations greater than \$200 million and divided these firms into quintiles. The top quintile contained only eleven firms while thirty firms were in the second quintile. Collectively, 41 companies comprise 40% of the stock market's total capitalization. At the other end of the scale, the bottom quintile contained 2,230 companies, which provides ample investment opportunities in almost any economic or stock market environment.

During the past quarter three stocks were added to your Fund's portfolio. These were Callaway Golf Company, Pharmaceutical Resources Inc. and Sybase Inc. A common characteristic of all three of these firms is their strong balance sheets. Each company has a substantial net cash position, thus none of these firms are dependent on external sources of capital (such as bank borrowings) to operate their businesses. Additionally, having excess cash during a downturn in equity prices should present these financially robust companies with opportunities to make inexpensive

acquisitions and/or repurchase their own shares at attractive prices.

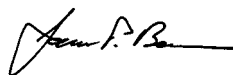
Callaway Golf is a leading designer and manufacturer of golf clubs, balls and accessories. In addition to their solid balance sheet, we like Callaway's strong brand position that has been developed over the years principally through design leadership. As the baby boom generation ages over the next decade, they should enter their peak golf playing years. We believe this demographic push will cause the total number of rounds of golf played to increase and, in turn, increase demand for Callaway's products.

Pharmaceutical Resources is a generic drug company with a focus on proprietary active ingredients. The growth in this business is being driven by a combination of a rising number of patented drugs becoming available to generic manufacturers as their patent protection expires and growing demand as the population ages. With numerous new drugs awaiting FDA approval, we believe Pharmaceutical Resources has a bright future.

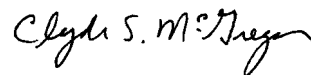
Sybase Inc. is a provider of database software to large companies. Despite operating in a competitive environment, Sybase has successfully developed niches in providing database software to financial companies, retailers and other industries. With technology spending currently depressed, we do not look for robust near-term results from Sybase. But looking ahead several years, we believe a combination of new products and software upgrades within Sybase's customer base should result in a rebound in profitability. Sybase's strong balance sheet and positive cash flow generation during the recent technology spending downturn give us confidence in their long-term future.

Conclusion

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



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Clyde S. McGregor, CFA
Portfolio Manager
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Highlights

- Despite the sluggish merger and acquisition environment, two companies were acquired in the second quarter at premiums to our initial purchase price.
- A key advantage to small cap investors is the freedom to choose among several thousand potential investments, which are likely to be overlooked by the majority of investors.
- During the quarter three stocks were added: Callaway Golf, Pharmaceutical Resources, and Sybase.

July 1, 2002

THE OAKMARK SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Shares Held | Market Value |
|---|-------------|-------------------|
| Common Stocks—89.8% | | |
| Food Beverage—6.4% | | |
| Ralcorp Holdings, Inc. (a) | 579,000 | \$ 18,093,750 |
| Del Monte Foods Company (a) | 1,300,000 | <u>15,340,000</u> |
| | | 33,433,750 |
| Household Products—3.0% | | |
| Tupperware Corporation | 750,000 | \$ 15,592,500 |
| Other Consumer Goods & Services—5.1% | | |
| Department 56, Inc. (a) | 800,000 | \$ 13,024,000 |
| Callaway Golf Company | 500,000 | 7,920,000 |
| Central Parking Corporation | 250,000 | <u>5,712,500</u> |
| | | 26,656,500 |
| Security Systems—2.2% | | |
| Checkpoint Systems, Inc. (a) | 1,000,000 | \$ 11,700,000 |
| Apparel—3.4% | | |
| Oakley, Inc. (a) | 750,000 | \$ 13,050,000 |
| R.G. Barry Corporation (a) | 907,000 | <u>4,788,960</u> |
| | | 17,838,960 |
| Automobile Rentals—1.6% | | |
| Dollar Thrifty Automotive Group, Inc. (a) | 325,000 | \$ 8,417,500 |
| Building Materials & Construction—2.3% | | |
| Insituform Technologies, Inc., Class A (a) | 580,000 | \$ 12,284,400 |
| Educational Services—2.1% | | |
| ITT Educational Services, Inc. (a) | 509,500 | \$ 11,107,100 |
| Hotels & Motels—2.0% | | |
| Prime Hospitality Corp. (a) | 810,000 | \$ 10,521,900 |
| Information Services—2.4% | | |
| eFunds Corporation (a) | 1,344,800 | \$ 12,760,807 |
| Marketing Services—0.1% | | |
| Grey Global Group Inc. | 1,000 | \$ 690,010 |
| Retail—4.6% | | |
| ShopKo Stores, Inc. (a) | 740,000 | \$ 14,948,000 |
| Pathmark Stores Inc (a) | 500,000 | <u>9,405,000</u> |
| | | 24,353,000 |

THE OAKMARK SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held | Market Value |
|--|-------------|-------------------|
| Common Stocks—89.8% (cont.) | | |
| Bank & Thrifts—5.0% | | |
| BankAtlantic Bancorp, Inc., Class A | 1,000,000 | \$ 12,400,000 |
| People's Bank of Bridgeport, Connecticut | 360,000 | 9,399,600 |
| PennFed Financial Services, Inc. | 150,000 | 4,185,000 |
| | | <u>25,984,600</u> |
| Insurance—2.9% | | |
| The PMI Group, Inc. | 400,000 | \$ 15,280,000 |
| Other Financial—3.0% | | |
| NCO Group, Inc. (a) | 700,000 | \$ 15,463,000 |
| Real Estate—4.1% | | |
| Catellus Development Corporation (a) | 700,000 | \$ 14,294,000 |
| Trammell Crow Company (a) | 500,000 | 7,225,000 |
| | | <u>21,519,000</u> |
| Medical Products—5.3% | | |
| Hanger Orthopedic Group, Inc. (a) | 960,000 | \$ 14,582,400 |
| CONMED Corporation (a) | 350,000 | 7,815,500 |
| Sybron Dental Specialties, Inc. (a) | 300,000 | 5,550,000 |
| | | <u>27,947,900</u> |
| Medical Research—0.7% | | |
| Covance Inc. (a) | 200,000 | \$ 3,750,000 |
| Pharmaceuticals—2.2% | | |
| Pharmaceutical Resources Inc (a) | 400,900 | \$ 11,137,002 |
| Elan Corporation plc (a) (b) | 115,000 | 629,050 |
| | | <u>11,766,052</u> |
| Computer Services—3.4% | | |
| CIBER, Inc. (a) | 1,885,700 | \$ 13,671,325 |
| Interland, Inc. (a) | 1,250,000 | 3,937,500 |
| | | <u>17,608,825</u> |
| Computer Software—7.6% | | |
| Mentor Graphics Corporation (a) | 1,100,000 | \$ 15,642,000 |
| Sybase Inc (a) | 1,000,000 | 10,550,000 |
| MSC.Software Corp. (a) | 1,100,000 | 9,845,000 |
| SilverStream Software, Inc. (a) | 409,500 | 3,660,930 |
| | | <u>39,697,930</u> |
| Computer Systems—1.0% | | |
| Optimal Robotics Corp., Class A (a) (c) | 750,000 | \$ 5,467,500 |
| Data Storage—1.4% | | |
| Imation Corp. (a) | 250,000 | \$ 7,440,000 |

THE OAKMARK SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held/Par Value | Market Value |
|---|-----------------------|--------------------|
| Common Stocks—89.8% (cont.) | | |
| Office Equipment—4.7% | | |
| InFocus Corporation (a) | 1,200,000 | \$ 14,136,000 |
| MCSi, Inc. (a) | 933,500 | 10,585,890 |
| | | <u>24,721,890</u> |
| Instruments—3.0% | | |
| IDEXX Laboratories, Inc. (a) | 551,800 | \$ 14,230,922 |
| Measurement Specialties, Inc. (a) | 550,000 | 1,650,000 |
| | | <u>15,880,922</u> |
| Machinery & Industrial Processing—2.5% | | |
| SureBeam Corporation, Class A (a) | 1,600,000 | \$ 8,736,000 |
| Columbus McKinnon Corporation | 500,000 | 4,320,000 |
| | | <u>13,056,000</u> |
| Other Industrial Goods & Services—0.8% | | |
| Integrated Electrical Services, Inc. (a) | 650,000 | \$ 4,062,500 |
| Transportation Services—1.4% | | |
| Teekay Shipping Corporation (c) | 203,400 | \$ 7,507,494 |
| Chemicals—2.1% | | |
| Sensient Technologies Corporation | 292,800 | \$ 6,664,128 |
| H.B. Fuller Company | 140,000 | 4,100,600 |
| | | <u>10,764,728</u> |
| Oil Natural Gas—3.5% | | |
| St. Mary Land & Exploration Company | 350,000 | \$ 8,421,000 |
| Cabot Oil & Gas Corporation | 250,000 | 5,712,500 |
| Berry Petroleum Company | 250,000 | 4,212,500 |
| | | <u>18,346,000</u> |
| Total Common Stocks (Cost: \$436,984,654) | | 471,620,768 |
| Short Term Investments—10.7% | | |
| U.S. Government Bills—7.6% | | |
| United States Treasury Bills, 1.64% - 1.71% due 7/5/2002 - 7/25/2002 | \$40,000,000 | \$ 39,973,843 |
| Total U.S. Government Bills (Cost: \$39,973,843) | | 39,973,843 |

THE OAKMARK SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Par Value/ Shares Subject to Call | Market Value |
|---|--------------------------------------|------------------------------------|
| Short Term Investments—10.7% (cont.) | | |
| Repurchase Agreements—3.1% | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$16,002,467 collateralized by U.S. Government Agency Securities | \$16,000,000 | \$ 16,000,000 |
| Total Repurchase Agreement (Cost: \$16,000,000) | | 16,000,000 |
| Total Short Term Investments (Cost: \$55,973,843) | | 55,973,843 |
| Total Investments (Cost \$492,958,497)—100.5% | | \$527,594,611 |
| Call Options Written—(0.1%) | | |
| Educational Services—0.0% | | |
| ITT Educational Services, Inc., July 25 Calls | (40,000) | \$ (10,000) |
| ITT Educational Services, Inc., July 22.50 Calls | (80,000) | (38,000) |
| | | <u>(48,000)</u> |
| Retail—(0.1%) | | |
| ShopKo Stores, Inc., September 22.50 Calls | (20,000) | \$ (18,500) |
| ShopKo Stores, Inc., September 20 Calls | (155,000) | (306,125) |
| ShopKo Stores, Inc., September 17.50 Calls | (110,000) | (385,000) |
| | | <u>(709,625)</u> |
| Total Call Options Written (Premiums Received: \$(768,947))—(0.1%) | | (757,625) |
| Other Liabilities In Excess Of Other Assets—(0.4%) | | (1,860,031) |
| | | <u><u>\$524,976,955</u></u> |

- (a) Non-income producing security.
- (b) Represents an American Depository Receipt.
- (c) Represents foreign domiciled corporation.

THE OAKMARK EQUITY AND INCOME FUND

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

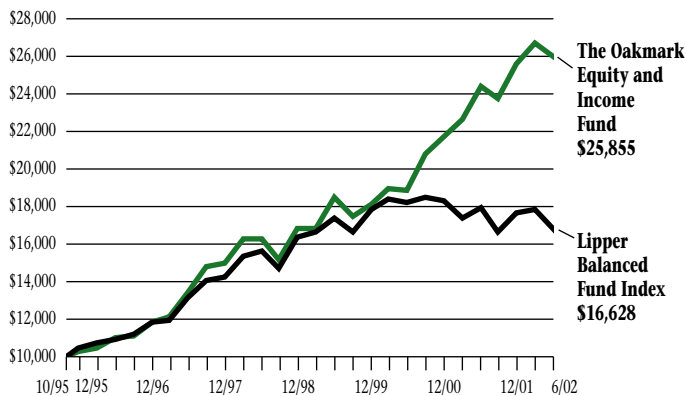


"The power of accurate observation is commonly called cynicism by those who have not got it."
George Bernard Shaw

Our Results

The Oakmark Equity and Income Fund decreased 3% for the quarter ended June 30, 2002, bringing the calendar-year gain to 1%. For the calendar year, the Fund outperformed both the market averages and our primary benchmark, the Lipper Balanced Fund Index, which has lost 6% year to date. While we are modestly pleased with performance so far this year, getting there has not been pretty. Historically, volatility has been the friend of the value investor, presenting us with opportunities to exploit mis-pricing and invest in securities selling at a substantial discount to their intrinsic value. Given the acceleration of information flows in today's world, those opportunities have tended to be relatively short-lived. In recent weeks, those opportunities have grown in frequency and duration, in what seems a direct correlation to an increased investor concern about the accuracy of financial reporting data in general and the trend of financial markets specifically. The end result was that while we have continued our activity in initiating or adding positions in those businesses that had fallen out of favor with investors, in many instances the gap between intrinsic value and share price has continued to widen beyond where we made our initial investment. Continuing a theme of past quarters, the fund has expanded its holdings in the healthcare area. New positions were initiated during the quarter in Abbott Labs, Bristol-Myers and Schering-Plough. Other new positions included CONOCO, Gemstar-TV Guide, Mentor Graphics, and Phillips Petroleum.

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (6/30/02) AS COMPARED TO THE LIPPER BALANCED FUND INDEX¹⁴



Average Annual Total Returns³

| | (as of 6/30/02) | | | |
|---------------------------------------|-----------------------------|--------------|---------------|---------------------------|
| | Total Return Last 3 Months* | 1-year | 5-year | Since Inception (11/1/95) |
| Oakmark Equity and Income Fund | -3.19% | 5.77% | 13.99% | 15.31% |
| S&P 500 ¹ | -13.40% | -17.99% | 3.66% | 10.01% |
| Lehman Govt./Corp. Bond ¹⁵ | 3.75% | 8.25% | 7.47% | 6.94% |
| Lipper Balanced Fund Index | -6.61% | -7.54% | 4.76% | 7.92% |

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

* Not annualized

Playing Defense

A few quarters ago, we wrote about the investor who was "only expecting a consistent 20% a year return from the conservative portion of his portfolio, and the 50% plus returns were to come from his aggressive growth investments." If you were to examine the long-term distribution of investment returns from the S&P 500, not surprisingly, you would see a bell-shaped curve. Recent experience however has differed from the normal distribution, and has been of a more fat-tailed variety, resulting in out-sized returns two or three years ago, and now out-sized losses. Thus, in today's world of either more normal (or sub-par depending on your point of view) investment returns, success in investing will be defined by those who can avoid the major "blow-up". We can see some proof of this in the returns of the major indices. As investors moved toward larger capitalization stocks for reasons other than valuation and expected returns, the effect of a "torpedo" stock disaster on a portfolio has been magnified. In

some months over the past year, almost 10% of all stocks in the Russell 1000¹⁶ have underperformed by 30% or more (or, the odds of a single stock “blowing up” has been almost 6 times higher than average). Being on the wrong side of a disaster can cause substantial underperformance.

What has that specifically meant to the management of your portfolio? As the size of the portfolio has grown, the impact of a single-stock debacle has somewhat lessened. Also, we have increased our focus on not just having a margin of safety, but looking for a larger margin of safety. If as has been suggested investing is the search for asymmetric payoffs with upside opportunity exceeding downside risk, the greater the discount to intrinsic value at which one makes a purchase, the greater the margin of safety. Finally, we have been looking to limit those situations with a high probability of gain but significant downside risk.

We Are Where We Are, So Deal With It

We are often asked about things that might cause us to sell a security before it reaches our estimate of intrinsic value. Those factors have been discussed many times before. What hasn't been discussed in depth are the sorts of things that perhaps subjectively influence investment choices, especially when the discount to intrinsic value in a group of securities is approximately similar. In a nutshell, it all comes back to making sure that our egos do not get in the way of making the best investment decisions.

What are some examples of this? Michael Mauboussin of CS First Boston has identified several examples of the psychological traps into which investors tend to fall. First, a tendency of all investors is to have too high an opinion of their abilities, especially in areas outside of their circle of competence (often referred to as the “smart person trap”—I'm smart about X, therefore by definition I am smart about Y and Z). To avoid that trap, make sure you stay within your circle of competence. Next, people in general often tend to weigh heavily the first information they glean about a subject, which then leaves them with an anchored bias. We fight against this tendency by seeking information from a variety of sources (there can never be too many) and always trying to stand our assumptions on their heads. Third, as pollsters and users of polls have discovered, how a question is constructed can dictate the answer. Investors often make the same mistake, which can also impact the assessment of outcomes and expected returns. One deals with that by always looking at things from a “worst case” perspective, rather than the sugar-coated “good, better, best” scenario analysis that has led many corporate managements to destruction. Fourth, individuals and investors have a tendency to seek out confirming information that supports their existing point of view while dismissing or avoiding any contradictory inputs. We have found that one good way to avoid this trap is to seek out and examine the information that “short” investors have either about a particular company or industry. Finally and not surprisingly, both individual and institutional investors tend to make choices that justify past decisions (throwing good money after bad), notwithstanding a change in circumstances. The most common example of this is the retail investor who says “I'll sell when I get even” and the institutional investor

Highlights

- Opportunities allowed us to initiate or add to positions in businesses that had fallen out of favor with investors.
- Continuing a theme of past quarters, the Fund has expanded its holdings in the healthcare area.
- We are not going to be swayed by short-term market fluctuations, but are more concerned with what a business is actually worth.

who says “I could have sold this last week for X+\$5, I'm not going to sell here for X.” That is why we make a practice, when examining your portfolio, of asking ourselves, “Looking at this as a new investment and knowing what we know now, would we still make it?” There is no place for the “woulda, coulda, shoulda” analysis. Sunk costs are sunk costs. Our interest is the future return of and on your investment, so our due diligence is ongoing. We are where we are now.

Has Anything Worked

Several of our best performing stocks in the quarter have been in the portfolio for a while, and include Rockwell Collins, Saint Mary Land & Exploration and Catellus. They also reflect our commitment to continuing with investments where the price to intrinsic value discount continues to be fairly wide, notwithstanding that these are investments that have gone up in price from when they first went into the portfolio. As we have stated in the past, our holding period for an investment would ideally be forever if the price and intrinsic value lines continue on parallel rather than intersecting courses. At the same time, two of our worst performers during the quarter were Ceridian and UST, both for non-company specific reasons, in the one instance having to do with the payroll processing industry in general and the other with tobacco company litigation (which does not apply to UST). In that instance too, it reflects a continuation of what we have said to you is our philosophy in investing your money—we are not going to be swayed by short-term market fluctuations, but are more concerned with what a business is actually worth.

We reiterate our commitment to seeking out investments with a considerable margin of safety, selling at a substantial discount to our assessment of intrinsic value. As this letter is being written, a great deal of concern and focus is being devoted to the question of accounting issues and management fraud. Those are issues that have followed the investment world from the beginning of time, and given the part that greed plays in the human psyche, will always be present in the investment arena. We recognize that while we have no unique abilities to uncover deceptive managements or fraudulent practices, we do expend our time trying to identify those businesses run by real people (whose shareholder orientation we get comfortable

with) and that are selling in the marketplace at a discount to their real intrinsic value. Looking at a lot of different businesses and talking to many different managements (and people) is a good way to assess those differences in both management intelligence and management integrity that confront us every day. We thank you for your continued support of the Fund and we look forward to reporting to you, our partners, at the end of the next quarter.

Clyde S. McGregor *Edward A. Studzinski*

Clyde S. McGregor, CFA **Edward A. Studzinski, CFA**
Portfolio Manager Portfolio Manager
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July 2, 2002

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Shares Held | Market Value |
|--|-------------|-------------------|
| Equity and Equivalent—62.3% | | |
| Common Stock—61.9% | | |
| Food & Beverage—2.5% | | |
| UST Inc. | 1,700,000 | \$ 57,800,000 |
| Broadcasting & Publishing—1.1% | | |
| Gemstar-TV Guide International Inc. (a) | 5,000,000 | \$ 26,950,000 |
| Information Services—2.8% | | |
| Ceridian Corporation (a) | 3,500,000 | \$ 66,430,000 |
| Marketing Services—0.5% | | |
| The Interpublic Group of Companies, Inc. | 500,000 | \$ 12,380,000 |
| Printing—0.6% | | |
| Valassis Communications, Inc. (a) | 399,400 | \$ 14,578,100 |
| Recreation & Entertainment—0.8% | | |
| International Game Technology (a) | 345,000 | \$ 19,561,500 |
| Retail—4.1% | | |
| CVS Corporation | 1,000,000 | \$ 30,600,000 |
| Albertson's, Inc. | 881,000 | 26,835,260 |
| J.C. Penney Company, Inc. | 1,000,000 | 22,020,000 |
| Office Depot, Inc. (a) | 980,000 | 16,464,000 |
| | | <u>95,919,260</u> |
| Bank & Thrifts—0.3% | | |
| U.S. Bancorp | 280,703 | \$ 6,554,415 |
| Insurance—3.0% | | |
| SAFECO Corporation | 2,000,000 | \$ 61,780,000 |
| PartnerRe, Ltd. (b) | 200,000 | 9,790,000 |
| | | <u>71,570,000</u> |
| Other Financial—1.1% | | |
| GATX Corporation | 846,900 | \$ 25,491,690 |
| Real Estate—2.2% | | |
| Catellus Development Corporation (a) | 1,881,500 | \$ 38,420,230 |
| Hospitality Properties Trust | 200,000 | 7,300,000 |
| Legacy Hotels Real Estate Investment Trust (b) | 1,125,000 | 6,220,993 |
| | | <u>51,941,223</u> |

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held | Market Value |
|---|-------------|--------------------|
| Equity and Equivalents—62.3% (cont.) | | |
| Health Care Services—3.0% | | |
| IMS Health Incorporated | 2,300,000 | \$ 41,285,000 |
| Omnicare, Inc. | 1,100,000 | 28,886,000 |
| | | <u>70,171,000</u> |
| Managed Care Services—2.9% | | |
| First Health Group Corp. (a) | 2,420,000 | \$ 67,856,800 |
| Medical Products—2.8% | | |
| Apogent Technologies Inc. (a) | 1,500,800 | \$ 30,871,456 |
| Guidant Corporation (a) | 500,000 | 15,115,000 |
| Techne Corporation (a) | 450,000 | 12,699,000 |
| Edwards Lifesciences Corporation (a) | 275,000 | 6,380,000 |
| | | <u>65,065,456</u> |
| Pharmaceuticals—6.7% | | |
| Bristol-Myers Squibb Company | 1,500,000 | \$ 38,550,000 |
| Watson Pharmaceuticals, Inc. (a) | 1,451,400 | 36,676,878 |
| Abbott Laboratories | 937,600 | 35,300,640 |
| Schering-Plough Corporation | 1,042,600 | 25,647,960 |
| Chiron Corporation (a) | 648,100 | 22,910,335 |
| | | <u>159,085,813</u> |
| Telecommunications—3.6% | | |
| CenturyTel, Inc. | 2,400,000 | \$ 70,800,000 |
| Citizens Communications Company (a) | 1,700,000 | 14,212,000 |
| | | <u>85,012,000</u> |
| Computer Software—5.0% | | |
| Synopsys, Inc. (a) | 1,300,000 | \$ 71,253,000 |
| Novell, Inc. (a) | 8,000,000 | 25,680,000 |
| Mentor Graphics Corporation (a) | 1,500,000 | 21,330,000 |
| | | <u>118,263,000</u> |
| Computer Systems—1.4% | | |
| The Reynolds and Reynolds Company, Class A | 1,164,000 | \$ 32,533,800 |
| Aerospace & Defense—1.9% | | |
| Rockwell Collins, Inc. | 1,652,200 | \$ 45,303,324 |
| Agricultural Equipment—0.1% | | |
| Alamo Group Inc. | 141,900 | \$ 2,128,500 |
| Instruments—1.8% | | |
| Varian Inc. (a) | 1,267,500 | \$ 41,764,125 |

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Held/ Par Value | Market Value |
|---|---------------------------|----------------------|
| Equity and Equivalents—62.3% (cont.) | | |
| Machinery & Industrial Processing—2.6% | | |
| Cooper Industries, Ltd. | 849,000 | \$ 33,365,700 |
| Rockwell Automation International Corporation | 1,420,000 | 28,371,600 |
| | | 61,737,300 |
| Transportation Services—0.1% | | |
| Nordic American Tanker Shipping Limited (b) | 154,900 | \$ 2,114,385 |
| Forestry Products—1.4% | | |
| Plum Creek Timber Company, Inc. | 1,059,644 | \$ 32,531,071 |
| Oil & Natural Gas—9.6% | | |
| Phillips Petroleum Company | 1,100,000 | \$ 64,768,000 |
| Burlington Resources Inc. | 1,600,000 | 60,800,000 |
| Conoco Inc. | 1,100,000 | 30,580,000 |
| XTO Energy, Inc. | 1,378,000 | 28,386,800 |
| St. Mary Land & Exploration Company | 1,030,000 | 24,781,800 |
| Cabot Oil & Gas Corporation | 768,000 | 17,548,800 |
| Berry Petroleum Company | 43,000 | 724,550 |
| | | 227,589,950 |
| Total Common Stock (Cost: \$1,430,153,377) | | 1,460,332,712 |
| Convertible Bonds—0.4% | | |
| Cable & Satellite TV—0.2% | | |
| EchoStar Communications Corporation, 4.875% due 1/1/2007 | \$ 7,000,000 | \$ 5,433,750 |
| Pharmaceuticals—0.2% | | |
| Sepracor Inc., 7.00% due 12/15/2005 | \$ 7,285,000 | \$ 4,990,225 |
| Total Convertible Bonds (Cost: \$11,307,994) | | 10,423,975 |
| Total Equity and Equivalents (Cost: \$1,441,461,371) | | 1,470,756,687 |
| Fixed Income—27.3% | | |
| Preferred Stocks—0.1% | | |
| Bank & Thrifts—0.1% | | |
| BBC Capital Trust I, Preferred, 9.50% | 48,000 | \$ 1,190,880 |
| Pennfed Capital Trust, Preferred, 8.90% | 27,500 | 689,700 |
| Fidelity Capital Trust I, Preferred, 8.375% | 43,500 | 435,435 |
| | | 2,316,015 |
| Telecommunications—0.0% | | |
| MediaOne Finance Trust III, Preferred, 9.04% | 20,000 | \$ 405,800 |
| Total Preferred Stocks (Cost: \$2,715,762) | | 2,721,815 |

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Par Value | Market Value |
|---|---------------|-------------------|
| Corporate Bonds—1.3% | | |
| Building Materials & Construction—0.0% | | |
| Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note | \$ 750,000 | \$ 772,500 |
| Hotels & Motels—0.3% | | |
| HMH Properties, 7.875% due 8/1/2005, Senior Note Series A | \$ 3,450,000 | \$ 3,363,750 |
| Park Place Entertainment, 7.00% due 7/15/2004, Senior Notes | 2,750,000 | 2,782,109 |
| Prime Hospitality Corporation, 9.25% due 1/15/2006, 2006 1st Mortgage Note | 413,000 | 422,293 |
| | | 6,568,152 |
| Retail—0.5% | | |
| The Gap, Inc., 6.90% due 9/15/2007 | \$ 9,187,000 | \$ 8,385,149 |
| Rite Aid Corporation, 7.625% due 4/15/2005, Senior Notes | 4,900,000 | 3,724,000 |
| Ugly Duckling Corporation, 12.00% due 10/23/2003, Subordinated Debenture | 650,000 | 551,688 |
| | | 12,660,837 |
| TV Programming—0.4% | | |
| Liberty Media Corporation, 8.25% due 2/1/2030, Debenture | \$ 9,225,000 | \$ 8,593,438 |
| Machinery & Industrial Processing—0.1% | | |
| Columbus McKinnon Corporation New York, 8.50% due 4/1/2008 | \$ 3,000,000 | \$ 2,760,000 |
| Electric Utilities—0.0% | | |
| Midland Funding Corporation, 11.75% due 7/23/2005 | \$ 500,000 | \$ 506,651 |
| Total Corporate Bonds (Cost: \$31,965,829) | | 31,861,578 |
| Government and Agency Securities—25.9% | | |
| U.S. Government Notes—25.0% | | |
| United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed | \$145,180,160 | \$ 151,010,015 |
| United States Treasury Notes, 3.375% due 1/15/2012, Inflation Indexed | 141,684,200 | 145,204,202 |
| United States Treasury Notes, 3.00% due 11/30/2003 | 75,000,000 | 75,595,875 |
| United States Treasury Notes, 8.75% due 11/15/2008 | 50,000,000 | 54,191,400 |
| United States Treasury Notes, 5.75% due 11/15/2005 | 50,000,000 | 53,359,400 |
| United States Treasury Notes, 7.875% due 11/15/2004 | 25,000,000 | 27,705,525 |
| United States Treasury Notes, 5.25% due 5/15/2004 | 25,000,000 | 26,129,600 |
| United States Treasury Notes, 3.00% due 1/31/2004 | 25,000,000 | 25,163,025 |
| United States Treasury Notes, 3.00% due 2/29/2004 | 25,000,000 | 25,145,500 |
| United States Treasury Notes, 7.25% due 8/15/2004 | 5,000,000 | 5,438,280 |
| | | 588,942,822 |

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Par Value | Market Value |
|---|---------------|------------------------|
| Government and Agency Securities—25.9% (cont.) | | |
| U.S. Government Agencies—0.9% | | |
| Fannie Mae, 5.06% due 12/6/2006 | \$ 5,000,000 | \$ 5,103,745 |
| Fannie Mae, 3.875% due 9/7/2004 | 5,000,000 | 5,056,250 |
| Federal Home Loan Mortgage Corporation, 4.75% due 8/23/2004 | 5,000,000 | 5,018,465 |
| Federal Home Loan Bank, 5.10% due 12/26/2006 | 2,035,000 | 2,082,059 |
| Fannie Mae, Principal Only, Zero Coupon, due 10/3/2011 | 1,065,000 | 1,058,903 |
| Federal Home Loan Bank, 3.875% due 12/15/2004 | 1,000,000 | 1,012,011 |
| Federal Home Loan Bank, 5.125% due 8/6/2008 | 500,000 | 504,795 |
| | | 19,836,228 |
| Total Government and Agency Securities (Cost: \$598,544,702) | | 608,779,050 |
| Total Fixed Income (Cost: \$633,226,293) | | 643,362,443 |
| Short Term Investments—9.9% | | |
| U.S. Government Bills—7.2% | | |
| United States Treasury Bills, 1.62% - 1.70% due 7/5/2002 - 8/22/2002 | \$170,000,000 | \$ 169,785,241 |
| Total U.S. Government Bills (Cost: \$169,785,241) | | 169,785,241 |
| Repurchase Agreements—2.7% | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$64,509,944 collateralized by U.S. Government Agency Securities | \$ 64,500,000 | \$ 64,500,000 |
| Total Repurchase Agreement (Cost: \$64,500,000) | | 64,500,000 |
| Total Short Term Investments (Cost: \$234,285,241) | | 234,285,241 |
| Total Investments (Cost \$2,308,972,905)—99.5% | | \$2,348,404,371 |

THE OAKMARK EQUITY AND INCOME FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Shares Subject to Call | Market Value |
|---|------------------------|-------------------------------|
| Call Options Written—0.0% | | |
| Broadcasting & Publishing—0.0% | | |
| Gemstar-TV Guide International Inc, August 10 Calls | (941,400) | \$ (188,280) |
| Marketing Services—0.0% | | |
| The Interpublic Group of Companies, Inc., July 35 Calls | (351,000) | \$ (87,750) |
| Pharmaceuticals—0.0% | | |
| Abbott Laboratories, August 40 Calls | (150,000) | \$ (165,000) |
| Total Call Options Written (Premiums Received: \$(2,071,593))—0.0% | | \$ (441,030) |
| Other Assets In Excess Of Other Liabilities—0.5% | | 10,935,628 |
| Total Net Assets—100% | | <u>\$2,358,898,969</u> |

(a) Non-income producing security.

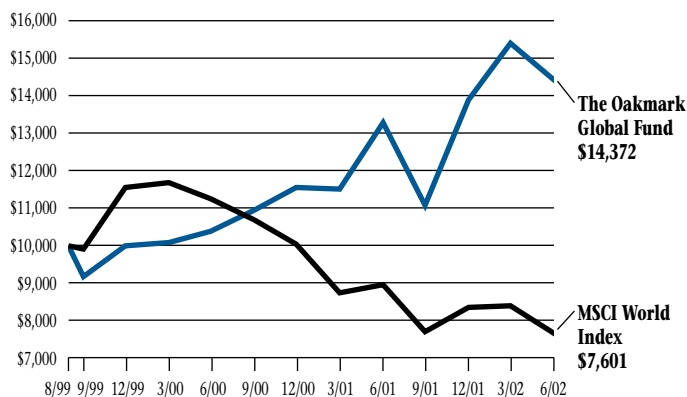
(b) Represents foreign domiciled corporation.

THE OAKMARK GLOBAL FUND

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



THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (6/30/02) AS COMPARED TO THE MSCI WORLD INDEX¹⁷



Average Annual Total Returns³

(as of 6/30/02)

| | Total Return Last 3 Months* | 1-year | Since Inception (8/4/99) |
|--|-----------------------------|--------|--------------------------|
|--|-----------------------------|--------|--------------------------|

| | | | |
|--|---------------|--------------|---------------------------|
| Oakmark Global Fund | -6.60% | 8.15% | 13.29%⁵ |
| MSCI World | -9.13% | -15.22% | -8.97% |
| Lipper Global Fund Index ¹⁸ | -7.88% | -13.42% | -4.49% |

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

* Not annualized

The Oakmark Global Fund declined 7% for the quarter ending June 30 2002, roughly in line with the 9% decline of the MSCI World Index and the 8% decline of the Lipper Global Fund Index. For the first six months of 2002, and for the past twelve months, your Fund gained 4% and 8%, respectively, compared to the 9% and 15% declines in the MSCI World Index and the 7% and 13% declines in the Lipper Global Fund index over the same periods.

The past three months were a continuation of the price volatility and market skittishness we have seen since the tech bubble burst in early 2000. In times like these, it is critical to keep focused on what is important: Times of extraordinary share price volatility may often provide excellent long-term opportunity, as greater volatility creates larger gaps between share prices and intrinsic business value. We continue to strive to upgrade the quality of the portfolio while maintaining the same degree of discount or greater to intrinsic value.

New Opportunities

Two of your Fund's newest positions, Gemstar-TV Guide and LM Ericsson, were poor performers over the quarter. While news flow and sentiment remains uniformly negative regarding these companies, we think the recent share price declines have created significant appreciation potential. We have made each of these companies very significant positions in the Fund.

Gemstar-TV Guide invented the VCR Plus+ instant programming system that is now the defacto standard in 40 countries for VCR programming. It has become the primary provider of television guides across many platforms including print (TV Guide, Cable Guide), cable/satellite/telco (Interactive Programming Guide, TV Guide Channel), consumer electronics devices, and the Internet. The company's share price has declined over 90% from its early 2000 high, to a current price of around \$5 per share.

Gemstar makes money several ways: 1) by licensing their technology, 2) through sales of TV Guides (both the print guide and the channel), and 3) through their interactive services (advertising and interactive commerce). Throughout its history, Gemstar has been very aggressive at defending their patents. A recent negative ruling from the International Trade Commission (ITC) Judge validated several Gemstar patents but also ruled that several companies may continue to import their cable TV set-top boxes into the U.S. While on balance, this was a negative ruling, we believe the resultant share price decline was an overreaction.

We calculate that on a sum of the parts basis, Gemstar's non-Interactive Program Guide businesses are worth about \$7 per share and additional cash of another \$.50 per share (net of debt), thus creating a downside valuation of \$7.50 per share. We also calculate the Interactive Program Guide business currently at \$5 per share, creating a combined value of roughly \$12.50 per share. Therefore, with the stock price trading near \$5 per share, we believe we are paying less than our estimated value for the non-Interactive Program Guide businesses and getting the Interactive Program Guide business and cash for free. In addition, the company is trading for a mere 5.5 times our estimate of free cashflow versus peer companies that trade for 12 to 18 times free cashflow.

Ericsson, the Swedish-based mobile phone giant, had been an awful performer and declined 80% from its high before we became interested. Unfortunately, as with Gemstar, we did not pick the bottom, and the share price has continued to decline. At current levels, we think the market is significantly undervaluing the long-term prospects of the company.

Ericsson has been the largest supplier of mobile infrastructure in the world, with a worldwide market share of 40% in GSM (mobile standard), double its closest competitors—Nokia (22%) and Siemens/NEC (18%). The infrastructure business has historically been very good, with huge barriers to entry, double-digit growth and solid profitability (20% margins). However, the group's success in the infrastructure business has been over-shadowed by its poorly performing handset operations. In handsets, Ericsson finally bit the bullet last year, outsourcing all production to Flextronics and forming a 50/50 joint venture with Sony. Recently, the mobile infrastructure business has been hit by weakness from its customer base. Mobile operators have sharply curtailed their capital expenditure plans due to worries of a demand slow down as well as weakened balance sheets.

Long term, Ericsson's position in the various mobile standards (GSM, 2.5G, and 3G) remains the best in the industry worldwide. Further, unlike the handsets business where competition is becoming more fierce due to strong new market entrants (especially the Koreans and Japanese), a number of competitors in the mobile infrastructure market have been significantly weakened by the recent market downturn. Nortel Networks, Alcatel, and Lucent all are facing major financial and technological issues, while the barriers to new entrants remain intact.

We believe the long-term growth prospects for mobile telephony (especially new data applications) remain bright, albeit significantly diminished from the pie-in-the-sky dreams of three years ago. Reality is somewhere in between. At current prices, Ericsson is valued at less than one times depressed revenue and about 7 times normal operating profit. We do not very often get the opportunity to buy such a high quality business with good long-term secular growth prospects at this level of valuation.

Highlights

- Times of extraordinary price volatility provide excellent long-term opportunity, as greater volatility creates large gaps between share prices and intrinsic business values.
- We have made two of the Fund's newest holdings, Gemstar-TV Guide and LM Ericsson, very significant positions in the Fund.
- In panic times, we believe thorough analysis and a focus on intrinsic value is important—we do not let stock prices influence our analysis.

Philosophy and Discipline

Recent price declines in Gemstar and Ericsson remind us of two examples of companies that we owned in The Oakmark Global Fund that had very similar panic selling periods: Nova Corporation in 2000 and ITT Educational in 1999. Both situations worked out extremely well for the portfolio. In panic times like these, we feel it is very important to be sure we have done a thorough analysis of what we estimate the true value of the company to be and not let the stock price influence that analysis.

We will continue to search for companies that are priced at a substantial discount to their true business value and are run by managers who think and act as owners. We remain excited about the values in the portfolio and have each added to our personal holdings in the Fund. Thank you for your support.



Gregory L. Jackson
Portfolio Manager
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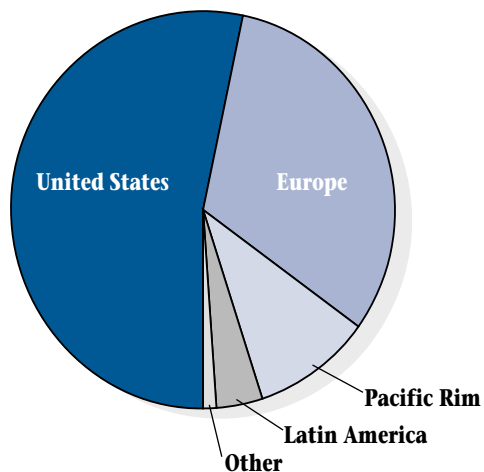

















Michael J. Welsh, CFA, CPA
Portfolio Manager
102521.2142@compuserve.com

July 8, 2002

THE OAKMARK GLOBAL FUND

Global Diversification—June 30, 2002



| <u>% of Fund Net Assets</u> | | <u>% of Fund Net Assets</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|-----------------------------|--------------|---|---------------|--------------|--|---------------|------|--|---------------|------|--|--------|------|--|-----------|------|--|---------|------|--|-------------|------|--|-----------|------|--|----------|------|---|---|--------------------|-------------|--|-------|------|--|-------|------|--|-----------|------|---|----------------------|-------------|--|--------|------|---|--------------|-------------|--|--------|------|
| <table border="0"> <tr> <td style="width: 20px;"></td> <td>United States</td> <td style="text-align: right;">50.4%</td> </tr> <tr> <td style="width: 20px;"></td> <td>Europe</td> <td style="text-align: right;">29.8%</td> </tr> <tr> <td></td> <td>Great Britain</td> <td style="text-align: right;">7.4%</td> </tr> <tr> <td></td> <td>* Netherlands</td> <td style="text-align: right;">5.8%</td> </tr> <tr> <td></td> <td>Sweden</td> <td style="text-align: right;">5.0%</td> </tr> <tr> <td></td> <td>* Germany</td> <td style="text-align: right;">3.6%</td> </tr> <tr> <td></td> <td>* Italy</td> <td style="text-align: right;">3.3%</td> </tr> <tr> <td></td> <td>Switzerland</td> <td style="text-align: right;">2.1%</td> </tr> <tr> <td></td> <td>* Ireland</td> <td style="text-align: right;">1.7%</td> </tr> <tr> <td></td> <td>* France</td> <td style="text-align: right;">0.9%</td> </tr> </table> |  | United States | 50.4% |  | Europe | 29.8% | | Great Britain | 7.4% | | * Netherlands | 5.8% | | Sweden | 5.0% | | * Germany | 3.6% | | * Italy | 3.3% | | Switzerland | 2.1% | | * Ireland | 1.7% | | * France | 0.9% | <table border="0"> <tr> <td style="width: 20px;"></td> <td>Pacific Rim</td> <td style="text-align: right;">9.4%</td> </tr> <tr> <td></td> <td>Japan</td> <td style="text-align: right;">5.5%</td> </tr> <tr> <td></td> <td>Korea</td> <td style="text-align: right;">3.0%</td> </tr> <tr> <td></td> <td>Australia</td> <td style="text-align: right;">0.9%</td> </tr> <tr> <td style="width: 20px;"></td> <td>Latin America</td> <td style="text-align: right;">3.7%</td> </tr> <tr> <td></td> <td>Mexico</td> <td style="text-align: right;">3.7%</td> </tr> <tr> <td style="width: 20px;"></td> <td>Other</td> <td style="text-align: right;">1.1%</td> </tr> <tr> <td></td> <td>Israel</td> <td style="text-align: right;">1.1%</td> </tr> </table> |  | Pacific Rim | 9.4% | | Japan | 5.5% | | Korea | 3.0% | | Australia | 0.9% |  | Latin America | 3.7% | | Mexico | 3.7% |  | Other | 1.1% | | Israel | 1.1% |
|  | United States | 50.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | Europe | 29.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Great Britain | 7.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Netherlands | 5.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Sweden | 5.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Germany | 3.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Italy | 3.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Switzerland | 2.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Ireland | 1.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * France | 0.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | Pacific Rim | 9.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Japan | 5.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Korea | 3.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Australia | 0.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | Latin America | 3.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mexico | 3.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | Other | 1.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Israel | 1.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

* Euro currency countries comprise 15.3% of the Fund.

THE OAKMARK GLOBAL FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Description | Shares Held | Market Value |
|--|--|-------------|-------------------|
| Common Stocks—95.3% | | | |
| Food & Beverage—3.0% | | | |
| Lotte Chilsung Beverage Co., Ltd. (Korea) | Soft Drinks, Juices & Sports Drinks Manufacturer | 4,800 | \$ 3,311,721 |
| Hite Brewery Co., Ltd. (Korea) | Brewer | 48,700 | 3,003,774 |
| | | | <u>6,315,495</u> |
| Household Products—3.6% | | | |
| Henkel KGaA (Germany) | Consumer Chemical Products Manufacturer | 118,000 | \$ 7,536,674 |
| Automobiles—1.4% | | | |
| Ducati Motor Holding S.p.A. (Italy) (a) | Motorcycle Manufacturer | 1,933,500 | \$ 3,049,207 |
| Broadcasting & Cable TV—1.7% | | | |
| Grupo Televisa S.A. (Mexico) (b) | Television Production & Broadcasting | 96,100 | \$ 3,592,218 |
| Broadcasting & Publishing—2.2% | | | |
| Gemstar-TV Guide International, Inc. (United States) (a) | Electronic Program Guide Services | 850,000 | \$ 4,581,500 |
| Home Furnishings—4.0% | | | |
| Hunter Douglas N.V. (Netherlands) | Window Coverings Manufacturer | 271,800 | \$ 8,358,470 |
| Human Resources—2.6% | | | |
| Michael Page International plc (Great Britain) | Recruitment Consultancy Services | 2,236,000 | \$ 5,455,482 |
| Information Services—7.5% | | | |
| eFunds Corporation (United States) (a) | Electronic Debit Payment Services | 1,261,400 | \$ 11,969,425 |
| Ceridian Corporation (United States) (a) | Data Management Services | 205,000 | 3,890,900 |
| | | | <u>15,860,325</u> |
| Marketing Services—4.7% | | | |
| Omnicom Group Inc. (United States) | Advertising Agencies | 125,000 | \$ 5,725,000 |

THE OAKMARK GLOBAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|---|----------------------------------|-------------|-------------------|
| Common Stocks—95.3% (cont.) | | | |
| Marketing Services—4.7% (cont.) | | | |
| Cordiant Communications Group plc (Great Britain) (a) | Advertising & Media Services | 3,630,000 | \$ 4,234,571 |
| | | | <u>9,959,571</u> |
| Publishing—3.5% | | | |
| Wolters Kluwer NV (Netherlands) | Reference Material Publisher | 203,400 | \$ 3,853,249 |
| Independent News & Media PLC (Ireland) | Newspaper Publisher | 1,865,000 | 3,676,474 |
| | | | <u>7,529,723</u> |
| Retail—5.0% | | | |
| The Kroger Co. (United States) (a) | Supermarkets | 340,000 | \$ 6,766,000 |
| Somerfield plc (Great Britain) (a) | Food Retailer | 2,121,000 | 3,832,661 |
| | | | <u>10,598,661</u> |
| TV Programming—2.4% | | | |
| Liberty Media Corporation, Class A (United States) (a) | Broadcast Services & Programming | 500,000 | \$ 5,000,000 |
| Bank & Thrifts—7.6% | | | |
| U.S. Bancorp (United States) | Commercial Bank | 335,000 | \$ 7,822,250 |
| Washington Mutual, Inc. (United States) | Thrift | 115,000 | 4,267,650 |
| Banco Popolare di Verona e Novara Scrl (Italy) | Commercial Bank | 301,500 | 3,901,888 |
| | | | <u>15,991,788</u> |
| Other Financial—2.7% | | | |
| Daiwa Securities Group Inc. (Japan) | Stock Broker | 579,000 | \$ 3,754,030 |
| Ichiyoshi Securities Co., Ltd. (Japan) | Stock Broker | 523,000 | 1,976,961 |
| | | | <u>5,730,991</u> |
| Managed Care Services—4.1% | | | |
| First Health Group Corp. (United States) (a) | Health Benefits Company | 310,000 | \$ 8,692,400 |

THE OAKMARK GLOBAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|--|---|-------------|------------------|
| Common Stocks—95.3% (cont.) | | | |
| Medical Products—5.9% | | | |
| Guidant Corporation (United States) (a) | Medical Instruments | 145,000 | \$ 4,383,350 |
| Cytc Corporation (United States) (a) | Diagnostic Equipment | 500,000 | 3,810,000 |
| Techne Corporation (United States) (a) | Biological Products | 80,000 | 2,257,600 |
| Ansell Limited (Australia) | Protective Rubber & Plastics Products | 559,000 | <u>1,976,247</u> |
| | | | 12,427,197 |
| Pharmaceuticals—3.1% | | | |
| Abbott Laboratories (United States) | Pharmaceuticals | 120,000 | \$ 4,518,000 |
| GlaxoSmithKline plc (Great Britain) | Pharmaceuticals | 96,500 | <u>2,088,099</u> |
| | | | 6,606,099 |
| Telecommunications—2.4% | | | |
| AT&T Corp. (United States) | Telecommunication Services & Products | 475,000 | \$ 5,082,500 |
| Telecommunications Equipment—5.0% | | | |
| Telefonaktiebolaget LM Ericsson, Class B (Sweden) (a) | Mobile & Wired Telecommunications Products | 7,056,500 | \$ 10,646,754 |
| Computer Services—4.7% | | | |
| Meitec Corporation (Japan) | Software Engineering Services | 175,900 | \$ 5,812,450 |
| First Data Corporation (United States) | Data Processing & Management | 110,000 | <u>4,092,000</u> |
| | | | 9,904,450 |
| Computer Software—8.1% | | | |
| Synopsys, Inc. (United States) (a) | Electronic Design Automation | 200,000 | \$ 10,962,000 |
| Novell, Inc. (United States) (a) | Network & Internet Integration Software | 1,886,000 | <u>6,054,060</u> |
| | | | 17,016,060 |
| Computer Systems—1.9% | | | |
| The Reynolds and Reynolds Company, Class A (United States) | Information Management Systems | 76,200 | \$ 2,129,790 |
| Lectra (France) (a) | Manufacturing Process Systems | 477,000 | <u>1,857,112</u> |
| | | | 3,986,902 |

THE OAKMARK GLOBAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held/ Par Value | Market Value |
|--|--|---------------------------|----------------------|
| Common Stocks—95.3% (cont.) | | | |
| Airport Maintenance—2.0% | | | |
| Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b) | Airport Operator | 325,000 | \$ 4,192,500 |
| Instruments—1.1% | | | |
| Orbotech, Ltd. (Israel) (a) | Optical Inspection Systems | 104,500 | \$ 2,372,150 |
| Waste Disposal—3.0% | | | |
| Waste Management, Inc. (United States) | Waste Management Services | 240,000 | \$ 6,252,000 |
| Chemicals—2.1% | | | |
| Givaudan (Switzerland) | Fragrance & Flavor Compound Manufacturer | 10,970 | \$ 4,412,711 |
| Total Common Stocks (Cost: \$200,984,104) | | | 201,151,828 |
| Short Term Investments—7.3% | | | |
| U.S. Government Bills—4.7% | | | |
| United States Treasury Bills, 1.64% - 1.65% due 7/5/2002 - 7/11/2002 | | \$10,000,000 | \$ 9,995,892 |
| Total U.S. Government Bills (Cost: \$9,995,892) | | | 9,995,892 |
| Repurchase Agreements—2.6% | | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$5,500,848 collateralized by a U.S. Government Agency Security | | \$ 5,500,000 | \$ 5,500,000 |
| Total Repurchase Agreement (Cost: \$5,500,000) | | | 5,500,000 |
| Total Short Term Investments (Cost: \$15,495,892) | | | 15,495,892 |
| Total Investments (Cost \$216,479,996)—102.6% | | | \$216,647,720 |

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Subject to Option | Market Value |
|--|-----------------------------------|--------------------------|-----------------------------|
| Call Options Written—0.0% | | | |
| Broadcasting & Publishing—0.0% | | | |
| Gemstar-TV Guide International Inc, August 12.50 Calls (United States) | Electronic Program Guide Services | (100,000) | \$ (7,500) |
| Gemstar-TV Guide International Inc, August 15 Calls (United States) | Electronic Program Guide Services | (450,000) | \$ (45,000) |
| | | | (52,500) |
| Total Call Options Written (Premiums Received: \$(548,983))—0.0% | | | (52,500) |
| Put Options Written—(0.9%) | | | |
| Broadcasting & Publishing—(0.9%) | | | |
| Gemstar-TV Guide International Inc, August 7.50 Puts (United States) | Electronic Program Guide Services | (350,000) | \$ (866,250) |
| Gemstar-TV Guide International Inc, August 10 Puts (United States) | Electronic Program Guide Services | (200,000) | (960,000) |
| | | | (1,826,250) |
| Total Put Options Written (Premiums Received: \$(654,980))—(0.9%) | | | (1,826,250) |
| Foreign Currencies (Proceeds \$214,852)—0.1% | | | \$ 227,038 |
| Other Liabilities In Excess Of Other Assets—(1.8%) | | | (3,859,565) |
| Total Net Assets—100% | | | <u>\$211,136,443</u> |

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

THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

Fellow Shareholders,

The Oakmark International and International Small Cap Funds lost 2% and gained 3% respectively for the quarter ending June 30, 2002, while both the MSCI World ex-U.S.¹⁹ and the Lipper International Fund²⁰ indices were down 2%, and the MSCI Small Cap World ex-U.S. Index²¹ and the Lipper International Small Cap Average²² were up 4% and 0%, respectively. For the year to date, The Funds were up 9% and 13%, respectively, while the MSCI World ex-U.S. and the Lipper International Fund indices were down 2% and up 1% respectively, and the MSCI Small Cap World ex-U.S. Index and the Lipper International Small Cap Average, were up 10% and 5%, respectively. Though the quarter was very volatile, we remain focused on our search for value in spite of terrorist threats, accounting scandals and exchange rate movements.

Playing with Numbers

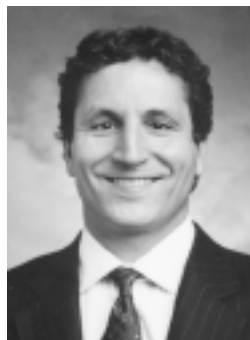
The headlines are full of stories regarding fraudulent accounting practices and unethical behavior at a number of US-based companies. For us, these events demonstrate more than anything a fundamental weakness in corporate governance. The purpose of a public company should be to make money for its owners. Sadly, in some cases, the owners (and employees) are instead being taken to the cleaners.

Why is this happening? Lavish rewards for short-term performance can breed a species of management that place their own interests before their employers—the shareholders. Corporate boards, which are supposed to represent the interests of the owners, have often abdicated their oversight responsibilities. Instead of truly independent directors monitoring and evaluating management decisions and practices, a number of current boards are comprised of insiders or their friends. As a result, management is left to oversee themselves, including to the point of setting their own compensation packages and incentive schemes. This blatant conflict of interest must end.

Asymmetric compensation practices need to be curbed. The pay difference between great performance and mediocre performance is often far too small in the US. Even failure and dismissal is often richly rewarding for management. As an aside, this is in contrast to Europe, where the problem is just the opposite: high quality managers with proven track records as value creators often-times have a hard time earning materially more than their less successful peers.

In the UK, there is a set of corporate governance guidelines called the Cadbury Principles. One of the linchpins of these rules is the mandate that corporate boards be led by a non-executive, independent chairman. In the US, the Chairman of the Board tends to be the CEO as well, fostering the tendency for boards here to represent more the interests of management as opposed to the owners. While the concept of a non-executive chairman is no guarantee against management impropriety, it nonetheless provides one additional check for shareholders.

We find corporate governance standards vary widely throughout the world; places like Sweden, which has the



Highlights

- Corporate governance and management incentives are factors central to our stock selection process.
- European governments are warming to the fundamentals of free-market capitalism—add France to the list of progressive governments already in place in Italy, Spain, and Germany.
- Corporate governance standards vary widely throughout the world; places like Sweden and the UK may provide examples from which the US can learn.

involvement of large shareholders on their boards, and the UK, which at least in theory should have more independent boards, may be examples from which the US can learn. At the Oakmark Funds—both Domestic and International—we have always considered corporate governance and management incentives to be important factors that are central to our stock selection process. We feel that strong boards, sensible incentives and managers that intuitively think like owners of the business are essential to superior investment returns.

Ultimately, these abuses will have devastating consequences if left unchecked. Equity prices will trade at even higher risk premiums, thus deflating returns, as prudent investors rightly assume the worst in the absence of full and reliable disclosure. Corporate governance changes should happen rapidly and must recognize that companies exist to make money for those who own them. Managements, anywhere, which steal from their owners, must be dealt with severely.

Europe is Looking Better

With the ignominious defeat of the Left in France this June, Europe appears to be warming up to politicians who are sensitive to the fundamentals of free-market capitalism.

Add France to progressive governments already in place in Italy, Spain and Germany and there exists a real possibility that economic policies in Europe will continue to evolve from statism to capitalism. We believe this will be good for European share prices. Lower taxes, less regulation, freer labor markets, and the introduction of private pension schemes may ultimately lead to greater economic growth and corporate profits—critical elements for higher share prices. Though we have learned in the past not to get too overly enthusiastic over the potential for real change in Europe, we remain cautiously optimistic.



David G. Herro, CFA

Portfolio Manager
dherro@oakmark.com

July 8, 2002



Michael J. Welsh, CFA, CPA

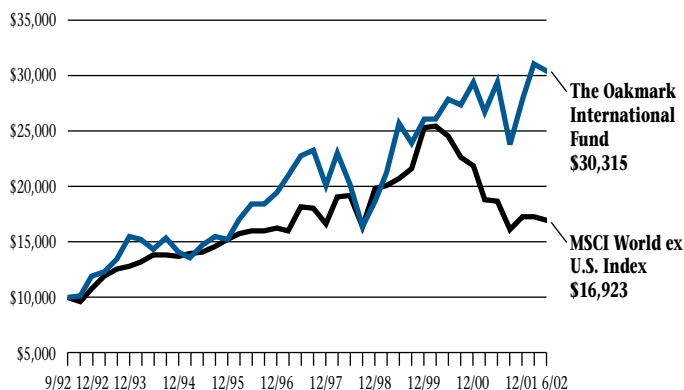
Portfolio Manager
102521.2142@compuserve.com

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 (6/30/02) COMPARED TO THE MSCI WORLD EX U.S. INDEX¹⁹



Average Annual Total Returns³

(as of 6/30/02)

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

| | | | | |
|---|---------------|--------------|--------------|---------------|
| Oakmark International Fund | -2.23% | 2.98% | 5.95% | 12.04% |
| MSCI World ex. U.S. | -2.24% | -9.42% | -1.33% | 5.54% |
| MSCI EAFE ²³ | -2.12% | -9.49% | -1.55% | 5.37% |
| Lipper International Fund Index ²⁰ | -1.89% | -7.29% | 0.21% | 7.25% |

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

* Not annualized

The Oakmark International Fund finished the quarter ending June 30, 2002 down 2%, in line with the 2% decline for the MSCI World ex-US Index, and the 2% decline in the Lipper International Average.

The first half of 2002 was marked by price volatility and market skittishness. As mentioned in The Oakmark Global Fund letter, what we try to accomplish as portfolio managers in times of extraordinary share price volatility is to upgrade the quality of the portfolio while maintaining the same degree of discount to intrinsic value. Looking at the portfolio as it stands today we believe we have accomplished this objective.

Portfolio Update

After looking expensive to us for a number of years, the prices of some European "Blue Chip" companies have finally become interesting. Two in particular are now your Fund's largest positions, LM Ericsson and GlaxoSmithKline. Both are quality businesses with global leadership positions, and each have had significant share price weakness in the past quarter.

We write in detail on Ericsson in this quarter's Oakmark Global Fund letter. We have searched diligently through the rubble of the tech-media-telecom implosion, and we believe this is one of the few legitimate investment opportunities that has emerged. The share price two and a half years ago implied massive growth into perpetuity whereas today's price implies very little future growth. The truth is somewhere in between. At less than 1 times revenue, we think it is very attractive.

GlaxoSmithKline has one of the best records of organic growth and cash flow returns of any of the world's blue chip pharmaceutical firms and has traditionally been priced as such. Luckily, recent share price weakness has caused its valuation to fall to that of far inferior businesses, giving us the opportunity to make GlaxoSmithKline one of the largest positions in The Oakmark International Fund.

Looking Forward

We remain optimistic based on current valuations around the world. We want to thank you for your continued confidence.

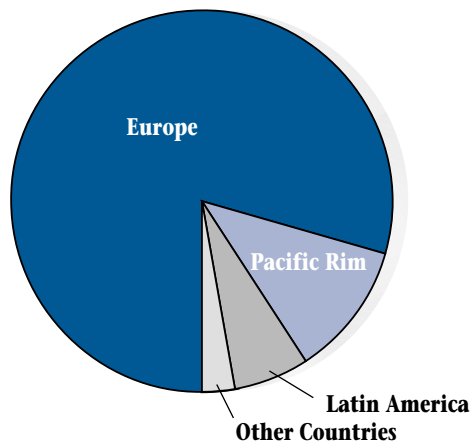
David G. Herro, CFA
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Michael J. Welsh, CFA, CPA
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July 8, 2002

THE OAKMARK INTERNATIONAL FUND

Global Diversification—June 30, 2002



| | % of Fund Net Assets | | % of Fund Net Assets |
|---|---------------------------------|--|---------------------------------|
| <i>Europe</i> | 67.4% | <i>Pacific Rim</i> | 19.6% |
| Great Britain | 20.5% | Japan | 9.6% |
| * Netherlands | 10.4% | Korea | 4.9% |
| * France | 10.3% | Australia | 2.6% |
| Sweden | 8.2% | Hong Kong | 1.9% |
| * Italy | 3.5% | Singapore | 0.6% |
| * Finland | 3.4% | <i>Latin America</i> | 5.4% |
| Switzerland | 3.3% | Mexico | 3.0% |
| * Germany | 3.1% | Brazil | 2.0% |
| * Ireland | 2.6% | Panama | 0.4% |
| * Greece | 2.1% | <i>Other</i> | 2.3% |
| | | Israel | 2.3% |

* Euro currency countries comprise 35.4% of the Fund.

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Description | Shares Held | Market Value |
|---|--|-------------|-------------------|
| Common Stocks—94.7% | | | |
| Food & Beverage—7.3% | | | |
| Lotte Chilsung Beverage Co., Ltd. (Korea) | Soft Drinks, Juices & Sports Drinks Manufacturer | 49,700 | \$ 34,290,108 |
| Pernod-Ricard SA (France) | Manufactures Wines, Spirits, & Fruit Juices | 340,500 | 33,292,891 |
| Diageo plc (Great Britain) | Beverages, Wines, & Spirits Manufacturer | 2,410,000 | 31,255,952 |
| Fomento Economico Mexicano S.A. de C.V. (Mexico) (a) | Soft Drink & Beer Manufacturer | 549,400 | <u>21,547,468</u> |
| | | | 120,386,419 |
| Household Products—3.0% | | | |
| Henkel KGaA (Germany) | Consumer Chemical Products Manufacturer | 755,000 | \$ 48,221,941 |
| Other Consumer Goods & Services—0.3% | | | |
| Shimano, Inc. (Japan) | Bicycle Components Manufacturer | 350,600 | \$ 4,756,973 |
| Apparel—0.7% | | | |
| Fila Holdings S.p.A. (Italy) (a) | Athletic Footwear & Apparel | 5,894,760 | \$ 11,789,520 |
| Automotive—3.5% | | | |
| Autoliv Inc (Sweden) (b) | Automotive Safety Systems Manufacturer | 1,248,000 | \$ 30,344,199 |
| Compagnie Generale des Etablissements Michelin (France) | Tire Manufacturer | 632,000 | <u>25,558,851</u> |
| | | | 55,903,050 |
| Broadcasting & Cable TV—3.6% | | | |
| Tokyo Broadcasting System, Inc. (Japan) | Television & Radio Broadcasting | 1,511,000 | \$ 33,853,763 |
| Grupo Televisa S.A. (Mexico) (a) | Television Production & Broadcasting | 650,200 | <u>24,304,476</u> |
| | | | 58,158,239 |
| Building Materials & Construction—1.1% | | | |
| Kumkang Korea Chemical Co., Ltd. (Korea) | Building Materials | 180,140 | \$ 17,370,108 |
| Home Furnishings—3.0% | | | |
| Hunter Douglas N.V. (Netherlands) | Window Coverings Manufacturer | 1,580,284 | \$ 48,597,336 |

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|--|--|-------------|--------------------|
| Common Stocks—94.7% (cont.) | | | |
| Human Resources—2.1% | | | |
| Michael Page International plc (Great Britain) | Recruitment Consultancy Services | 14,255,900 | \$ 34,782,115 |
| Marketing Services—3.4% | | | |
| Aegis Group plc (Great Britain) | Media Services | 20,105,500 | \$ 27,669,636 |
| Cordiant Communications Group plc (Great Britain) (c) | Advertising & Media Services | 23,659,270 | 27,599,686 |
| | | | <u>55,269,322</u> |
| Publishing—7.4% | | | |
| John Fairfax Holdings Limited (Australia) | Newspaper Publisher | 22,427,800 | \$ 41,791,166 |
| Wolters Kluwer NV (Netherlands) | Reference Material Publisher | 2,128,900 | 40,330,292 |
| Independent News & Media PLC (Ireland) | Newspaper Publisher | 18,735,373 | 36,933,041 |
| | | | <u>119,054,499</u> |
| Retail—3.6% | | | |
| Giordano International Limited (Hong Kong) | Pacific Rim Clothing Retailer & Manufacturer | 50,401,000 | \$ 31,016,994 |
| Somerfield plc (Great Britain) (c) | Food Retailer | 15,128,500 | 27,337,298 |
| | | | <u>58,354,292</u> |
| Bank & Thrifts—9.3% | | | |
| Banco Popolare di Verona e Novara Scrl (Italy) | Commercial Banking | 3,493,000 | \$ 45,204,955 |
| BNP Paribas SA (France) | Commercial Banking | 631,700 | 34,867,566 |
| Uniao de Bancos Brasileiros S.A. (Brazil) (d) | Commercial Banking | 1,658,700 | 27,368,550 |
| Kookmin Bank (Korea) | Commercial Banking | 269,968 | 13,105,678 |
| United Overseas Bank Limited, Foreign Shares (Singapore) | Commercial Banking | 1,426,968 | 10,260,435 |
| Svenska Handelsbanken AB (Sweden) | Commercial Banking | 508,000 | 7,747,349 |
| Banco Latinoamericano de Exportaciones, S.A., Class E (Panama) (a) | Latin American Trade Bank | 515,400 | 6,468,270 |

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|---|---|---------------|--------------------|
| Common Stocks—94.7% (cont.) | | | |
| Bank & Thrifts—9.3% (cont.) | | | |
| DePfa Bank plc (Ireland) (c) | Mortgage Bank | 83,000 | \$ 4,540,397 |
| Aareal Bank AG (Germany) (c) | Mortgage Bank | 83,000 | 1,330,214 |
| | | | <u>150,893,414</u> |
| Other Financial—4.7% | | | |
| Daiwa Securities Group Inc. (Japan) | Stock Broker | 5,939,000 | \$ 38,506,367 |
| Euronext (Netherlands) | Stock Exchange | 1,968,900 | 36,872,279 |
| | | | <u>75,378,646</u> |
| Medical Products—2.1% | | | |
| Gambro AB, Class A (Sweden) | Manufacturer of Dialysis Products | 5,191,000 | \$ 34,089,409 |
| Pharmaceuticals—8.8% | | | |
| GlaxoSmithKline plc (Great Britain) | Pharmaceuticals | 3,321,800 | \$ 71,878,208 |
| Takeda Chemical Industries, Ltd. (Japan) | Pharmaceuticals & Food Supplements | 739,000 | 32,436,081 |
| Aventis S.A. (France) | Pharmaceuticals | 370,300 | 26,187,759 |
| Novartis AG (Switzerland) | Pharmaceuticals | 298,500 | 13,097,898 |
| | | | <u>143,599,946</u> |
| Telecommunications—3.3% | | | |
| Panafon Hellenic Telecom S.A. (Greece) | Mobile Telecommunications | 6,717,900 | \$ 33,902,070 |
| SK Telecom Co., Ltd. (Korea) | Mobile Telecommunications | 64,860 | 14,530,150 |
| Telemig Celular Participacoes S.A. (Brazil) | Mobile Telecommunications | 2,273,095,600 | 4,419,239 |
| | | | <u>52,851,459</u> |
| Telecommunications Equipment—3.7% | | | |
| Telefonaktiebolaget LM Ericsson, Class B (Sweden) (c) | Mobile & Wired Telecommunications Products | 39,571,500 | \$ 59,704,956 |
| Computer Services—2.8% | | | |
| Meitec Corporation (Japan) | Software Engineering Services | 1,387,100 | \$ 45,835,414 |

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|---|---|-------------|----------------------|
| Common Stocks—94.7% (cont.) | | | |
| Aerospace—2.6% | | | |
| Rolls-Royce plc (Great Britain) | Aviation & Marine Power | 17,225,595 | \$ 42,356,037 |
| Airport Maintenance—0.2% | | | |
| Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (a) | Airport Operator | 242,000 | \$ 3,121,800 |
| Diversified Conglomerates—1.3% | | | |
| Vivendi Universal SA (France) | Multimedia | 1,007,100 | \$ 21,719,141 |
| Instruments—2.3% | | | |
| Orbotech, Ltd. (Israel) (c) | Optical Inspection Systems | 1,646,100 | \$ 37,366,469 |
| Machinery & Industrial Processing—2.5% | | | |
| Metso Corporation (Finland) | Paper & Pulp Machinery | 3,187,400 | \$ 41,155,757 |
| Other Industrial Goods & Services—4.9% | | | |
| Enodis plc (Great Britain) (c) | Food Processing Equipment | 29,924,920 | \$ 36,277,846 |
| Chargeurs SA (France) | Wool, Textile Production & Trading | 1,050,201 | 27,948,527 |
| Kone Corporation (Finland) | Elevators | 477,080 | 14,107,017 |
| FKI plc (Great Britain) | Industrial Manufacturing | 1,020,000 | 2,387,536 |
| | | | 80,720,926 |
| Transportation Services—2.1% | | | |
| Associated British Ports Holdings Plc (Great Britain) | Port Operator | 4,966,629 | \$ 33,986,586 |
| Chemicals—5.1% | | | |
| Akzo Nobel N.V. (Netherlands) | Chemical Producer | 957,900 | \$ 41,627,756 |
| Givaudan (Switzerland) | Fragrance & Flavor Compound Manufacturer | 100,100 | 40,265,487 |
| | | | 81,893,243 |
| Total Common Stocks (Cost: \$1,497,720,174) | | | 1,537,317,017 |

THE OAKMARK INTERNATIONAL FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Par Value | Market Value |
|------------------------------------|--|--------------|-------------------------------|
| Short Term Investments—5.2% | | | |
| U.S. Government Bills—2.4% | | | |
| | United States Treasury Bills, 1.60% - 1.695% due 7/5/2002 - 7/25/2002 | \$40,000,000 | \$ 39,971,269 |
| | Total U.S. Government Bills (Cost: \$39,971,269) | | 39,971,269 |
| Repurchase Agreements—2.8% | | | |
| | IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$44,506,860 collateralized by U.S. Government Agency Securities | \$44,500,000 | 44,500,000 |
| | Total Repurchase Agreement (Cost: \$44,500,000) | | 44,500,000 |
| | Total Short Term Investments (Cost: \$84,471,269) | | 84,471,269 |
| | Total Investments (Cost \$1,582,191,443)—99.9% | | \$ 1,621,788,286 |
| | Foreign Currencies (Proceeds \$4,258,976)—0.3% | | \$ 4,374,769 |
| | Other Liabilities In Excess Of Other Assets—(0.2%) | | (2,507,380) |
| | Total Net Assets—100% | | <u>\$1,623,655,675</u> |

(a) Represents an American Depository Receipt.

(b) Represents a Swedish Depository Receipt.

(c) Non-income producing security.

(d) Represents a Global Depository Receipt.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

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



The Oakmark International Small Cap Fund finished the quarter ending June 30, 2002 up 3%, compared to a 2% decline in the MSCI World ex-US Index and roughly in line with the 4% and 0% increases in the MSCI Small Cap World ex-US²¹ and Lipper International Small Cap Fund Average indices, respectively.

While small caps around the world have had a nice run relative to other asset classes, we still see tremendous value among the companies in your portfolio.

Portfolio Update

As many of you know, we closed The Oakmark International Small Cap Fund to new investors during the quarter. Limiting asset growth allows us to remain true to the Fund's mandate—to invest in small-cap companies based outside of the U.S.—and to maintain investment flexibility. We've closed other Funds in our family before, always with our shareholders' best interests in mind. Closing to new investors at this time leaves us ample capacity to allow existing investors to continue to add to their holdings. Generating superior investment results for our existing shareholders has always been our single-minded focus at The Oakmark Funds.

Looking Forward

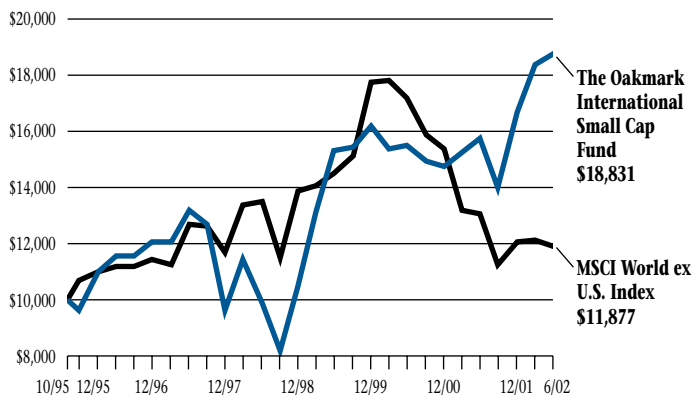
Despite the strong performance of your Fund over the past few years, we still believe the portfolio remains undervalued. The appreciation potential of our companies remains significant. We want to thank you for your continued confidence.

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

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

July 8, 2002

THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (6/30/02) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX¹⁹



Average Annual Total Returns³

| | (as of 6/30/02) | | | |
|--|-----------------------------|--------|--------|---------------------------|
| | Total Return Last 3 Months* | 1-year | 5-year | Since Inception (11/1/95) |

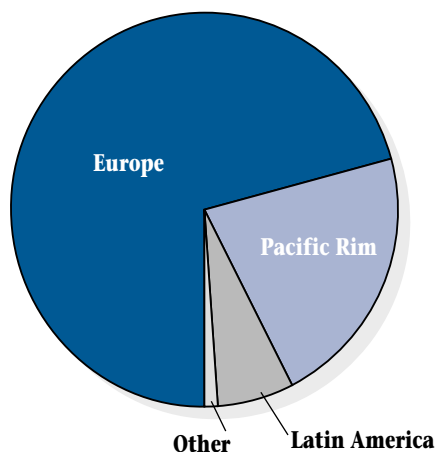
| | | | | |
|--|--------------|---------------|--------------|--------------|
| Oakmark International Small Cap Fund | 2.51% | 19.35% | 7.39% | 9.96% |
| MSCI World ex. U.S. | -2.24% | -9.42% | -1.33% | 2.61% |
| Lipper International Small Cap Average ²² | 0.00% | -5.10% | 3.79% | 9.51% |



















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

* Not annualized

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Global Diversification—June 30, 2002



| | | % of Fund Net Assets | | | % of Fund Net Assets | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---------------------------------|--|---|---------------------------------|--------------|--|-------------|-------|--|--------|------|--|---------------|-------|--|-------------|------|--|---------------|------|--|-----------|------|--|----------|------|--|-----------|------|--|---------|------|--|-------|------|--|-----------|------|--|-------------|------|--|---------------|------|--|-----------|------|--|-----------|------|--|----------|------|--|--------|------|--|--|--|--|---------|------|---|---|-----------------------------|-------------|--|--|--|--|--------|------|--|--|--|--|--------|------|--|--|--|--|-----------|------|--|---|---------------------|-------------|--|--|--|--|--------|------|--|---------|------|--|-----------|------|--|---------------|------|
| <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Europe</i></td> <td style="text-align: right;">67.8%</td> <td style="width: 15px;"></td> <td><i>Pacific Rim</i></td> <td style="text-align: right;">20.6%</td> </tr> <tr> <td></td> <td>Switzerland</td> <td style="text-align: right;">16.6%</td> <td></td> <td>Japan</td> <td style="text-align: right;">5.3%</td> </tr> <tr> <td></td> <td>Great Britain</td> <td style="text-align: right;">12.4%</td> <td></td> <td>New Zealand</td> <td style="text-align: right;">4.4%</td> </tr> <tr> <td></td> <td>* Italy</td> <td style="text-align: right;">9.8%</td> <td></td> <td>Australia</td> <td style="text-align: right;">3.6%</td> </tr> <tr> <td></td> <td>* France</td> <td style="text-align: right;">6.9%</td> <td></td> <td>Hong Kong</td> <td style="text-align: right;">2.8%</td> </tr> <tr> <td></td> <td>Denmark</td> <td style="text-align: right;">6.6%</td> <td></td> <td>Korea</td> <td style="text-align: right;">1.6%</td> </tr> <tr> <td></td> <td>* Germany</td> <td style="text-align: right;">3.3%</td> <td></td> <td>Philippines</td> <td style="text-align: right;">1.4%</td> </tr> <tr> <td></td> <td>* Netherlands</td> <td style="text-align: right;">2.9%</td> <td></td> <td>Singapore</td> <td style="text-align: right;">0.9%</td> </tr> <tr> <td></td> <td>* Belgium</td> <td style="text-align: right;">2.7%</td> <td></td> <td>Thailand</td> <td style="text-align: right;">0.6%</td> </tr> <tr> <td></td> <td>Sweden</td> <td style="text-align: right;">2.3%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>* Spain</td> <td style="text-align: right;">1.9%</td> <td style="vertical-align: top;"> <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Latin America</i></td> <td style="text-align: right;">6.2%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Mexico</td> <td style="text-align: right;">4.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Panama</td> <td style="text-align: right;">2.2%</td> <td></td> <td></td> <td></td> </tr> </table> </td> </tr> <tr> <td></td> <td>* Finland</td> <td style="text-align: right;">1.0%</td> <td style="vertical-align: top;"> <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Other</i></td> <td style="text-align: right;">1.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Norway</td> <td style="text-align: right;">0.8%</td> <td></td> <td>Bermuda</td> <td style="text-align: right;">0.5%</td> </tr> <tr> <td></td> <td>* Ireland</td> <td style="text-align: right;">0.6%</td> <td></td> <td>United States</td> <td style="text-align: right;">0.5%</td> </tr> </table> </td> </tr> </table> |  | <i>Europe</i> | 67.8% |  | <i>Pacific Rim</i> | 20.6% | | Switzerland | 16.6% | | Japan | 5.3% | | Great Britain | 12.4% | | New Zealand | 4.4% | | * Italy | 9.8% | | Australia | 3.6% | | * France | 6.9% | | Hong Kong | 2.8% | | Denmark | 6.6% | | Korea | 1.6% | | * Germany | 3.3% | | Philippines | 1.4% | | * Netherlands | 2.9% | | Singapore | 0.9% | | * Belgium | 2.7% | | Thailand | 0.6% | | Sweden | 2.3% | | | | | * Spain | 1.9% | <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Latin America</i></td> <td style="text-align: right;">6.2%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Mexico</td> <td style="text-align: right;">4.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Panama</td> <td style="text-align: right;">2.2%</td> <td></td> <td></td> <td></td> </tr> </table> |  | <i>Latin America</i> | 6.2% | | | | | Mexico | 4.0% | | | | | Panama | 2.2% | | | | | * Finland | 1.0% | <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Other</i></td> <td style="text-align: right;">1.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Norway</td> <td style="text-align: right;">0.8%</td> <td></td> <td>Bermuda</td> <td style="text-align: right;">0.5%</td> </tr> <tr> <td></td> <td>* Ireland</td> <td style="text-align: right;">0.6%</td> <td></td> <td>United States</td> <td style="text-align: right;">0.5%</td> </tr> </table> |  | <i>Other</i> | 1.0% | | | | | Norway | 0.8% | | Bermuda | 0.5% | | * Ireland | 0.6% | | United States | 0.5% |
|  | <i>Europe</i> | 67.8% |  | <i>Pacific Rim</i> | 20.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Switzerland | 16.6% | | Japan | 5.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Great Britain | 12.4% | | New Zealand | 4.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Italy | 9.8% | | Australia | 3.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * France | 6.9% | | Hong Kong | 2.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Denmark | 6.6% | | Korea | 1.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Germany | 3.3% | | Philippines | 1.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Netherlands | 2.9% | | Singapore | 0.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Belgium | 2.7% | | Thailand | 0.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Sweden | 2.3% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Spain | 1.9% | <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Latin America</i></td> <td style="text-align: right;">6.2%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Mexico</td> <td style="text-align: right;">4.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Panama</td> <td style="text-align: right;">2.2%</td> <td></td> <td></td> <td></td> </tr> </table> |  | <i>Latin America</i> | 6.2% | | | | | Mexico | 4.0% | | | | | Panama | 2.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | <i>Latin America</i> | 6.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Mexico | 4.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Panama | 2.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Finland | 1.0% | <table border="0"> <tr> <td style="width: 15px;"></td> <td><i>Other</i></td> <td style="text-align: right;">1.0%</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>Norway</td> <td style="text-align: right;">0.8%</td> <td></td> <td>Bermuda</td> <td style="text-align: right;">0.5%</td> </tr> <tr> <td></td> <td>* Ireland</td> <td style="text-align: right;">0.6%</td> <td></td> <td>United States</td> <td style="text-align: right;">0.5%</td> </tr> </table> |  | <i>Other</i> | 1.0% | | | | | Norway | 0.8% | | Bermuda | 0.5% | | * Ireland | 0.6% | | United States | 0.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | <i>Other</i> | 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Norway | 0.8% | | Bermuda | 0.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | * Ireland | 0.6% | | United States | 0.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

* Euro currency countries comprise 29.1% of the Fund.

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited)

| Name | Description | Shares Held | Market Value |
|--|---|-------------|------------------|
| Common Stocks—95.6% | | | |
| Food & Beverage—6.2% | | | |
| Campari Group (Italy) (a) | Soft Drinks, Wines, & Spirits Producer | 287,700 | \$ 9,499,645 |
| Mikuni Coca-Cola Bottling Co., Ltd. (Japan) | Soft Drink Manufacturer | 896,000 | 7,312,150 |
| Baron De Ley, S.A. (Spain) (a) | Wines & Spirits Manufacturer | 194,985 | 5,684,890 |
| Hite Brewery Co., Ltd. (Korea) | Brewer | 65,700 | 4,052,319 |
| Grupo Continental, S.A. (Mexico) | Soft Drink Manufacturer | 2,760,000 | 3,791,817 |
| Alaska Milk Corporation (Philippines) | Milk Producer | 49,394,000 | <u>2,257,451</u> |
| | | | 32,598,272 |
| Other Consumer Goods & Services—0.9% | | | |
| Royal Doulton plc (Great Britain) (a) | Tableware & Giftware | 22,373,000 | \$ 3,155,784 |
| Ilshin Spinning Co., Ltd. (Korea) | Fabric & Yarn Manufacturer | 44,550 | <u>1,559,065</u> |
| | | | 4,714,849 |
| Apparel—0.7% | | | |
| Kingmaker Footwear Holdings Limited (Hong Kong) | Athletic Footwear Manufacturer | 10,721,000 | \$ 3,505,055 |
| Automobiles—1.6% | | | |
| Ducati Motor Holding S.p.A. (Italy) (a) | Motorcycle Manufacturer | 5,177,200 | \$ 8,164,652 |
| Broadcasting & Cable TV—1.0% | | | |
| ABS-CBN Broadcasting Corporation (Philippines) (a) | Television & Broadcasting Operator | 11,920,000 | \$ 5,329,359 |
| Broadcasting & Publishing—1.6% | | | |
| Tamedia AG (Switzerland) (a) | TV Broadcasting & Publishing | 115,780 | \$ 8,150,241 |
| Building Materials & Construction—4.1% | | | |
| Fletcher Building Limited (New Zealand) | Building Materials Manufacturer | 13,616,500 | \$ 18,226,536 |
| Grafton Group plc (Ireland) | Building Materials Distributor | 723,000 | <u>3,135,550</u> |
| | | | 21,362,086 |

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|--|-----------------------------------|-------------|------------------|
| Common Stocks—95.6% (cont.) | | | |
| Home Furnishings—3.2% | | | |
| Natuzzi S.p.A. (Italy) (b) | Home Furnishings | 1,099,100 | \$ 16,695,329 |
| Hotels & Motels—2.5% | | | |
| Jarvis Hotels plc (Great Britain) | Hotel Operator | 7,252,000 | \$ 12,827,947 |
| Human Resources—3.8% | | | |
| Solvus S.A. (Belgium) | Temporary Staffing Services | 763,120 | \$ 13,915,131 |
| United Services Group NV (Netherlands) | Temporary Staffing Services | 279,347 | <u>5,534,301</u> |
| | | | 19,449,432 |
| Marketing Services—1.9% | | | |
| Asatsu-DK, Inc. (Japan) | Advertising Services Provider | 445,100 | \$ 9,693,850 |
| Publishing—3.7% | | | |
| Edipresse S.A. (Switzerland) | Newspaper & Magazine Publisher | 18,274 | \$ 7,228,252 |
| Recoletos Grupo de Comunicacion, S.A. (Spain) | Publisher | 880,000 | 4,041,954 |
| Matichon Public Company Limited, Foreign Shares (Thailand) | Newspaper Publisher | 2,039,500 | 3,287,933 |
| Hollinger International Inc. (United States) | Newspaper Publisher | 210,000 | 2,520,000 |
| VLT AB, Class B (Sweden) | Newspaper Publisher | 182,250 | <u>1,810,096</u> |
| | | | 18,888,235 |
| Retail—8.8% | | | |
| Carpetright plc (Great Britain) | Carpet Retailer | 2,137,700 | \$ 19,395,683 |
| D.F.S. Furniture Company plc (Great Britain) | Furniture Retailer & Manufacturer | 1,972,100 | 12,374,856 |
| Bulgari S.p.A. (Italy) | Jewelry Manufacturer & Retailer | 851,500 | 5,363,005 |
| House of Fraser Plc (Great Britain) | Department Store | 2,279,000 | 2,458,737 |
| Dairy Farm International Holdings Limited (Hong Kong) (a) | Supermarket Chain | 2,502,000 | 2,176,740 |
| Jusco Stores (Hong Kong) Co., Limited (Hong Kong) | Department Stores | 4,102,000 | 2,169,396 |
| Harvey Nichols plc (Great Britain) | High Fashion Clothing Retailer | 493,400 | <u>1,534,867</u> |
| | | | 45,473,284 |

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|--|--|-------------|-------------------|
| Common Stocks—95.6% (cont.) | | | |
| Bank & Thrifts—6.8% | | | |
| Jyske Bank A/S (Denmark) (a) | Commercial Banking | 500,900 | \$ 12,497,240 |
| Vontobel Holding AG (Switzerland) | Commercial Banking | 474,536 | 11,453,001 |
| Banco Latinoamericano de Exportaciones, S.A., Class E (Panama) (b) | Multinational Bank | 888,700 | <u>11,153,185</u> |
| | | | 35,103,426 |
| Financial Services—4.4% | | | |
| Julius Baer Holding Ltd., Zurich (Switzerland) | Asset Management | 47,000 | \$ 13,470,434 |
| Van der Moolen Holding N.V. (Netherlands) | International Trading Firm | 451,500 | <u>9,523,449</u> |
| | | | 22,993,883 |
| Insurance—0.5% | | | |
| IPC Holdings, Ltd. (Bermuda) | Reinsurance Provider | 87,700 | \$ 2,678,358 |
| Other Financial—2.7% | | | |
| Ichiyoshi Securities Co., Ltd. (Japan) | Stock Broker | 1,957,000 | \$ 7,397,538 |
| JCG Holdings Limited (Hong Kong) | Consumer Finance | 11,623,000 | <u>6,929,318</u> |
| | | | 14,326,856 |
| Medical Products—3.6% | | | |
| Ansell Limited (Australia) | Protective Rubber & Plastics Products | 5,254,625 | \$ 18,576,812 |
| Computer Services—1.8% | | | |
| Morse Plc (Great Britain) | Business & Technology Solutions | 3,451,300 | \$ 9,420,568 |
| Computer Software—0.6% | | | |
| Enix Corporation (Japan) | Entertainment Software | 146,600 | \$ 2,819,701 |
| Computer Systems—0.9% | | | |
| Lectra (France) (a) | Manufacturing Process Systems | 1,191,500 | \$ 4,638,888 |
| Office Equipment—3.7% | | | |
| Neopost SA (France) (a) | Mailroom Equipment Supplier | 480,700 | \$ 19,094,219 |
| Airport Maintenance—7.5% | | | |
| Kobenhavns Lufthavne A/S (Copenhagen Airports A/S) (Denmark) | Airport Management & Operations | 283,700 | \$ 21,836,979 |

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held | Market Value |
|---|-----------------------------------|-------------|-------------------|
| Common Stocks—95.6% (cont.) | | | |
| Airport Maintenance—7.5% (cont.) | | | |
| Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico) (b) | Airport Operator | 1,334,200 | \$ 17,211,180 |
| | | | <u>39,048,159</u> |
| Diversified Conglomerates—3.1% | | | |
| Pargesa Holding AG (Switzerland) | Diversified Operations | 4,784 | \$ 9,833,564 |
| Tae Young Corp. (Korea) | Heavy Construction | 106,600 | 2,853,300 |
| Haw Par Corporation Limited (Singapore) | Healthcare & Leisure Products | 903,000 | 2,269,962 |
| Jardine Strategic Holdings Limited (Bermuda) | Diversified Operations | 340,700 | <u>994,844</u> |
| | | | 15,951,670 |
| Instruments—1.0% | | | |
| Vaisala Oyj, Class A (Finland) | Atmospheric Observation Equipment | 182,450 | \$ 4,990,334 |
| Machinery & Industrial Processing—5.6% | | | |
| Pfeiffer Vacuum Technology AG (Germany) | Vacuum Pump Manufacturer | 451,400 | \$ 16,818,067 |
| Alfa Laval (Sweden) (a) | Filtration & Separation Equipment | 959,700 | 9,583,770 |
| Carbone Lorraine SA (France) | Electrical Systems Manufacturer | 72,700 | <u>2,264,354</u> |
| | | | 28,666,191 |
| Other Industrial Goods & Services—4.4% | | | |
| Schindler Holding AG (Switzerland) | Elevator & Escalator Manufacturer | 67,800 | \$ 12,272,727 |
| GFI Industries SA (France) | Industrial Fastener Manufacturer | 309,913 | 7,685,518 |
| Coats plc (Great Britain) | Textile Manufacturer | 2,872,000 | <u>2,430,630</u> |
| | | | 22,388,875 |
| Production Equipment—2.6% | | | |
| Interpump Group S.p.A. (Italy) | Pump & Piston Manufacturer | 2,707,300 | \$ 11,260,860 |
| NSC Groupe (France) | Textile Equipment Manufacturer | 17,466 | <u>2,010,754</u> |
| | | | 13,271,614 |
| Transportation Services—1.9% | | | |
| Mainfreight Limited (New Zealand) | Logistics Services | 7,059,751 | \$ 4,776,504 |
| Bergesen d.y. ASA, Class A Shares (Norway) | Tanker Operator | 187,000 | 3,977,454 |

THE OAKMARK INTERNATIONAL SMALL CAP FUND

Schedule of Investments—June 30, 2002 (Unaudited) cont.

| Name | Description | Shares Held/Par Value | Market Value |
|--|--------------------------|-----------------------|-----------------------------|
| Common Stocks—95.6% (cont.) | | | |
| Transportation Services—1.9% (cont.) | | | |
| DelGro Corporation Limited (Singapore) | Bus, Taxi, & Car Leasing | 1,066,000 | \$ 1,237,254 9,991,212 |
| Chemicals—4.5% | | | |
| Gurit-Heberlein AG (Switzerland) | Chemical Producer | 30,424 | \$ 23,456,423 |
| Total Common Stocks (Cost: \$471,004,239) | | | 494,269,780 |
| Short Term Investments—4.2% | | | |
| U.S. Government Bills—2.0% | | | |
| United States Treasury Bills, 1.64% due 7/5/2002 | | \$10,000,000 | \$ 9,997,267 |
| Total U.S. Government Bills (Cost: \$9,997,267) | | | 9,997,267 |
| Repurchase Agreements—2.2% | | | |
| IBT Repurchase Agreement, 1.85% due 7/1/2002, repurchase price \$11,501,773 collateralized by U.S. Government Agency Securities | | \$11,500,000 | \$ 11,500,000 |
| Total Repurchase Agreement (Cost: \$11,500,000) | | | 11,500,000 |
| Total Short Term Investments (Cost: \$21,497,267) | | | 21,497,267 |
| Total Investments (Cost \$492,501,506)—99.8% | | | \$ 515,767,047 |
| Foreign Currencies (Proceeds \$756,429)—0.2% | | | \$ 766,497 |
| Other Assets In Excess Of Other Liabilities—0.0% | | | 250,292 |
| Total Net Assets—100% | | | <u>\$516,783,836</u> |

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

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.

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

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

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

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

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

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

1. The S&P 500 Index is a broad market-weighted average of U.S. blue-chip companies.
2. The NASDAQ Composite Index is a market value weighted index of all common stocks listed on NASDAQ.
3. Total return includes change in share prices and in each case includes reinvestment of any dividends and capital gain distributions.

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

4. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.
5. During the period since inception (8/4/99-6/30/02), IPOs contributed an annualized 2.94% to the performance of The Oakmark Global Fund. As the IPO environment changes and the total net assets of the Fund grow, the impact of IPOs on performance is expected to diminish. "IPO" stands for Initial Public Offering, which is the first sale of stock by a company to the public.
6. The Dow Jones Industrial Average is an unmanaged index that includes only 30 big companies.
7. The Lipper Large Cap Value Fund Index measures the performance of the thirty largest U.S. large-cap value funds tracked by Lipper.
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.
9. The Lipper Mid Cap Value Fund Index measures the performance of the thirty largest U.S. mid-cap value funds tracked by Lipper.

10. EPS refers to Earnings Per Share and is calculated by dividing total earnings by the number of shares outstanding.
11. The Russell 2000 Index is an unmanaged, market-weighted index, with dividends reinvested, of 2,000 small companies, formed by taking the largest 3,000 small companies and eliminating the largest 1,000 of those companies. This index is unmanaged and investors cannot actually make investments in this index.
12. The S&P Small Cap 600 Index measures the performance of selected U.S. stocks with small market capitalizations.
13. The Lipper Small Cap Value Fund Index measures the performance of the thirty largest U.S. small-cap value funds tracked by Lipper.
14. The Lipper Balanced Fund Index measures the performance of the thirty largest U.S. balanced funds tracked by Lipper.
15. The Lehman Govt./Corp. Bond Index is an unmanaged index that includes the Lehman Government and Lehman Corporate indices.
16. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. This index is unmanaged and investors cannot actually make investments in this index.
17. The MSCI World Index is made up of 20 country sub-indexes, including the stock exchanges of the U.S., Europe, Canada, Australia and New Zealand and the Far East. This index is unmanaged and investors cannot actually make investments in this index.
18. The Lipper Global Fund Index is an unmanaged index that includes 30 mutual funds that invest in securities throughout the world.
19. The Morgan Stanley World Ex U.S. Index is made up of 19 country sub-indexes, excluding the U.S. This index is unmanaged and investors cannot actually make investments in this index.
20. The Lipper International Fund Index reflects the net asset value weighted total return of the 30 largest international equity funds.
21. The Morgan Stanley Small Cap World Ex US Index includes stocks having market capitalizations between \$200-\$800 million across 23 developed markets. This index is unmanaged and investors cannot actually make an investment in this index.
22. The Lipper International Small Cap Average includes 100 mutual funds that invest in securities whose primary markets are outside of the U.S.
23. The MSCI EAFE Index is the Morgan Stanley Europe, Australia, and Far East Index, which is an unmanaged, market-value weighted index designed to measure the overall condition of overseas markets.

THE OAKMARK FAMILY OF FUNDS

Investment Philosophy

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

Three key tenets of our investment philosophy:

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

Investment Process

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

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

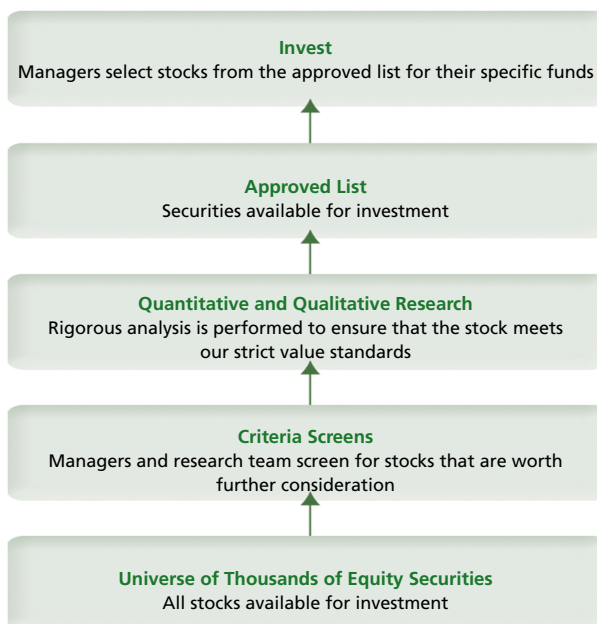
The Result: a unified effort aimed at identifying the best values in the marketplace. From the list of approved stocks, each fund manager constructs a relatively focused portfolio, built on a stock-by-stock basis from the bottom up.

Who Should Invest

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

How to Use Value Funds in an Overall Portfolio

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



Bottom-Up Investment 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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