

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

# FIRST QUARTER REPORT

DECEMBER 31, 2001

Advised by Harris Associates L.P.



# THE OAKMARK FAMILY OF FUNDS

## 2002 First Quarter Report

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### For More Information

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

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

## Letter from the President

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### Dear Fellow Shareholders:

“Nothing gives a better feeling to a money manager than making money for his or her investors when almost everyone else is losing.”

This quotation from Michael Steinhardt, one of the great investors of this era, captures our current feelings. All of our Funds have beaten their benchmarks, and only one has a negative return for the year. As a result of our strong team, our defined investment philosophy, and our disciplined process, our performance has allowed our shareholders to continue to meet their financial goals, even during this time of extreme turmoil. As always, we are committed to minimizing negative returns, the primary impediment to compounding assets and creating wealth.

As we enter 2002, we remain confident, though not complacent, about the positioning of our portfolios. The market's volatility and the opportunities created by it have caused two noteworthy outcomes in our funds. The Oakmark Fund has always focused on large companies. During the last several years, however, many large companies actually had mid-cap valuations (and did very well). Now, because of price declines, many large cap stocks meet our strict buy criteria. As you examine The Oakmark Fund portfolio, you will see it is both large company *and* large cap.

You should also note that in markets worldwide, the premium for higher quality, higher growth, non-tech stocks is historically depressed. This means more of our new buys have been better businesses than some of the stocks that have been sold after reaching our sell targets. This portfolio positioning is a significant reason why we are collectively confident entering 2002.



Although we are pleased with our performance in a difficult investing year, we do not live or work in a vacuum. Our thoughts and support are with those directly involved in the war effort and others struggling in a difficult economic environment. We hope that in 2002 we return to a more peaceful and prosperous world.

Thank you for your continued support.

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

January 7, 2002

# THE OAKMARK FAMILY OF FUNDS

## Summary Information

<i>Performance for Period Ended December 31, 2001<sup>1</sup></i>	<b>The Oakmark Fund</b>	<b>The Oakmark Select Fund</b>	<b>The Oakmark Small Cap Fund</b>
3 Months*	10.82%	8.30%	18.67%
6 Months*	0.84%	4.17%	0.82%
1 Year	18.29%	26.06%	26.30%
<i>Average Annual Total Return for:</i>			
3 Year	5.78%	21.98%	6.67%
5 Year	10.24%	26.73%	8.17%
Since Inception	19.95%	29.04%	13.11%
<i>Value of \$10,000 from inception date</i>	\$66,479 (8/5/91)	\$37,359 (11/1/96)	\$21,391 (11/1/95)
<b><i>Top Five Holdings as of December 31, 2001<sup>2</sup></i></b>	Washington Mutual, Inc. 3.7% AT&T Corp. 2.9% H&R Block, Inc. 2.5% The Kroger Co. 2.4% U.S. Bancorp 2.3%	Washington Mutual, Inc. 15.5% H&R Block, Inc. 7.6% Toys 'Я' Us, Inc. 5.7% Electronic Data Systems Corporation 4.8% AT&T Corp. 4.7%	ITT Educational Services, Inc. 4.5% The PMI Group, Inc. 4.1% Catellus Development Corporation 4.0% Ralcop Holdings, Inc. 4.0% Mentor Graphics Corporation 3.7%
<i>Company and % of Total Net Assets</i>			
<b><i>Top Five Industries as of December 31, 2001</i></b>	Retail 14.5% Other Consumer Goods & Services 7.6% Banks & Thrifts 6.0% Computer Services 5.6% Oil & Natural Gas 5.5%	Retail 18.2% Banks & Thrifts 15.5% Other Consumer Goods & Services 11.3% Information Services 9.2% Computer Services 8.8%	Computer Software 8.1% Banks & Thrifts 7.6% Food & Beverage 6.8% Medical Products 6.0% Real Estate 5.8%
<i>Industries and % of Total Net Assets</i>			

\* Not annualized

The Oakmark Equity and Income Fund		The Oakmark Global Fund		The Oakmark International Fund		The Oakmark International Small Cap Fund	
7.93%		25.37%		17.24%		19.19%	
4.87%		4.44%		-5.50%		5.66%	
18.01%		20.05%		-5.13%		12.98%	
15.13%		N/A		14.17%		16.54%	
16.77%		N/A		7.42%		6.72%	
16.48%		14.50% <sup>3</sup>		11.69%		8.63%	
\$25,635 (11/1/95)		\$13,880 (8/4/99)		\$27,819 (9/30/92)		\$16,671 (11/1/95)	
Watson Pharmaceuticals, Inc.	3.0%	Novell, Inc.	5.7%	Metso Corporation	3.8%	Pacific Dunlop Limited	4.2%
IMS Health Incorporated	3.0%	Synopsys, Inc.	5.4%	Hunter Douglas N.V.	3.7%	Copenhagen Airports A/S	3.4%
Cooper Industries, Inc.	2.9%	Michael Page International plc	4.8%	Lotte Chilsung Beverage Co., Ltd.	3.7%	Ducati Motor Holding S.p.A.	3.3%
Rockwell Collins	2.9%	ITT Educational Services, Inc.	4.4%	Banca Popolare di Verona	3.5%	United Services Group NV	3.0%
Plum Creek Timber Co., Inc.	2.7%	Ducati Motor Holding S.p.A.	4.1%	Enodis plc	3.1%	Lectra	2.8%
U.S. Government Notes	28.4%	Computer Software	11.2%	Banks & Thrifts	12.2%	Food & Beverage Diversified	11.0%
Retail	7.8%	Retail	8.2%	Food & Beverage	9.1%	Diversified Conglomerates	9.1%
Oil & Natural Gas	7.2%	Banks & Thrifts	8.0%	Other Industrial Goods & Services	8.5%	Publishing	7.4%
Insurance	5.4%	Food & Beverage	7.4%	Publishing	7.8%	Retail	6.7%
Computer Software	5.2%	Information Services	7.0%	Chemicals	5.3%	Human Resources	5.7%

## THE OAKMARK AND OAKMARK SELECT FUNDS

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This report introduces a new, and we believe, improved format. In previous reports for The Oakmark Fund and The Oakmark Select Fund, each report has been a mixture of topical commentary and portfolio update. Starting this quarter, there will be a topical report from Bill Nygren that covers both funds, followed by a portfolio update for each of the funds. We hope this reduces the duplication between the two reports and enhances the reports' usefulness in explaining how we approach investing.

### The Perils Of Performance Chasing



In 1999, the ten top performing equity mutual funds had increases that ranged from 224% to 494%. (Unfortunately none of our funds were on that list!) Investors who divided their assets equally across those ten funds at the beginning of 2000 would have seen their assets grow by 45% over the ensuing ten weeks. Pretty exciting! Unfortunately for

those investors, as more time passed, the results worsened. At year-end 2001 the two-year loss on that package of funds was 71%. This confirms the fine print in mutual funds ads, "Past performance is no guarantee of future results."

We have always discouraged such performance chasing. Despite the fact that many of our funds have performed near the top of their peer groups both this year and last year, we still say it is a mistake to buy a mutual fund (even ours) solely because of its performance record, especially a short-term record. Instead, we believe investors should understand how a manager decides which stocks to own.

When Yogi Berra said, "If you don't know where you're going, you might not get there" he could have been referring to the difficulty of achieving investment goals without having a solid investment philosophy. Across The Oakmark Family we strive to maximize long-term after-tax returns by being value investors. Our focus is not on trying to buy the *best companies* but rather on taking advantage of the *best opportunities*. In the 1940 investment classic, *Where Are the Customers' Yachts?*, Fred Schwed highlighted this distinction: "Those classes of investments considered "best" change from period to period. The pathetic fallacy is that what are thought to be the best are in truth only the most popular—the most active, the most talked of, the most boosted, and consequently, the highest in price at that time". In our search for the most undervalued stocks, by definition, you will rarely see us owning the popular stocks.

### Highlights

- Value investors differ from each other on how they define intrinsic value: many define the "cheapest" stocks as those that sell at the lowest multiples. Our definition is those that are selling at the largest discount to their fair value.
- For the past two years, low P/E stocks substantially outperformed the market. Now, we believe that the most undervalued stocks are the above-average growers that are selling at below-average prices.
- Many technology stocks are down much more than the stocks we've purchased recently. However, based on estimated business values, most are still expensive. Even after large price declines, we believe the best values today are in growing companies outside the tech sector.

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. We try to anticipate how a company will change over the next three to five years whereas the pundits seem preoccupied with the next three to five months, even weeks.

### Value Investors Are Not All Alike

All value investors buy stocks below their estimates of intrinsic value. One way value investors differ from each other is in how they define intrinsic value. Many value investors use a single summary statistic, such as a P/E<sup>4</sup> ratio, and use it across all companies as their approximation of intrinsic value. At Oakmark, when we talk about intrinsic value, we mean the highest price an all cash buyer could pay to own the entire business and still earn a reasonable return on the investment. For many companies we find a traditional value measure like P/E ratio provides a good estimate of value. But for companies that have large non-cash charges (like

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depreciation or goodwill amortization) or discretionary growth spending that is accounted for as an expense (like R&D or advertising), a P/E ratio may substantially understate value. So our approach is to identify, industry by industry, the “rules of thumb” that acquirors use when making acquisitions. We then use those rules of thumb as yardsticks to measure the value of companies we research. This means we sometimes own stocks that other value managers do not. Stocks that we own like Chiron with its large R&D spending or AT&T with its large depreciation expense look expensive on a P/E basis, despite their ability to generate large amounts of discretionary cash flow.

In deriving our value estimates, we quickly notice that companies that are growing more rapidly tend to have higher intrinsic values than companies that grow slowly. By setting higher value estimates on higher quality, faster growing companies, our approach again differs from other value investors. Many value investors define the “cheapest” stocks as those that sell at the lowest multiples. Our definition of “cheapest” is those stocks selling at the largest discount to their fair value. In our world a stock that sells at fifteen times earnings and is worth twenty five times earnings is a “cheaper” stock than one selling at ten times earnings that is only worth fifteen times.

That last point is especially timely. For the last two years, low P/E stocks substantially outperformed the market, and we feel the most undervalued stocks are now the above-average growers that are selling at below-average prices. We are willing to pay higher multiples today than we did two years ago because we believe we are buying better businesses. This can be confusing to those who classify mutual funds. Fund ratings services now say some of our funds (including The Oakmark Select Fund) have changed their approach and are no longer “value funds” but rather a mixture of growth and value.

Monitoring such style-box changes can be very important for investors. Many funds that have no true investment philosophy look in the rear-view-mirror, see what approach was working, and shift their approach to that style. Changing from one hot style to another rarely works. Our investors should understand that we have not changed; the market has. After a two-year bear market in large-cap growth stocks, the premiums for both size and growth have declined. After those premiums declined, large, growing businesses generally appeared to us to be more reasonably valued. In the case of our

purchases, prices fell to levels we considered to be significantly undervalued. Since we buy only stocks we think are undervalued, rather than following the crowd towards the stocks that have been performing well, our shifts tend to be in the opposite direction towards stocks that have performed poorly.

Lastly, we are not simply buying stocks because they are down; we buy stocks we believe are selling at less than 60% of what they are worth. Many technology stocks are down much more than the stocks we purchased. However, based on our estimated business values, most technology stocks are still expensive. Many in the financial media seem to be obsessed with identifying beaten-up technology stocks as “values”. I have had numerous interviews with reporters who called looking for quotes about tech bargains. I always explain that we believe the best values today are in growing companies outside of the technology sector. Rather than including that viewpoint in their story, they politely say, “maybe we can use you next time!” To these reporters, it defies common sense that stocks that have declined 80% or more are not yet “values”. That is a testament to how powerful and unprecedented the technology mania was. Even after such large price declines, most of these stocks are still not cheap. Paraphrasing Fred Schwed, we believe technology stocks are still the most popular, and unfortunately, are therefore still the most over-valued.

So, as we enter 2002 both portfolios own relatively little in the technology sector. What we do own is portfolios of stocks that we expect on average will grow earnings more rapidly than the S&P 500<sup>5</sup> does, yet our P/E ratio is below the market P/E. That is why we expect both funds to continue to produce excellent long-term returns.



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

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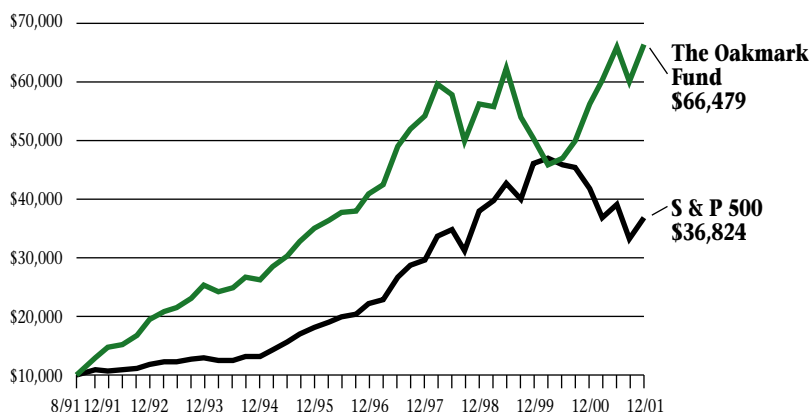
January 7, 2002

# 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 (12/31/01) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX<sup>5</sup>



### Average Annual Total Returns<sup>1</sup> (as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	10-year	Since Inception (8/5/91)
<b>Oakmark Fund</b>	<b>10.82%</b>	<b>18.29%</b>	<b>10.24%</b>	<b>17.69%</b>	<b>19.95%</b>
S&P 500	10.69%	-11.89%	10.69%	12.93%	13.34%
Dow Jones Average <sup>6</sup>	13.80%	-5.48%	11.07%	14.68%	14.72%
Lipper Large Cap Value Index <sup>7</sup>	8.72%	-8.58%	9.42%	12.04%	12.57%

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 increased in value by 11% last quarter bringing the calendar year increase to 18%. Most stocks increased during the quarter, but the biggest gainers were in the technology sector. We judge that sector to be significantly overvalued and therefore have almost none of the portfolio invested in it. The four new stocks added to the portfolio last quarter continue the theme of large, growing, high-quality, non-technology companies. In addition to the two described below, explanations of General Mills and Illinois Tool Works are available on our website ([www.oakmark.com](http://www.oakmark.com)).

#### McDonalds (MCD—\$26)

McDonalds is the largest fast food chain in the world. Mad cow disease and currency translation costs combined to give McDonalds a very unusual down earnings year. The stock has fallen almost 50% from its 1999 high of \$50 and now sells at just seventeen times projected earnings. We expect declining concern about mad cow, decreasing currency losses and capital deployment shifting from building new restaurants to repurchasing more shares. These changes should lead to a resumption of strong earnings-per-share growth.

#### Merck (MRK—\$59)

Merck is one of the largest pharmaceutical companies in the world. Merck stock has been weak this year as upcoming patent expirations led management to project flat earnings for 2002. Merck has fallen from \$97 last year to \$59, and now trades at a discount to the market P/E<sup>4</sup> (nineteen times on 2002 projections) for the first time since Hillary Clinton tried to reform the healthcare system. We believe Merck is well managed, has a great R&D pipeline and will resume double-digit annual earnings growth in 2003.

Most of our investments are in above average businesses currently selling at below average prices. Therefore, our outlook remains very positive. Thank you for your support.

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

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

January 7, 2002

# THE OAKMARK FUND

## Schedule of Investments—December 31, 2001

Name	Shares Held	Market Value
<b>Common Stocks—90.2%</b>		
<b>Food &amp; Beverage—5.4%</b>		
H.J. Heinz Company	1,910,000	\$ 78,539,200
Kraft Foods Inc.	1,945,000	66,188,350
General Mills, Inc.	1,005,000	52,270,050
		<u>196,997,600</u>
<b>Retail—14.5%</b>		
The Kroger Co. (a)	4,210,000	\$ 87,862,700
J.C. Penney Company, Inc.	2,886,700	77,652,230
The Gap, Inc.	4,755,000	66,284,700
Toys 'R' Us, Inc. (a)	3,125,000	64,812,500
CVS Corporation	2,105,000	62,308,000
Tricon Global Restaurants, Inc. (a)	1,200,000	59,040,000
McDonald's Corporation	2,200,000	58,234,000
Safeway Inc. (a)	1,227,000	51,227,250
		<u>527,421,380</u>
<b>Household Products—3.3%</b>		
Newell Rubbermaid Inc.	2,275,000	\$ 62,721,750
The Clorox Company	1,440,200	56,959,910
		<u>119,681,660</u>
<b>Office Equipment—1.9%</b>		
Xerox Corporation	6,663,500	\$ 69,433,670
<b>Hardware—1.8%</b>		
The Black & Decker Corporation	1,722,200	\$ 64,978,606
<b>Other Consumer Goods &amp; Services—7.6%</b>		
H&R Block, Inc.	2,053,300	\$ 91,782,510
Fortune Brands, Inc.	1,745,600	69,108,304
Mattel, Inc.	3,930,000	67,596,000
Cendant Corporation (a)	2,395,100	46,967,911
		<u>275,454,725</u>
<b>Bank &amp; Thrifts—6.0%</b>		
Washington Mutual, Inc.	4,137,300	\$ 135,289,710
U.S. Bancorp	4,000,000	83,720,000
		<u>219,009,710</u>
<b>Insurance—1.9%</b>		
MGIC Investment Corporation	1,137,900	\$ 70,231,188
<b>Other Financial—2.2%</b>		
Fannie Mae	870,000	\$ 69,165,000
American Express Company	300,000	10,707,000
		<u>79,872,000</u>
<b>Hotels &amp; Motels—1.0%</b>		
Starwood Hotels & Resorts Worldwide, Inc.	1,235,000	\$ 36,864,750
<b>Marketing Services—1.8%</b>		
The Interpublic Group of Companies, Inc.	2,200,000	\$ 64,988,000

# THE OAKMARK FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held	Market Value
<b>Common Stocks—90.2% (cont.)</b>		
<b>Computer Services—5.6%</b>		
Electronic Data Systems Corporation	1,114,500	\$ 76,398,975
SunGard Data Systems Inc. (a)	2,231,600	64,560,188
First Data Corporation	790,000	61,975,500
		<u>202,934,663</u>
<b>Telecommunications—4.6%</b>		
AT&T Corp.	5,735,000	\$ 104,032,900
Sprint Corporation	3,206,000	64,376,480
		<u>168,409,380</u>
<b>Telecommunications Equipment—3.7%</b>		
General Motors Corporation, Class H (Hughes Electronics Corporation) (a)	4,600,000	\$ 71,070,000
Motorola, Inc.	4,200,000	63,084,000
		<u>134,154,000</u>
<b>TV Programming—2.0%</b>		
Liberty Media Corporation, Class A (a)	5,100,000	\$ 71,400,000
<b>Publishing—3.4%</b>		
Knight-Ridder, Inc.	966,000	\$ 62,722,380
Gannett Co., Inc.	909,500	61,145,685
		<u>123,868,065</u>
<b>Pharmaceuticals—3.4%</b>		
Merck & Co., Inc.	1,300,000	\$ 76,440,000
Chiron Corporation (a)	1,079,000	47,303,360
		<u>123,743,360</u>
<b>Medical Products—1.8%</b>		
Guidant Corporation (a)	1,280,500	\$ 63,768,900
<b>Automobiles—1.5%</b>		
Ford Motor Company	3,575,000	\$ 56,199,000
<b>Aerospace &amp; Defense—2.6%</b>		
Honeywell International Inc.	1,550,000	\$ 52,421,000
Rockwell Collins	2,156,100	42,043,950
		<u>94,464,950</u>
<b>Waste Disposal—1.7%</b>		
Waste Management, Inc.	1,985,300	\$ 63,350,923
<b>Building Materials &amp; Construction—1.8%</b>		
Masco Corporation	2,633,000	\$ 64,508,500
<b>Utilities—2.3%</b>		
TXU Corp.	1,765,000	\$ 83,219,750
<b>Oil &amp; Natural Gas—5.5%</b>		
Conoco Inc.	2,550,000	\$ 72,165,000
Phillips Petroleum Company	1,192,700	71,872,102
Burlington Resources Inc.	1,550,500	58,205,770
		<u>202,242,872</u>

# THE OAKMARK FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held/ Par Value	Market Value
<b>Common Stocks—90.2% (cont.)</b>		
<b>Other Industrial Goods &amp; Services—0.7%</b>		
Illinois Tool Works Inc.	400,000	\$ 27,088,000
<b>Recreation &amp; Entertainment—2.2%</b>		
Carnival Corporation	1,500,000	\$ 42,120,000
Brunswick Corporation	1,826,700	39,748,992
		81,868,992
<b>Total Common Stocks (Cost: \$2,805,314,700)</b>		<b>3,286,154,644</b>
<b>Short Term Investments—10.1%</b>		
<b>U.S. Government Bills—1.6%</b>		
United States Treasury Bills, 1.86% - 3.46% due 1/31/2002 - 3/21/2002	\$60,000,000	\$ 59,824,707
<b>Total U.S. Government Bills (Cost: \$59,811,561)</b>		<b>59,824,707</b>
<b>Commercial Paper—5.8%</b>		
Citicorp, 1.78% - 1.92% due 1/4/2002 - 1/14/2002	\$80,000,000	\$ 80,000,000
American Express Credit Corporation, 1.76% - 1.85% due 1/3/2002 - 1/17/2002	40,000,000	40,000,000
General Electric Capital Corporation, 1.75% - 1.87% due 1/2/2002 - 1/11/2002	90,000,000	90,000,000
<b>Total Commercial Paper (Cost: \$210,000,000)</b>		<b>210,000,000</b>
<b>Repurchase Agreements—2.7%</b>		
State Street Repurchase Agreement, 1.57% due 1/2/2002	\$98,061,000	98,061,000
<b>Total Repurchase Agreements (Cost: \$98,061,000)</b>		<b>98,061,000</b>
<b>Total Short Term Investments (Cost: \$367,872,561)</b>		<b>367,885,707</b>
Total Investments (Cost \$3,173,187,261)—100.3%		\$ 3,654,040,351
Other Liabilities In Excess Of Other Assets—(0.3)%		(9,717,040)
<b>Total Net Assets—100%</b>		<b><u>\$3,644,323,311</u></b>

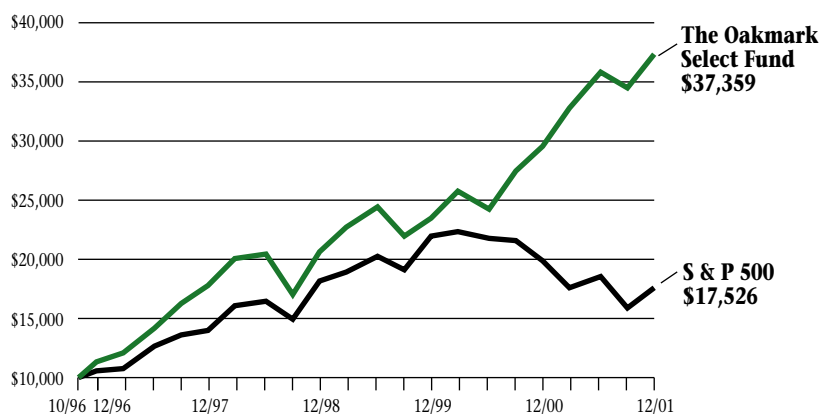
(a) Non-income producing security.

# THE OAKMARK SELECT FUND

Report from Bill Nygren and Henry Berghoef, Portfolio Managers



## THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SELECT FUND FROM ITS INCEPTION (11/1/96) TO PRESENT (12/31/01) AS COMPARED TO THE STANDARD & POOR'S 500 INDEX<sup>5</sup>



### Average Annual Total Returns<sup>1</sup>

(as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/96)
<b>Oakmark Select Fund</b>	<b>8.30%</b>	<b>26.06%</b>	<b>26.73%</b>	<b>29.04%</b>
S&P 500	10.69%	-11.89%	10.69%	11.46%
S&P MidCap 400 <sup>8</sup>	17.99%	-0.60%	16.11%	16.80%
Lipper Mid Cap Value Index <sup>9</sup>	14.62%	6.73%	9.75%	10.65%

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

\* Not annualized

The Oakmark Select Fund increased in value by 8% for the quarter bringing the calendar year gain to 26%. In addition to this strong absolute performance, the increase is especially rewarding given the decline the market experienced for the year. Since the September 21 low, the fund has increased by 14%. The market, because of its much heavier weighting in the technology sector, increased more than we did. We do not believe this short period of under-performance reflects weaker fundamentals in the businesses we own. In fact, we are very pleased with both the absolute and relative performance of our businesses. Therefore, we believe we enter 2002 with a portfolio that is even more undervalued relative to the market.

The portfolio has two new positions this quarter. Xerox (XRX—\$10) is a well-known business that we believe is further along in its turnaround than is generally appreciated. The other, IMS International (RX—\$19), is more typical of the values we are now seeing in the high quality, non-technology businesses. IMS is the leading supplier of market data to the pharmaceutical industry. In some ways, IMS can be viewed as a royalty on the drug industry—one of the fastest, most consistent growing of all industries. Last year was tough for the drug industry because of the FDA's low approval rate for new drugs. Most industry analysts expect new product growth to be very strong for several years beginning in late 2002. In addition to industry issues, IMS also cleaned up some aggressive accounting practices put in place by prior management. For these reasons, the stock fell from its 2001 high of \$31. Now selling at a below average P/E<sup>4</sup> multiple, we believe IMS is significantly undervalued.

Thank you for your support.

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

January 7, 2002

# THE OAKMARK SELECT FUND

## Schedule of Investments—December 31, 2001

Name	Shares Held	Market Value
<b>Common Stocks—91.0%</b>		
<b>Apparel—0.5%</b>		
Liz Claiborne, Inc.	515,900	\$ 25,666,025
<b>Retail—18.2%</b>		
Toys 'Я' Us, Inc. (a)	12,798,500	\$ 265,440,890
Office Depot, Inc. (a)	10,946,000	202,938,840
Tricon Global Restaurants, Inc. (a)	4,015,400	197,557,680
The Kroger Co. (a)	9,004,000	<u>187,913,480</u>
		853,850,890
<b>Household Products—2.4%</b>		
Energizer Holdings, Inc. (a)	5,947,300	\$ 113,296,065
<b>Office Equipment—2.5%</b>		
Xerox Corporation	11,408,000	\$ 118,871,360
<b>Other Consumer Goods &amp; Services—11.3%</b>		
H&R Block, Inc.	7,938,800	\$ 354,864,360
Mattel, Inc.	10,098,000	<u>173,685,600</u>
		528,549,960
<b>Bank &amp; Thrifts—15.5%</b>		
Washington Mutual, Inc.	22,205,200	\$ 726,110,040
<b>Information Services—9.2%</b>		
The Dun & Bradstreet Corporation (a)	4,984,900	\$ 175,966,970
Moody's Corporation	4,170,700	166,244,102
Ceridian Corporation (a)	4,720,000	<u>88,500,000</u>
		430,711,072
<b>Computer Services—8.8%</b>		
Electronic Data Systems Corporation	3,250,900	\$ 222,849,195
First Data Corporation	2,415,200	<u>189,472,440</u>
		412,321,635
<b>Computer Systems—0.5%</b>		
The Reynolds and Reynolds Company, Class A	900,000	\$ 21,825,000
<b>Telecommunications—8.2%</b>		
AT&T Corp.	12,133,000	\$ 220,092,620
Sprint Corporation	8,065,000	<u>161,945,200</u>
		382,037,820
<b>Publishing—3.6%</b>		
Knight-Ridder, Inc.	2,606,500	\$ 169,240,045

# THE OAKMARK SELECT FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held/ Par Value	Market Value
<b>Common Stocks—91.0% (cont.)</b>		
<b>Pharmaceuticals—3.8%</b>		
Chiron Corporation (a)	4,027,400	\$ 176,561,216
<b>Health Care Services—2.7%</b>		
IMS Health Incorporated	6,500,000	\$ 126,815,000
<b>Oil &amp; Natural Gas—3.8%</b>		
Burlington Resources Inc.	4,734,500	\$ 177,733,130
<b>Total Common Stocks (Cost: \$3,233,427,132)</b>		<b>4,263,589,258</b>
<b>Short Term Investments—8.3%</b>		
<b>U.S. Government Bills—1.3%</b>		
United States Treasury Bills, 1.69% - 3.35% due 1/24/2002 - 3/14/2002	\$ 60,000,000	\$ 59,843,874
<b>Total U.S. Government Bills (Cost: \$59,830,161)</b>		<b>59,843,874</b>
<b>Commercial Paper—4.1%</b>		
Citicorp, 1.87% - 1.92% due 1/4/2002 - 1/8/2002	\$ 60,000,000	\$ 60,000,000
American Express Credit Corporation, 1.72% - 1.76% due 1/2/2002 - 1/14/2002	40,000,000	40,000,000
General Electric Capital Corporation, 1.70% - 1.78% due 1/2/2002 - 1/11/2002	90,000,000	<u>90,000,000</u>
<b>Total Commercial Paper (Cost: \$190,000,000)</b>		<b>190,000,000</b>
<b>Repurchase Agreements—2.9%</b>		
State Street Repurchase Agreement, 1.57% due 1/2/2002	\$137,395,000	\$ 137,395,000
<b>Total Repurchase Agreements (Cost: \$137,395,000)</b>		<b>137,395,000</b>
<b>Total Short Term Investments (Cost: \$387,225,161)</b>		<b>387,238,874</b>
Total Investments (Cost \$3,620,652,293)—99.3%		\$ 4,650,828,132
Other Assets In Excess Of Other Liabilities—0.7%		<u>33,175,327</u>
<b>Total Net Assets—100%</b>		<b><u>\$4,684,003,459</u></b>

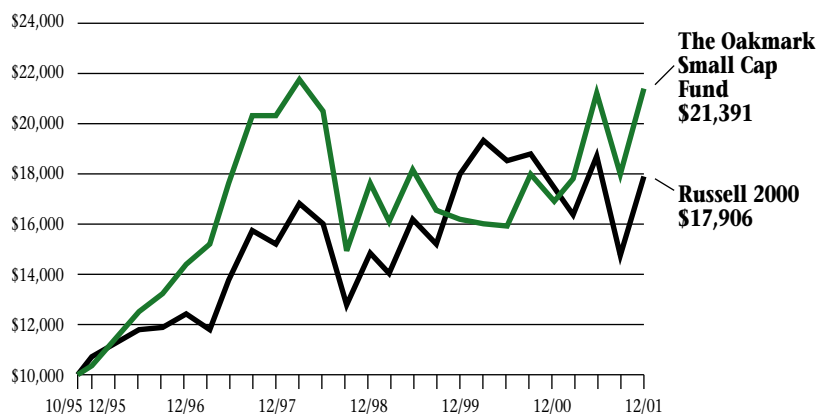
(a) Non-income producing security.

# THE OAKMARK SMALL CAP FUND

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



## THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/01) AS COMPARED TO THE RUSSELL 2000 INDEX<sup>10</sup>



### Average Annual Total Returns<sup>1</sup> (as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
<b>Oakmark Small Cap Fund</b>	<b>18.67%</b>	<b>26.30%</b>	<b>8.17%</b>	<b>13.11%</b>
Russell 2000	21.09%	2.49%	7.52%	9.90%
S&P Small Cap 600 <sup>11</sup>	20.69%	6.54%	10.65%	13.01%
Lipper Small Cap Value Index <sup>12</sup>	18.55%	17.20%	10.74%	12.69%

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 fourth calendar quarter of 2001 resulted in a snapback for the stock market as September's extreme skittishness gave way to hope for the future. Signs that the rate of economic deterioration was slowing, coupled with positive political developments, gave investors the confidence to put additional funds into equities. The Russell 2000 Small Cap Index rose 21% for the just-ended quarter and on a calendar year basis this index of small company stocks managed to rise by 2%. We are pleased to report that The Oakmark Small Cap Fund recorded a 19% gain in the most recent quarter and we finished 2001 with a gain of 26%. Your Fund outperformed the Russell 2000 by 24% for the calendar year ending December 31, 2001. While 2001 was a good year for your Fund, we are encouraged that our analysts continue to uncover fundamentally undervalued small cap stocks and we remain optimistic that 2002 will be a positive year.

### Financial Strength Remains a Key Focus

While we are probably beginning to sound like a broken record given our last few quarterly letters, we continue to focus our investments on those companies with strong balance sheets and good business models. In the second half of 2000 we began to concentrate our portfolio into what we believe are financially robust companies. This helped us minimize negative investment outcomes during 2001 and allowed the winners in the portfolio to shine through. Our goal is to not only own companies that are well-positioned to benefit when economic growth resumes, but also to own those firms that can handle a period of economic contraction. We continue to find many financially strong companies whose

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stock prices, we believe, trade in line with more financially leveraged companies and we have generally positioned your Fund's investments in those companies with the stronger balance sheets. Until the relative valuations change, we expect to continually favor financially solid firms for our new purchases in your Fund.

### Stock Selection Remains Crucial

Over the past few months many people have asked us, "How can your Fund be up so much in a down market?" Well, the answer is rather boring—it always boils down to individual stock selection. Our investment philosophy is based upon having an outstanding group of analysts who devote their talents to identifying attractive stocks for your Fund to purchase. When analyzing companies, we adhere to a disciplined process in estimating private market values for the companies in which we invest (typically using a net present value approach to expected future cash flows generated by the company) and only buying stocks when they trade at a substantial discount to this estimate. This approach helps reduce the chances of overpaying for a stock. Additionally, this methodology creates a sell discipline, as we typically sell stocks when they approach 100% of our estimate of private market value.

The Fund's portfolio declined by a net of one position to stand at forty-nine stocks at the end of the fourth quarter. We added two new stocks and sold three stocks. We sold Gardner Denver Incorporated and Symantec Corporation after these stocks appreciated to our sell targets and we sold Ugly Duckling Corporation due to liquidity concerns.

#### Highlights

- Despite a strong 4th quarter, our analysts continue to uncover fundamentally undervalued small cap stocks selling at compelling valuations. Therefore, we remain optimistic about 2002 and believe that the rebound in small cap value stocks that began well over a year ago will likely persist for the foreseeable future.
- The concentration of our portfolio into companies that we believe are financially robust—which we began to focus on in the 2nd half of 2000—helped us minimize negative investment outcomes during 2001, and allowed winners in the portfolio to shine through.
- We now own forty-nine stocks in the portfolio. Recent 4th quarter purchases include EFunds Corp and Tupperware Corporation.

We initiated positions in EFunds Corporation and Tupperware Corporation.

Our two new purchases are companies with well above average businesses that we believe have bright futures. EFunds Corp. is a company that fits well within our investment criteria. EFunds is a rapidly growing provider of debit card processing and automated teller machine outsourcing with expanding cash flows and a debt-free balance sheet. Late in the fourth quarter of 2001, EFunds announced that business had slowed vis-a-vis their earlier expectations and their stock fell sharply. We took advantage of this price decline and bought shares at a significant discount to our estimate of EFunds private market value. We view the slowdown in their business to be a temporary condition brought on principally by the sluggish economy and not the result of serious company specific problems. Additionally, with strong positive cash flow and a debt-free balance sheet with approximately \$40 million in cash, we believe EFunds is in excellent position to grow when the economy recovers. We believe this new investment in a financially strong company should aid your Fund's performance in future periods.

### Expanding Channels of Distribution

Tupperware Corporation is a company with a well-known brand we believe investors have largely forgotten about given the perception that the company utilizes outdated channels of distribution. Tupperware representatives still have home parties, but in recent years the company's distribution channels have been expanded to include kiosks in shopping malls, displays in Target Stores and Kroger Supermarkets and a pretty impressive web site. Additionally, since approximately 80% of Tupperware's sales occur outside the United States, the strength of the U.S. dollar in recent years has had a dampening impact on Tupperware's growth when the non-U.S. results are translated into dollars.

Tupperware's core business of designing, manufacturing and selling distinctive and innovative housewares with high gross margins has been maintained over the years. We believe the firm's expanding channels of distribution give the company a real opportunity to reinvigorate growth over the next several years. While it may take a year or two for the new distribution channels to significantly impact Tupperware's growth rate, we can afford to be patient since we have been buying Tupperware's stock at approximately eleven times earnings. If the new channels result in higher sales and profits for Tupperware, we anticipate investors will eventually place a higher

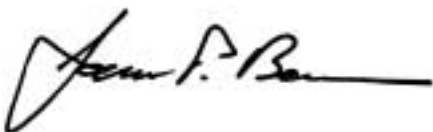
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multiple on Tupperware's earnings that may result in a higher stock price.

### **Our Small Cap Outlook**

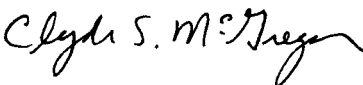
Despite a very strong fourth quarter, numerous small cap stocks continue to sell at very compelling valuations. We can usually find good quality small cap stocks to buy at price-to-cash-flow multiples that are approximately one-third lower than their large cap peers. Therefore, based upon these attractive valuations, we maintain our assessment that the rebound in small cap value stocks that began well over a year ago will likely persist for the foreseeable future.

We would like to sincerely thank our shareholders for your ongoing support of The Oakmark Small Cap Fund.



**James P. Benson, CFA**

Portfolio Manager  
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**Clyde S. McGregor, CFA**

Portfolio Manager  
mcgregor@oakmark.com

January 7, 2002

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—December 31, 2001

Name	Shares Held	Market Value
<b>Common Stocks—91.9%</b>		
<b>Food &amp; Beverage—6.8%</b>		
Ralcorp Holdings, Inc. (a)	579,000	\$ 13,143,300
Del Monte Foods Company (a)	1,100,000	9,361,000
		<u>22,504,300</u>
<b>Apparel—1.7%</b>		
R.G. Barry Corporation (a)	907,000	\$ 5,723,170
<b>Retail—2.7%</b>		
ShopKo Stores, Inc. (a)	936,000	\$ 8,892,000
<b>Household Products—0.2%</b>		
Tupperware Corporation	36,000	\$ 693,000
<b>Office Equipment—2.9%</b>		
InFocus Corporation (a)	357,500	\$ 7,872,150
MCSi, Inc. (a)	75,000	1,758,750
		<u>9,630,900</u>
<b>Other Consumer Goods &amp; Services—4.2%</b>		
Department 56, Inc. (a)	800,000	\$ 6,880,000
Central Parking Corporation	250,000	4,910,000
American Greetings Corporation, Class A	150,000	2,067,000
		<u>13,857,000</u>
<b>Bank &amp; Thrifts—7.6%</b>		
BankAtlantic Bancorp, Inc., Class A	1,023,700	\$ 9,397,566
People's Bank of Bridgeport, Connecticut	325,000	6,909,500
Golden State Bancorp Inc.	190,000	4,968,500
PennFed Financial Services, Inc.	150,000	3,723,000
		<u>24,998,566</u>
<b>Insurance—4.1%</b>		
The PMI Group, Inc.	200,000	\$ 13,402,000
<b>Other Financial—3.1%</b>		
NCO Group, Inc. (a)	450,000	\$ 10,305,000
<b>Hotels &amp; Motels—2.9%</b>		
Prime Hospitality Corp. (a)	860,000	\$ 9,503,000
<b>Educational Services—4.5%</b>		
ITT Educational Services, Inc. (a)	399,800	\$ 14,740,626
<b>Marketing Services—0.2%</b>		
Grey Global Group Inc.	1,000	\$ 666,750
<b>Information Services—0.8%</b>		
eFunds Corporation (a)	199,500	\$ 2,743,125
<b>Data Storage—1.3%</b>		
Imation Corp. (a)	200,000	\$ 4,316,000

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held	Market Value
<b>Common Stocks—91.9% (cont.)</b>		
<b>Computer Services—3.4%</b>		
CIBER, Inc. (a)	960,000	\$ 9,072,000
Interland, Inc. (a)	1,050,000	2,215,500
		<u>11,287,500</u>
<b>Computer Software—8.1%</b>		
Mentor Graphics Corporation (a)	520,000	\$ 12,256,400
MSC.Software Corp. (a)	630,500	9,835,800
SilverStream Software, Inc. (a)	700,000	4,767,000
		<u>26,859,200</u>
<b>Computer Systems—1.1%</b>		
Optimal Robotics Corp., Class A (a)	100,000	\$ 3,545,000
<b>Security Systems—3.7%</b>		
Checkpoint Systems, Inc. (a)	910,000	\$ 12,194,000
<b>Pharmaceuticals—1.6%</b>		
Elan Corporation plc (a)(b)	115,000	\$ 5,181,900
<b>Medical Research—1.1%</b>		
Covance Inc. (a)	155,000	\$ 3,518,500
<b>Medical Products—6.0%</b>		
CONMED Corporation (a)	335,500	\$ 6,696,580
Hanger Orthopedic Group, Inc. (a)	960,000	5,760,000
Sybron Dental Specialties, Inc. (a)	250,000	5,395,000
ORATEC Interventions, Inc. (a)	300,000	1,941,000
		<u>19,792,580</u>
<b>Automotive—0.3%</b>		
Standard Motor Products, Inc.	80,200	\$ 1,114,780
<b>Automobile Rentals—1.5%</b>		
Dollar Thrifty Automotive Group, Inc. (a)	310,000	\$ 4,805,000
<b>Transportation Services—2.9%</b>		
Teekay Shipping Corporation (c)	250,000	\$ 8,712,500
Frontline Limited (c)	75,000	768,750
		<u>9,481,250</u>
<b>Instruments—4.5%</b>		
IDEXX Laboratories, Inc. (a)	388,200	\$ 11,067,582
Measurement Specialties, Inc. (a)	400,000	3,764,000
		<u>14,831,582</u>
<b>Machinery &amp; Industrial Processing—1.6%</b>		
Columbus McKinnon Corporation	525,000	\$ 5,381,250
<b>Chemicals—2.1%</b>		
H.B. Fuller Company	140,000	\$ 4,027,800
Georgia Gulf Corporation	150,000	2,775,000
		<u>6,802,800</u>

# THE OAKMARK SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held/ Par Value/ Shares Subject to Call	Market Value
<b>Common Stocks—91.9% (cont.)</b>		
<b>Oil &amp; Natural Gas—4.6%</b>		
St. Mary Land & Exploration Company	300,000	\$ 6,357,000
Cabot Oil & Gas Corporation, Class A	200,000	4,810,000
Berry Petroleum Company, Class A	250,000	3,925,000
		<u>15,092,000</u>
<b>Other Industrial Goods &amp; Services—0.6%</b>		
Intergrated Electrical Services, Inc. (a)	399,500	\$ 2,045,440
<b>Real Estate—5.8%</b>		
Catellus Development Corporation (a)	725,000	\$ 13,340,000
Trammell Crow Company (a)	500,000	5,850,000
		<u>19,190,000</u>
<b>Total Common Stocks (Cost: \$260,545,331)</b>		<b>303,098,219</b>
<b>Short Term Investments—9.1%</b>		
<b>Commercial Paper—6.1%</b>		
Citicorp, 1.92% due 1/2/2002	\$ 5,000,000	\$ 5,000,000
American Express Credit Corporation, 1.93% due 1/4/2002	5,000,000	5,000,000
General Electric Capital Corporation, 1.75% due 1/2/2002	10,000,000	10,000,000
<b>Total Commercial Paper (Cost: \$20,000,000)</b>		<b>20,000,000</b>
<b>Repurchase Agreements—3.0%</b>		
State Street Repurchase Agreement, 1.57% due 1/2/2002	\$10,009,000	\$ 10,009,000
<b>Total Repurchase Agreements (Cost: \$10,009,000)</b>		<b>10,009,000</b>
<b>Total Short Term Investments (Cost: \$30,009,000)</b>		<b>30,009,000</b>
<b>Total Investments (Cost \$290,554,331)—101.0%</b>		<b>\$ 333,107,219</b>
<b>Call Options Written—0.0%</b>		
<b>Equity Options,—0.0%</b>		
<b>Medical Research—0.0%</b>		
Covance Inc., January 22.50 Calls	(130,000)	(156,000)
<b>Total Equity Options (Premiums Received: \$(140,590))</b>		<b>(156,000)</b>
Total Call Options Written (Premiums Received: \$(140,590))—0.0%		(156,000)
Other Liabilities In Excess Of Other Assets—(1.0)%		<u>(3,136,322)</u>
<b>Total Net Assets—100%</b>		<b><u>\$329,814,897</u></b>

- (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



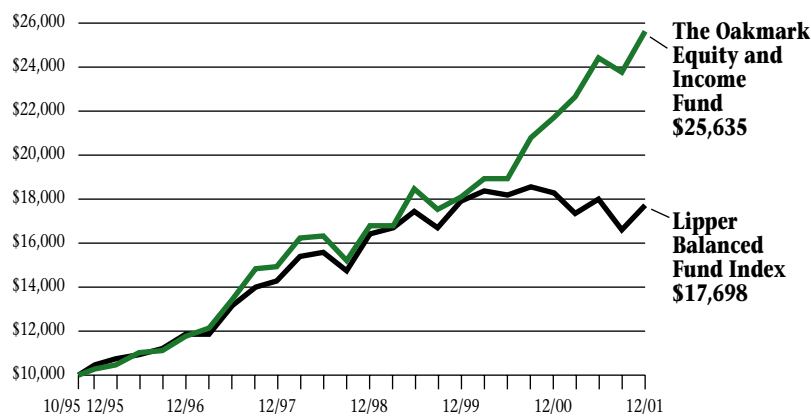
“Optimism is the madness of maintaining that everything is right when it is wrong.” Voltaire

## Our Results

The Oakmark Equity and Income Fund returned 8% for the quarter ended December 31, bringing the calendar-year gain to 18%. For the calendar year, the Fund outperformed both the market averages and our primary benchmark, the Lipper Balanced Fund Index, which lost 3%. We are pleased with both our relative and absolute performance for the year. As always, a primary focus is to avoid sloppiness that is a by-product of complacency. All too often, short-term success leads portfolio managers to start believing their own press clippings, which often tend to conveniently gloss over the hard work and supporting cast responsible for that success. To borrow a phrase, let us say that we do not spend a great deal of time looking in the mirror, other than to comb our hair (or what is left of it).

We continue to be driven by our love of the investment business and our focus on fundamentals in assessing intrinsic business value. A large part of the thrill for us comes from being able to find the better than average business run by quality management that is truly shareholder-oriented AND selling at a large discount to our assessment of intrinsic business value. When we find such an investment, we know that it is another building block toward our goal of compounding your (and our) investment in the Fund by achieving consistent above-average real rates of return over the long-term, while taking considerably less risk than the market as a whole.

## THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK EQUITY AND INCOME FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/01) AS COMPARED TO THE LIPPER BALANCED FUND INDEX<sup>13</sup>



## Average Annual Total Returns<sup>1</sup> (as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
<b>Oakmark Equity and Income Fund</b>	<b>7.93%</b>	<b>18.01%</b>	<b>16.77%</b>	<b>16.48%</b>
S&P 500 <sup>5</sup>	10.69%	-11.89%	10.69%	13.41%
Lehman Govt./ Corp. Bond <sup>14</sup>	0.06%	8.50%	7.36%	6.96%
Lipper Balanced Fund Index	6.48%	-3.24%	8.37%	9.69%

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

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## Expectations—Reasonable and Otherwise

There has been a great deal of blather about last year's plunge in the NASDAQ<sup>15</sup> as well as the general market decline of the last two years. From the perspective of investment returns, they have been two very good years for the shareholders of The Oakmark Equity and Income Fund. One of our thoughts had been that a beneficial result of the bloodbath that sank many speculations (and we use that word deliberately rather than "investments") would be that the average investor would finally see the connection between risk and return. Some years ago, when speculation was running rampant, one of our colleagues received an e-mail from a potential investor. The e-mail stated that the investor did not have unreasonable expectations concerning his potential investment in our funds, as he was only wanting 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. Recently, we received an e-mail from an investor who was concerned that over the first two days of the year, Oakmark Equity and Income was off somewhat when NASDAQ and the S&P 500 were already up several percent. Unfortunately, these are both sides of the same coin from individuals who do not understand what we mean when we say that our focus is on providing "consistent above-average returns over the long-term."

Sooner or later we are going to underperform the broader market, and perhaps even lag our category. Some of that will be a function of regression to the mean in terms of results (we recommend the Ibbotson data concerning long-term stock and bond returns) and some of it will be a function of our selling what other people are buying and buying what is often quite unpopular. Unfortunately, expected returns from investments do not always fall neatly into quarters or years. Sometimes they do not work out at all, but that is why we are running portfolios (and that is a discussion for another letter). As value investors that is what we do and, as evidenced by both the fund's returns and the returns of this firm, it works for us. We are going to continue doing what we have always done which is a three yards and cloud of dust approach to grinding out investment results through an in-depth assessment of potential investments coupled with a decision to commit real dollars to those we select. We invite those of you who are comfortable with that approach to join us as investors.

## Highlights

- For the calendar year 2001, the Fund outperformed the market averages and our primary benchmark, the Lipper Balanced Fund Index.
- Notwithstanding several years of stock market under-performance, mutual fund investors still have unreasonably high expectations for investment returns. Our objective remains to achieve consistent above-average real rates of return over the long-term, while taking considerably less risk than the market as a whole.
- Last year there was a lack of discrimination in the marketplace in the prices being asked for bad businesses versus good business. We took advantage of that opportunity last quarter by initiating investments in CVS Drug Stores, International Game Technologies, and IMS Health Care.

## The Good and the Not So Good and Other *Faux Pas*

Last year we reported we were seeing a lack of discrimination in the market place in the prices being asked for bad businesses versus good businesses. This last quarter we took advantage of that opportunity by initiating investments in CVS Drug Stores (CVS), International Game Technologies (IGT), and IMS Health Inc. (RX). CVS Drug Stores (CVS) is the number one drug store chain in the country in terms of number of stores. An earnings disappointment and the resulting sell-off presented us with an opportunity to invest in what has been a better than average business at a bargain price. International Game Technologies (IGT) is the number one slot machine manufacturer, a business that requires very little in the way of ongoing capital expenditures and throws off lots of cash. Management has been quite astute at deploying that cash, making huge share repurchases since the company went public and also making opportunistic acquisitions. When the market believed after September 11<sup>th</sup> that all travel-related businesses were going to fall off a cliff, we took the opportunity to invest in International Game Technologies (IGT). IMS Health Inc. (RX) is the world's leading provider of information solutions to the pharmaceutical/healthcare industry. Fear that the slowing growth of the pharmaceutical companies would result in reduced prospects for RX caused this low capital expenditure, high free cash flow company to be ejected from

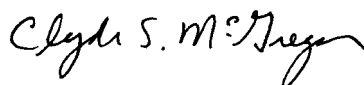
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growth portfolios and sell at what we consider to be a bargain price. CVS and International Game Technologies were two of our strongest performers in the quarter.

Two of our sub-par performers in the quarter were Cooper Industries (CBE) and Watson Pharmaceuticals (WPI). Cooper is a well-run industrial company that received an unsolicited take-over offer from Danaher, which it subsequently rejected. Cooper management indicated they were pursuing other options to unlock shareholder value when the company got hit with the “taint” of asbestos. Management has still indicated it is staying the course with regard to pursuing a capital reallocation strategy. The other sub-par performer was Watson Pharmaceuticals (WPI), a company with both branded and generic products. After missing its numbers in November, the company announced it would be restructuring its generic business to focus more on its branded portfolio. Our initial mistake was in over-valuing the generic portion of WPI’s business, given the impact of low barriers to entry from competition AND the pricing caps imposed by managed care companies. Neither of these factors are unique to Watson but will impact all generic drug businesses. That said, the distressed price to which the stock fell ignored the still ongoing profitability of WPI’s branded business as well as an attractive research pipeline and manufacturing assets. We used the opportunity to almost double our position (which has since appreciated), and at some point will sell our high-cost stock to reap the tax benefits for our shareholders.

Once again we affirm our commitment to seeking out investments with a considerable margin of safety supported by a valuation gap. As this letter is being written, a great deal of intellectual capital is being expended on the

question of whether the economy will emerge from recession sooner or later. Recognizing that we have no particular skill-set or insights to bring to that debate, we continue to prefer to expend our time, a truly non-renewable resource, on searching out real businesses run by real people selling in the marketplace at a discount to their real intrinsic value. Looking at a lot of different businesses, learning to assess the often subtle differences between the very good and very mediocre, especially as they play out over the long-term, will always be the best use of our time. 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.



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January 7, 2002

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—December 31, 2001

Name	Shares Held	Market Value
<b>Equity and Equivalents—62.5%</b>		
<b>Food &amp; Beverage—2.6%</b>		
UST Inc.	800,000	\$ 28,000,000
<b>Retail—7.2%</b>		
CVS Corporation	1,000,000	\$ 29,600,000
Safeway Inc. (a)	525,000	21,918,750
Office Depot, Inc. (a)	980,000	18,169,200
J.C. Penney Company, Inc.	350,000	<u>9,415,000</u>
		79,102,950
<b>Household Products—0.1%</b>		
Energizer Holdings, Inc. (a)	80,000	\$ 1,524,000
<b>Bank &amp; Thrifts—0.5%</b>		
U.S. Bancorp	280,703	\$ 5,875,114
<b>Insurance—5.4%</b>		
SAFECO Corporation	955,000	\$ 29,748,250
PartnerRe Ltd. (b)	545,600	<u>29,462,400</u>
		59,210,650
<b>Other Financial—1.7%</b>		
GATX Corporation	576,900	\$ 18,760,788
<b>Marketing Services—1.3%</b>		
The Interpublic Group of Companies, Inc.	500,000	\$ 14,770,000
<b>Information Services—1.2%</b>		
Ceridian Corporation (a)	705,000	\$ 13,218,750
<b>Computer Software—5.2%</b>		
Synopsys, Inc. (a)	500,000	\$ 29,535,000
Novell, Inc. (a)	6,000,000	<u>27,540,000</u>
		57,075,000
<b>Computer Systems—1.1%</b>		
The Reynolds and Reynolds Company, Class A	514,000	\$ 12,464,500
<b>Telecommunications—3.6%</b>		
CenturyTel, Inc.	725,000	\$ 23,780,000
Citizens Communications Company (a)	1,452,500	<u>15,483,650</u>
		39,263,650
<b>Printing—0.9%</b>		
Valassis Communications, Inc. (a)	289,400	\$ 10,308,428
<b>Pharmaceuticals—4.2%</b>		
Watson Pharmaceuticals, Inc. (a)	1,046,400	\$ 32,846,496
Chiron Corporation (a)	308,100	<u>13,507,104</u>
		46,353,600
<b>Health Care Services—3.0%</b>		
IMS Health Incorporated	1,671,300	\$ 32,607,063

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held	Market Value
<b>Equity and Equivalents—62.5% (cont.)</b>		
<b>Medical Products—1.1%</b>		
Edwards Lifesciences Corporation (a)	275,000	\$ 7,598,250
Apogent Technologies Inc. (a)	150,000	3,870,000
Techne Corporation (a)	15,000	552,750
		<u>12,021,000</u>
<b>Transportation Services—0.2%</b>		
Nordic American Tanker Shipping Limited	154,900	\$ 2,145,365
<b>Aerospace &amp; Defense—2.9%</b>		
Rockwell Collins	1,609,200	\$ 31,379,400
<b>Agricultural Equipment—0.2%</b>		
Alamo Group Inc.	141,900	\$ 2,022,075
<b>Instruments—1.4%</b>		
Varian Inc. (a)	463,400	\$ 15,032,696
<b>Machinery &amp; Industrial Processing—4.4%</b>		
Cooper Industries, Inc.	900,000	\$ 31,428,000
Rockwell International Corporation	927,500	16,565,150
		<u>47,993,150</u>
<b>Forestry Products—2.7%</b>		
Plum Creek Timber Company, Inc.	1,059,644	\$ 30,040,907
<b>Oil &amp; Natural Gas—7.2%</b>		
Burlington Resources Inc.	750,000	\$ 28,155,000
XTO Energy, Inc.	1,328,000	23,240,000
St. Mary Land & Exploration Company	800,000	16,952,000
Cabot Oil & Gas Corporation	400,000	9,620,000
Berry Petroleum Company	53,000	832,100
		<u>78,799,100</u>
<b>Real Estate—2.1%</b>		
Catellus Development Corporation (a)	1,218,500	\$ 22,420,400
Legacy Hotels Real Estate Investment Trust (b)	125,000	663,349
		<u>23,083,749</u>
<b>Diversified Conglomerates—0.2%</b>		
Textron, Inc.	46,100	\$ 1,911,306
<b>Recreation &amp; Entertainment—2.1%</b>		
International Game Technology (a)	345,000	\$ 23,563,500
<b>Total Equity and Equivalents (Cost: \$625,993,664)</b>		<b>686,526,741</b>

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Shares Held/ Par Value	Market Value
<b>Fixed Income—33.5%</b>		
<b>Preferred Stock—0.3%</b>		
<b>Bank &amp; Thrifts—0.2%</b>		
BBC Capital Trust I, Preferred, 9.50%	48,000	\$ 1,178,400
Pennfed Capital Trust, Preferred, 8.90%	27,500	694,375
Fidelity Capital Trust I, Preferred, 8.375%	43,500	435,000
		<u>2,307,775</u>
<b>Telecommunications—0.1%</b>		
MediaOne Finance Trust III, Preferred, 9.04%	20,000	\$ 508,200
<b>Total Preferred Stock (Cost: \$2,715,763)</b>		<b>2,815,975</b>
<b>Corporate Bonds—1.9%</b>		
<b>Retail—0.6%</b>		
Rite Aid Corporation, 7.625% due 4/15/2005, Senior Notes	\$ 4,900,000	\$ 4,263,000
The Gap, Inc., 6.90% due 9/15/2007	2,677,000	2,174,931
Ugly Duckling Corporation, 12.00% due 10/15/2003, Subordinated Debenture	650,000	552,500
		<u>6,990,431</u>
<b>Office Equipment—0.1%</b>		
Xerox Capital Europe Plc, 5.75% due 5/15/2002	\$ 1,500,000	\$ 1,476,687
<b>Hotels &amp; Motels—0.6%</b>		
HMH Properties, 7.875% due 8/1/2005, Senior Note Series A	\$ 3,450,000	\$ 3,277,500
Park Place Entertainment, 7.00% due 7/15/2004, Senior Notes	2,750,000	2,757,144
Prime Hospitality Corporation, 9.25% due 1/15/2006, 2006 1st Mortgage Note	413,000	423,325
Park Place Entertainment, 7.375% due 6/1/2002, Senior Notes	320,000	322,395
		<u>6,780,364</u>
<b>TV Programming—0.3%</b>		
Liberty Media Corporation, 8.25% due 2/1/2030, Debenture	\$ 3,425,000	\$ 3,239,677
<b>Machinery &amp; Industrial Processing—0.1%</b>		
Columbus McKinnon Corporation New York, 8.50% due 4/1/2008	\$ 1,000,000	\$ 930,000
<b>Building Materials &amp; Construction—0.1%</b>		
Juno Lighting, Inc., 11.875% due 7/1/2009, Senior Subordinated Note	\$ 750,000	\$ 728,437

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Par Value	Market Value
<b>Fixed Income—33.5% (cont.)</b>		
<b>Utilities—0.1%</b>		
Midland Funding Corporation, 11.75% due 7/23/2005	\$ 500,000	\$ 545,625
<b>Total Corporate Bonds (Cost: \$20,594,654)</b>		<b>20,691,221</b>
<b>Government and Agency Securities—31.3%</b>		
<b>U.S. Government Notes—28.4%</b>		
United States Treasury Notes, 3.375% due 1/15/2007, Inflation Indexed	\$132,361,780	\$ 132,837,488
United States Treasury Notes, 5.75% due 11/15/2005	50,000,000	52,822,250
United States Treasury Notes, 3.00% due 11/30/2003	50,000,000	50,035,150
United States Treasury Notes, 7.875% due 11/15/2004	25,000,000	27,797,850
United States Treasury Notes, 7.00% due 7/15/2006	20,000,000	22,159,380
United States Treasury Notes, 5.25% due 5/15/2004	20,000,000	20,853,120
United States Treasury Notes, 7.25% due 8/15/2004	5,000,000	5,459,960
		<u>311,965,198</u>
<b>U.S. Government Agencies—2.9%</b>		
Fannie Mae, 7.25% due 4/12/2005	\$ 6,500,000	\$ 6,592,144
Federal Home Loan Mortgage Corporation, 4.75% due 8/23/2004	5,000,000	5,080,805
Federal Home Loan Bank, 5.03% due 6/21/2006	5,000,000	5,034,050
Federal Farm Credit Bank, 6.35% due 3/7/2008	2,750,000	2,770,798
Fannie Mae, 6.15% due 3/15/2011	2,050,000	2,062,575
Federal Home Loan Bank, 5.10% due 12/26/2006	2,035,000	2,052,175
Federal Home Loan Bank, 6.75% due 5/1/2002	2,000,000	2,030,416
Federal Home Loan Bank, 7.85% due 6/7/2004, Consolidated Bond	1,250,000	1,280,629
Federal Home Loan Bank, 4.50% due 12/26/2008	1,135,000	1,104,674
Federal Home Loan Bank, 5.77% due 4/12/2004	1,000,000	1,010,089
Federal Farm Credit Bank, 6.00% due 6/27/2008	1,000,000	1,008,376
Federal Home Loan Bank, 3.875% due 12/15/2004	1,000,000	997,379
Federal Home Loan Bank, 4.10% due 12/7/2004	600,000	601,664
Federal Home Loan Bank, 5.125% due 8/6/2002	500,000	500,341
Federal Farm Credit Bank, 6.24% due 12/29/2008	175,000	176,650
		<u>32,302,765</u>
<b>Total Government and Agency Securities (Cost: \$343,984,037)</b>		<b>344,267,963</b>
<b>Total Fixed Income (Cost: \$367,294,454)</b>		<b>367,775,159</b>

# THE OAKMARK EQUITY AND INCOME FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Par Value	Market Value
<b>Short Term Investments—3.7%</b>		
<b>Commercial Paper—2.7%</b>		
Citicorp, 1.87% due 1/4/2002	\$ 5,000,000	\$ 5,000,000
American Express Credit Corporation, 1.81% due 1/2/2002	5,000,000	5,000,000
General Electric Capital Corporation, 1.75% due 1/2/2002	20,000,000	20,000,000
<b>Total Commercial Paper (Cost: \$30,000,000)</b>		<b>30,000,000</b>
<b>Repurchase Agreements—1.0%</b>		
State Street Repurchase Agreement, 1.57% due 1/2/2002	\$ 11,152,000	\$ 11,152,000
<b>Total Repurchase Agreements (Cost: \$11,152,000)</b>		<b>11,152,000</b>
<b>Total Short Term Investments (Cost: \$41,152,000)</b>		<b>41,152,000</b>
Total Investments (Cost \$1,034,440,118)—99.7%		\$ 1,095,453,900
Other Assets In Excess Of Other Liabilities—0.3%		<u>3,828,756</u>
<b>Total Net Assets—100%</b>		<b><u>\$1,099,282,656</u></b>

- (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



## Fellow Shareholders:

The Oakmark Global Fund was up 25% for the three-month period ending December 31, 2001. We are pleased with this gain especially when compared to the 9% increase for the MSCI World Index and the 10% increase for the Lipper Global Fund Index.

For the calendar year 2001, The Oakmark Global Fund returned 20% compared to declines of 17% and 16% for the MSCI World Index and the Lipper Global Fund Index respectively. The 20% gain in calendar year 2001 places The Oakmark Global Fund as the #1 performing global fund according to the Lipper Global Fund Index. In addition, with The Oakmark Global Fund's strong performance in calendar years 2000 and 2001, Lipper also ranks our Fund as the #1 performing global fund on a trailing two-year basis and #1 since inception.<sup>18</sup> While we are pleased with our past performance, we look forward to continuing this trend.

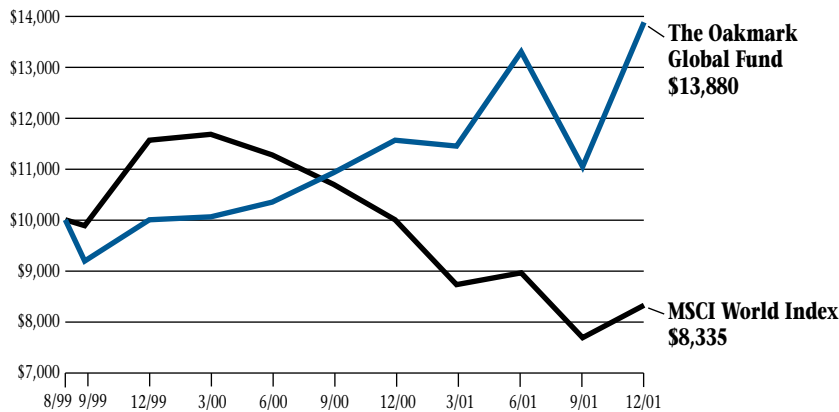
## Market Disruptions Provide Opportunities

Over time, we have found there are three opportunities in which to buy the highest quality businesses:

1. An overall market decline.
2. A short-term company specific problem, but clearly fixable over a definitive time period.
3. A psychological concern by investors, but no real fundamental issue(s) with the company or industry.

The September 11<sup>th</sup> tragedy caused widespread uncertainty and fear throughout the market, causing an overall market decline. When the market experiences aggregate declines, the stock prices of the "better" companies decline alongside all other companies as investors throw the good out with the bad in their rush for the exits. We use these market declines to add to some existing

## THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK GLOBAL FUND FROM ITS INCEPTION (8/4/99) TO PRESENT (12/31/01) AS COMPARED TO THE MSCI WORLD INDEX<sup>16</sup>



## Average Annual Total Returns<sup>1</sup>

(as of 12/31/01)

	Total Return Last 3 Months*	1-year	Since Inception (8/4/99)
<b>Oakmark Global Fund</b>	<b>25.37%</b>	<b>20.05%</b>	<b>14.50%<sup>3</sup></b>
MSCI World	8.59%	-16.82%	-7.24%
Lipper Global Fund Index <sup>17</sup>	9.65%	-15.76%	-2.51%

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

positions and also purchase new holdings in what we believe are “superior” businesses.

**ITT Educational Services**—Earlier this year, we sold the majority of our position in ITT Educational Services as the stock price achieved our sell target. However, after the September 11th attack, ITT’s stock price declined by over 40% from where we had previously been selling shares, providing another buying opportunity. We used the stock price decline to once again make ITT one of the Fund’s top ten holdings. ITT’s business has four components that in our minds make it a superior business:

1. High barriers to entry due to the heavy regulatory oversight and restrictions placed upon degree granting institutions.
2. Pricing Power—in this era of low inflation, ITT has been able to increase tuition by 5% annually without any meaningful impact on enrollments.
3. Strong demographic trends should benefit enrollments for many years to come.
4. With the downturn in the economy, many working adults are returning to college to receive additional skills and training, which further aids ITT’s enrollment trends. Since our recent purchase, ITT’s stock price has appreciated over 35%.

**Advertising Companies**—Two new holdings for the fund are advertising companies, **Interpublic Group** and **Cordiant Communications Group plc**. Interpublic Group is the world’s largest advertising company based in the United States, while Cordiant is a United Kingdom-based advertising company. These two companies combined comprise approximately 6% of the portfolio. The current advertising market is the worst in over 50 years. The poor advertising climate, combined with the overall market decline after September 11<sup>th</sup>, caused major stock price declines in both Interpublic (down over 60% from its high price) and Cordiant (down over 80% from its high price).

We believe advertising is a good business because advertising companies can be viewed as receiving a gross royalty on other companies’ sales. Historically, advertising has grown at an average annual growth rate of 8% per year. Given the large number of new products being developed, as well as the many existing brands and products that continually need to be advertised, we see no reason why advertising cannot continue to grow at the historical 8% compounded growth rate. Advertising has been categorized as an early stage cyclical, which means the companies benefit in the early stages of an economic upturn. As investors have begun to contemplate a turnaround in the worldwide economy, the stock prices of both Interpublic and Cordiant have benefited. Since our

### Highlights

- The Fund ranks #1 in its category across the board: for the 1-year period, 2-year period, and since inception (8/4/99) through 12/31/01 according to Lipper, Inc.
- Widespread uncertainty exacerbated by the September 11 tragedy caused an overall market decline. In the aftermath, we added to some existing positions and purchased new holdings in what we believe are “superior” businesses.
- Two new holdings for the Fund are advertising companies Interpublic Group and Cordiant Communications Group plc.

purchases, Interpublic’s stock price has appreciated over 30%, while Cordiant’s stock price has appreciated over 45%.

These three examples give you some insight into our thought process during turbulent times. During major market disruptions, we will always strive to upgrade both the quality of the businesses we own as well as raise the overall expected return of the portfolio. Given the current valuations of the Fund’s existing holdings, we are quite optimistic about the future prospects. Given our optimistic view, both of us continue to make additional purchases of fund shares.

We thank you for your continued confidence and support and look forward to a long and prosperous future.



**Gregory L. Jackson**  
Portfolio Manager  
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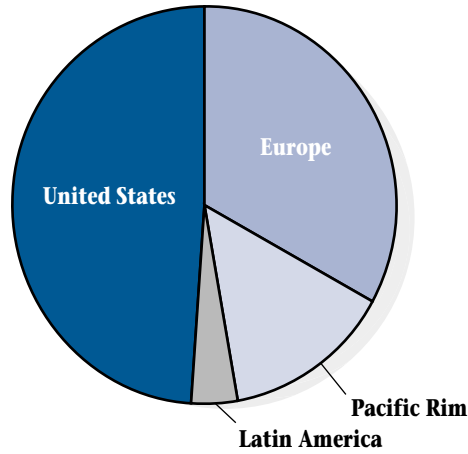


**Michael J. Welsh, CFA, CPA**  
Portfolio Manager  
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January 4, 2002



# THE OAKMARK GLOBAL FUND

Global Diversification—December 31, 2001



**% of Fund  
Net Assets**

**% of Fund  
Net Assets**

	<b>United States</b>	<b>46.4%</b>
	<b>Europe</b>	<b>31.5%</b>
	Great Britain	15.4%
	* Italy	6.5%
	* Netherlands	3.4%
	* France	3.0%
	* Ireland	1.7%
	Switzerland	1.5%

	<b>Pacific Rim</b>	<b>13.5%</b>
	Korea	7.1%
	Japan	4.5%
	Australia	1.9%
	<b>Latin America</b>	<b>3.6%</b>
	Mexico	3.6%

\* Euro currency countries comprise 14.6% of the Fund.

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—December 31, 2001

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.3%</b>			
<b>Food &amp; Beverage—7.4%</b>			
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices, & Sport Drinks Manufacturer	6,700	\$ 2,555,063
Hite Brewery Co., Ltd. (Korea)	Brewer	41,900	1,722,751
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	116,300	<u>1,324,717</u>
			5,602,531
<b>Retail—8.2%</b>			
The Kroger Co. (United States), (a)	Supermarkets	108,000	\$ 2,253,960
Somerfield plc (Great Britain)	Food Retailer	1,798,000	2,202,237
The Gap, Inc. (United States)	Apparel Retailer	130,000	<u>1,812,200</u>
			6,268,397
<b>Home Furnishings—3.3%</b>			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	94,800	\$ 2,542,557
<b>Other Consumer Goods &amp; Services—0.3%</b>			
Royal Doulton plc (Great Britain), (a)	Tableware & Giftware	1,069,700	\$ 248,821
<b>Bank &amp; Thrifts—8.0%</b>			
U.S. Bancorp (United States)	Commercial Bank	125,000	\$ 2,616,250
Banca Popolare di Verona (Italy)	Commercial Banking	183,000	1,791,872
Washington Mutual, Inc. (United States)	Thrift	50,000	<u>1,635,000</u>
			6,043,122
<b>Other Financial—1.9%</b>			
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	462,000	\$ 1,410,579
<b>Hotels &amp; Motels—1.2%</b>			
Jarvis Hotels plc (Great Britain)	Hotel Operator	705,000	\$ 912,186

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.3% (cont.)</b>			
<b>Human Resources—4.8%</b>			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	1,615,000	\$ 3,662,701
<b>Educational Services—6.2%</b>			
ITT Educational Services, Inc. (United States), (a)	Postsecondary Degree Programs	90,000	\$ 3,318,300
Learning Tree International, Inc. (United States), (a)	Computer Related Education	50,000	<u>1,395,000</u>
			4,713,300
<b>Marketing Services—6.0%</b>			
The Interpublic Group of Companies, Inc. (United States)	Advertising & Marketing Services	85,000	\$ 2,510,900
Cordiant Communications Group plc (Great Britain)	Advertising & Media Services	1,493,000	<u>2,061,996</u>
			4,572,896
<b>Information Services—7.0%</b>			
Ceridian Corporation (United States), (a)	Data Management Services	135,000	\$ 2,531,250
eFunds Corporation (United States), (a)	Electronic Debit Payment Services	115,500	1,588,125
Equifax Inc. (United States)	Consumer Credit Information	50,000	<u>1,207,500</u>
			5,326,875
<b>Computer Services—2.7%</b>			
Meitec Corporation (Japan)	Software Engineering Services	83,800	\$ 2,046,867
<b>Computer Software—11.2%</b>			
Novell, Inc. (United States), (a)	Network & Internet Integration Software	950,000	\$ 4,360,500
Synopsys, Inc. (United States), (a)	Electronic Design Automation	70,000	<u>4,134,900</u>
			8,495,400

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.3% (cont.)</b>			
<b>Computer Systems—6.7%</b>			
The Reynolds and Reynolds Company, Class A (United States)	Information Management Systems	115,000	\$ 2,788,750
Lectra (France), (a)	Manufacturing Process Systems	477,000	2,322,571
			5,111,321
<b>Telecommunications—1.5%</b>			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	5,400	\$ 1,105,999
<b>Broadcasting &amp; Cable TV—3.6%</b>			
Grupo Televisa S.A. (Mexico), (a)(b)	Television Production & Broadcasting	62,700	\$ 2,707,386
<b>Publishing—1.7%</b>			
Independent News & Media PLC (Ireland)	Newspaper Publisher	694,000	\$ 1,297,305
<b>Printing—2.3%</b>			
Valassis Communications, Inc. (United States), (a)	Product Promotions Printer	50,000	\$ 1,781,000
<b>Health Care Services—2.1%</b>			
IMS Health Incorporated (United States)	Pharmaceutical Market Research	80,000	\$ 1,560,800
<b>Automobiles—4.1%</b>			
Ducati Motor Holding S.p.A. (Italy), (a)	Motorcycle Manufacturer	1,933,500	\$ 3,115,201
<b>Chemicals—1.5%</b>			
Givaudan (Switzerland), (a)	Fragrance & Flavor Compound Manufacturer	3,800	\$ 1,158,592
<b>Other Industrial Goods &amp; Services—1.7%</b>			
Enodis plc (Great Britain)	Food Processing Equipment	906,000	\$ 1,257,870
<b>Diversified Conglomerates—1.9%</b>			
Pacific Dunlop Limited (Australia)	Diversified Manufacturer	2,795,000	\$ 1,473,540
<b>Total Common Stocks (Cost: \$63,088,358)</b>			<b>72,415,246</b>

# THE OAKMARK GLOBAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Par Value/ Shares Subject to Call	Market Value
<b>Short Term Investments—6.0%</b>			
<b>Commercial Paper—2.6%</b>			
	General Electric Capital Corporation, 1.75% due 1/2/2002	2,000,000	\$ 2,000,000
	<b>Total Commercial Paper (Cost: \$2,000,000)</b>		<b>2,000,000</b>
<b>Repurchase Agreements—3.4%</b>			
	State Street Repurchase Agreement, 1.57% due 1/2/2002	2,568,000	\$ 2,568,000
	<b>Total Repurchase Agreements (Cost: \$2,568,000)</b>		<b>2,568,000</b>
	<b>Total Short Term Investments (Cost: \$4,568,000)</b>		<b>4,568,000</b>
	Total Investments (Cost \$67,656,358)—101.3%		\$ 76,983,246
<b>Call Options Written—(0.3)%</b>			
<b>Equity Options—(0.3)%</b>			
<b>Educational Services—(0.3)%</b>			
	ITT Educational Services, Postsecondary Degree Programs Inc., January 45 Calls (United States)	(25,000)	\$ (21,250)
	ITT Educational Services, Postsecondary Degree Programs Inc., April 45 Calls (United States)	(65,000)	(195,000)
			<u>(216,250)</u>
<b>Computer Software—0.0%</b>			
	Synopsys, Inc., January 60 Electronic Design Automation Calls (United States)	(15,000)	\$ (24,750)
	<b>Total Equity Options (Premiums Received: \$(333,043))</b>		<b>(241,000)</b>
	Total Call Options Written (Premiums Received: \$(333,043))—(0.3)%		(241,000)
	Foreign Currencies (Proceeds \$7)—(0.0)%		\$ 7
	Other Liabilities In Excess Of Other Assets—(1.0)%		(786,493)
	<b>Total Net Assets—100%</b>		<b><u>\$75,955,760</u></b>

(a) Non-income producing security.

(b) Represents an American Depository Receipt.

## THE OAKMARK INTERNATIONAL AND OAKMARK INTERNATIONAL SMALL CAP FUNDS

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### Fellow Shareholders:

We are happy to report that both of your Funds, Oakmark International and Oakmark International Small Cap, had very strong final quarters of 2001. Oakmark International returned 17% for the quarter, comparing very favorably to the 7% and 8% returns posted by the MSCI World ex-USA<sup>19</sup> and Lipper International Fund<sup>20</sup> indices, respectively. Oakmark International Small Cap had an even stronger quarter, climbing 19%.

For the year, both Funds achieved very strong relative returns, placing in the top 2% of all international funds as tracked by Morningstar.<sup>21</sup> In a year that saw overseas indices fall over 20%, Oakmark International lost 5% while Oakmark International Small Cap gained 13%.

With Oakmark International Fund's ten-year anniversary coming into sight this year, we are especially proud that as of December 31, 2001, its performance ranks in the top 5% of all international funds since the Fund's inception in September of 1992.<sup>22</sup>

We are optimistic going into 2002 that the future remains positive for both of these Funds. As we look to global economic recovery and continued economic reform around the world, we will be working to uncover attractive investment prospects of all shapes and sizes.

### Welcome Euro

Starting January 1, 2002, goods in greater Europe will be priced in Euros, the new European single currency. The implementation of the single currency means these countries share a single monetary policy. On one hand, it means monetary policy will not be an effective tool for regional economic management. On the other hand, most monetarists would argue it should not be used like that anyway, believing that the sole purpose of monetary policy is to maintain price stability. The European Central Bank (ECB) appears to be very attentive to this latter purpose.

The biggest positive we can see in monetary union is that it brings Europe closer to being a single market from an economic perspective. This ultimately may mean more opportunity and potential profitability for those doing business there. It is also likely that as Europe becomes more unified it may become more of a recipient of investment funds both from within and from outside, and in the form of both fixed investment (plants, equipment, land, buildings) and financial investment (stocks and bonds). This trend would be positive for the rate of growth and for the currency.



### Highlights

- For the year, both Funds achieved very strong relative returns, placing in the top 1% of all international funds as tracked by Morningstar.
- Oakmark International turns ten years old this year, and currently lands in the top 5% of its category since inception in September 1992 as ranked by Lipper Inc.
- We fail to see any real opportunity in the crisis in Argentina at present, and unless there is drastic, positive change will stay out.
- January 1, 2002 marks the introduction of the Euro, the new European single currency. The biggest positive we see in monetary union is that it brings Europe closer to being a single market, ultimately creating more opportunity and potential profitability for those doing business there.

Europe is also slowly adopting a basic tenet of Anglo-American capitalism. Over the past few years private pension schemes, tax changes, and improvements in corporate governance have meant the blossoming of an equity culture. All of these things should ultimately be positive for share prices.

### Don't Cry for Argentina

Argentina remains in the headlines as it faces economic collapse. The problems in Argentina are serious, and we would add, home grown. The economic history of Argentina is storied. Though they were one of the richest economies of the world in the first part of the 20th century, their position was squandered as a result of corruption, an outsized welfare state, and protectionism. As a result, Argentina, with all of its natural resources, was

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marginalized by the 1970's. Finally, in the 1990's, an attempt at reform was made. At first, things looked good as hyperinflation was tamed and the economy began growing again. But the convertibility plan, which linked the Argentine peso to the dollar, meant that economic adjustment could not happen via the exchange rate and therefore had to happen through changes in productivity and micro-economic competitiveness. This did not happen. An untimely devaluation by important neighbor Brazil in 1999 exacerbated the peso situation. With restrictive labor policies, bloated government, and lots of wealth destroying corruption, Argentina just could not compete, and the convertibility plan became untenable.

As of now, this has not spread to other Latin American countries. Brazil, Mexico and Chile have, to varying degrees, addressed these issues. All are expected to grow in 2002. The type of "can do" attitude we witnessed in the Pacific Rim during the crisis in '97-'98 does not seem to exist in Argentina. Therefore, we fail to see any real opportunity in this crisis at present and unless there is drastic, positive change we will stay out.

#### **Impact Players for 2001**

It has been quite a year for overseas equity markets. The year opened with negative equity market conditions brought on by the collapse of the tech bubble. Worries of a global slowdown hit some industries hard, most notably telecom and media sectors. Then came September 11. Through all of this, we had some great stock performers in

both funds. And in the interest of full disclosure, some not so great. Please refer to the Portfolio Update for each Fund.

#### **Looking Forward**

We are thankful we were able to weather the very rough overseas markets in 2001 with strong relative performance in both of the Funds. We continue to see significant investment opportunity in both the larger cap and smaller cap markets at present.

Thank you for your continued confidence and support.



**David G. Herro, CFA**

Portfolio Manager  
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**Michael J. Welsh, CFA, CPA**

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January 8, 2002

# THE OAKMARK INTERNATIONAL FUND

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



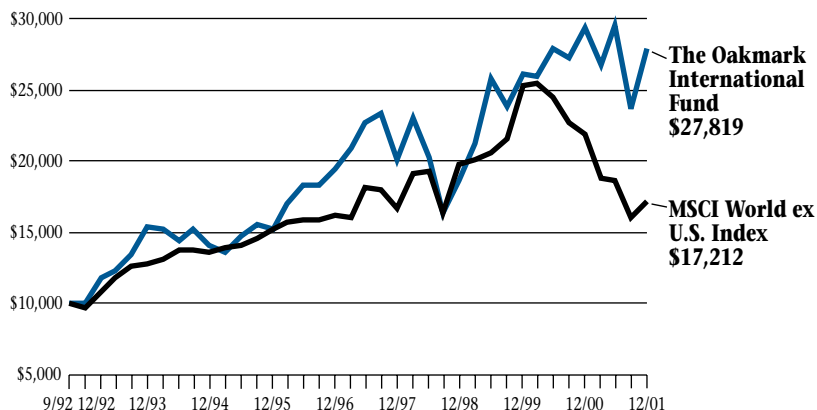
## Portfolio Update

Two Korean stocks provided outsized positive contribution to the performance of The Oakmark International Fund in 2001, adding over 5% to the Fund's NAV.<sup>24</sup> Shares of Lotte Chilsung Beverage nearly tripled in price over the year, as investors woke up (all at once!) to the tremendous value management has created since the crisis of late 1998. Profitability and returns have increased dramatically due to market dominance of the company's non-alcoholic beverage brands. Even after their tremendous run, we believe the shares are still not expensive at around five times our estimate of 2002 operating profit.

Our other Korean star was Kumkang Korea Chemical, up 150% for the year. We have liked this company for years as an investment because of its ability to generate tremendous free cash flow, well in excess of their very conservative accounting earnings numbers. The market had been disinterested in the company earlier as the merger integration process (the company is the result of a merger between Kumkang and Korea Chemical) produced some confusing accounting results. Throughout, we focused not on the stock price but on the growth in business value that was occurring, and in 2001 other investors started to do the same.

We had a few poor performers as well, with Enodis, Fila, and Daiwa Securities generating the most significant negative contributions. Investors sold Enodis this year as worries that a global slowdown would hurt their market-leading food service equipment business. Daiwa Securities fell out of favor as investors tired of waiting for an event that always seems to be on the horizon

**THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL FUND FROM ITS INCEPTION (9/30/92) TO PRESENT (12/31/01) COMPARED TO THE MSCI WORLD EX U.S. INDEX<sup>19</sup>**



## Average Annual Total Returns<sup>1</sup>

(as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (9/30/92)
<b>Oakmark International Fund</b>	<b>17.24%</b>	<b>-5.13%</b>	<b>7.42%</b>	<b>11.69%</b>
MSCI World ex. U.S.	7.16%	-21.40%	1.13%	6.04%
MSCI EAFE <sup>23</sup>	6.97%	-21.44%	0.89%	5.86%
Lipper International Fund Index <sup>20</sup>	8.44%	-19.33%	2.76%	7.59%

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

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but never quite happens - the return of investors to Japanese investment markets. We continue to believe that both are very attractive at current prices.

Fila, unfortunately, makes a return appearance from last year to the poor performers list. We examined in detail our Fila investment in our Third Quarter, 2001 report. The latest news is that controlling shareholder HdP has decided to put the company up for sale and is currently reviewing offers.



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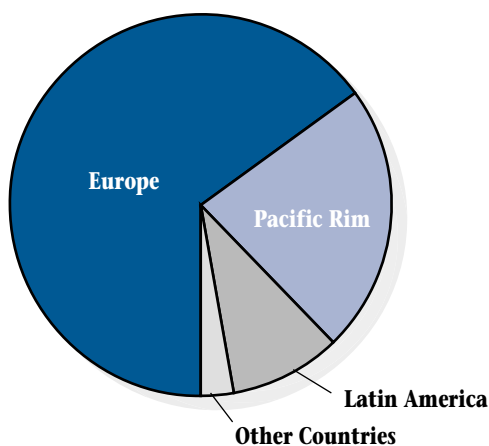
**Michael J. Welsh, CFA, CPA**

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January 8, 2002

# THE OAKMARK INTERNATIONAL FUND

International Diversification—December 31, 2001



	<b>% of Fund Net Assets</b>
<b>Europe</b>	<b>62.1%</b>
Great Britain	20.6%
* Netherlands	9.1%
* France	7.0%
* Finland	6.5%
Sweden	5.5%
* Italy	5.4%
* Ireland	3.2%
Switzerland	2.3%
* Germany	1.1%
* Spain	0.7%
* Greece	0.7%

	<b>% of Fund Net Assets</b>
<b>Pacific Rim</b>	<b>21.7%</b>
Korea	8.7%
Japan	6.2%
Singapore	2.4%
Australia	2.3%
Hong Kong	2.1%
<b>Latin America</b>	<b>9.0%</b>
Mexico	4.6%
Brazil	2.9%
Panama	1.5%
<b>Other</b>	<b>2.6%</b>
Israel	2.6%

\* Euro currency countries comprise 33.7% of the Fund.

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—December 31, 2001

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.4%</b>			
<b>Food &amp; Beverage—9.1%</b>			
Lotte Chilsung Beverage Co., Ltd. (Korea)	Soft Drinks, Juices, & Sport Drinks Manufacturer	93,000	\$ 35,465,800
Diageo plc (Great Britain)	Beverages, Wines, & Spirits Manufacturer	2,410,000	27,451,142
Fomento Economico Mexicano, S.A. de C.V. (Mexico), (b)	Soft Drink & Beer Manufacturer	549,400	18,981,770
Pernod-Ricard SA (France)	Manufactures Wines, Spirits, & Fruit Juices	80,500	6,234,166
			<u>88,132,878</u>
<b>Apparel—1.9%</b>			
Fila Holding S.p.A. (Italy), (a)(b)	Athletic Footwear & Apparel	5,976,960	\$ 18,468,806
<b>Retail—4.8%</b>			
Somerfield plc (Great Britain)	Food Retailer	22,714,000	\$ 27,820,690
Giordano International Limited (Hong Kong)	Pacific Rim Clothing Retailer & Manufacturer	42,467,000	18,788,901
			<u>46,609,591</u>
<b>Home Furnishings—3.7%</b>			
Hunter Douglas N.V. (Netherlands)	Window Coverings Manufacturer	1,341,484	\$ 35,978,901
<b>Other Consumer Goods &amp; Services—0.2%</b>			
Shimano Inc. (Japan)	Bicycle Components Manufacturer	182,800	\$ 2,079,017
<b>Bank &amp; Thrifts—12.2%</b>			
Banca Popolare di Verona (Italy)	Commercial Banking	3,485,000	\$ 34,123,905
Uniao de Bancos Brasileiros S.A. (Brazil), (c)	Commercial Banking	939,300	20,946,390
BNP Paribas SA (France)	Commercial Banking	177,000	15,834,436
Banco Latinoamericano de Exportaciones, S.A., Class E (Panama), (b)	Latin American Trade Bank	515,400	14,456,970
Kookmin Bank (Korea)	Commercial Banking	269,968	10,274,671
United Overseas Bank Limited, Foreign Shares (Singapore)	Commercial Banking	1,426,968	9,814,510
Svenska Handelsbanken AB (Sweden)	Commercial Banking	508,000	7,484,167
Bank of Ireland (Ireland)	Commercial Banking	461,035	4,276,268
			<u>117,211,317</u>

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.4% (cont.)</b>			
<b>Other Financial—3.3%</b>			
Daiwa Securities Group Inc. (Japan)	Stock Broker	4,638,000	\$ 24,391,894
Euronext (Netherlands)	Stock Exchange	414,713	<u>7,844,583</u>
			32,236,477
<b>Hotels &amp; Motels—1.4%</b>			
Mandarin Oriental International Limited (Singapore)	Hotel Management	32,381,400	\$ 13,276,374
<b>Human Resources—3.1%</b>			
Michael Page International plc (Great Britain)	Recruitment Consultancy Services	13,024,000	\$ 29,537,474
<b>Marketing Services—4.6%</b>			
Cordiant Communications Group plc (Great Britain)	Advertising & Media Services	16,720,070	\$ 23,092,240
Aegis Group plc (Great Britain)	Media Services	15,448,000	<u>20,773,915</u>
			43,866,155
<b>Computer Services—2.2%</b>			
Meitec Corporation (Japan)	Software Engineering Services	860,500	\$ 21,018,244
<b>Telecommunications—2.2%</b>			
SK Telecom Co., Ltd. (Korea)	Mobile Telecommunications	39,620	\$ 8,114,757
Panafon Hellenic Telecom S.A. (Greece)	Mobile Telecommunications	1,263,000	6,520,706
Telemig Celular Participacoes S.A. (Brazil)	Mobile Telecommunications	2,282,395,600	<u>6,519,719</u>
			21,155,182

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.4% (cont.)</b>			
<b>Broadcasting &amp; Cable TV—3.5%</b>			
Grupo Televisa S.A. (Mexico), (a)(b)	Television Production & Broadcasting	504,000	\$ 21,762,720
Tokyo Broadcasting System, Inc. (Japan)	Television & Radio Broadcasting	815,000	12,379,590
			<u>34,142,310</u>
<b>Publishing—7.8%</b>			
Independent News & Media PLC (Ireland)	Newspaper Publisher	14,160,273	\$ 26,470,015
Wolters Kluwer NV (Netherlands)	Reference Material Publisher	1,145,500	26,103,474
John Fairfax Holdings Limited (Australia)	Newspaper Publisher	11,561,500	22,741,932
			<u>75,315,421</u>
<b>Pharmaceuticals—1.6%</b>			
GlaxoSmithKline plc (Great Britain)	Pharmaceuticals	550,500	\$ 13,733,429
Aventis S.A. (France)	Pharmaceuticals	22,300	1,583,065
			<u>15,316,494</u>
<b>Medical Products—2.3%</b>			
Gambro AB, Class A (Sweden)	Manufacturer of Dialysis Products	3,478,000	\$ 21,793,648
<b>Automotive—4.6%</b>			
Autoliv, Inc (Sweden)	Automotive Safety Systems Manufacturer	1,163,000	\$ 23,364,584
Compagnie Generale des Etablissements Michelin (France)	Tire Manufacturer	632,000	20,843,400
			<u>44,207,984</u>
<b>Aerospace—2.2%</b>			
Rolls-Royce plc (Great Britain)	Aviation & Marine Power	9,036,702	\$ 21,479,891
<b>Airport Maintenance—0.4%</b>			
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico), (a)(b)	Airport Operator	242,000	\$ 3,726,800

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—95.4% (cont.)</b>			
<b>Instruments—2.6%</b>			
Orbotech, Ltd. (Israel), (a)	Optical Inspection Systems	813,000	\$ 25,324,950
<b>Machinery &amp; Industrial Processing—3.8%</b>			
Metso Corporation (Finland)	Paper & Pulp Machinery	3,458,100	\$ 36,323,093
<b>Building Materials &amp; Construction—3.1%</b>			
Kumkang Korea Chemical Co., Ltd. (Korea)	Building Materials	357,630	\$ 29,791,112
<b>Chemicals—5.3%</b>			
Givaudan (Switzerland), (a)	Fragrance & Flavor Compound Manufacturer	73,200	\$ 22,318,149
Akzo Nobel N.V. (Netherlands)	Chemical Producer	402,500	17,968,014
Henkel KGaA (Germany)	Chemical Products Manufacturer	204,700	10,440,847
			<u>50,727,010</u>
<b>Oil &amp; Natural Gas—0.9%</b>			
Repsol YPF, S.A. (Spain)	Oil Producer	442,000	\$ 6,444,651
Enterprise Oil plc (Great Britain)	Oil Producer	366,000	2,471,560
			<u>8,916,211</u>
<b>Other Industrial Goods &amp; Services—8.5%</b>			
Enodis plc (Great Britain)	Food Processing Equipment	21,483,200	\$ 29,826,803
Kone Corporation, Class B (Finland)	Elevators	350,980	25,931,266
Chargeurs SA (France)	Wool, Textile Production & Trading	350,067	23,355,333
FKI plc (Great Britain)	Industrial Manufacturing	1,020,000	2,717,369
			<u>81,830,771</u>
<b>Diversified Conglomerates—0.1%</b>			
First Pacific Company Ltd. (Hong Kong)	Diversified Operations	9,891,999	\$ 1,217,828
<b>Total Common Stocks (Cost: \$928,384,323)</b>			<b>919,683,939</b>

# THE OAKMARK INTERNATIONAL FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Par Value	Market Value
<b>Short Term Investments—4.7%</b>			
<b>Commercial Paper—2.6%</b>			
	Citicorp, 1.92% due 1/2/2002	5,000,000	\$ 5,000,000
	General Electric Capital Corporation, 1.75% due 1/2/2002	20,000,000	20,000,000
	<b>Total Commercial Paper (Cost: \$25,000,000)</b>		<b>25,000,000</b>
<b>Repurchase Agreements—2.1%</b>			
	State Street Repurchase Agreement, 1.57% due 1/2/2002	20,992,000	\$ 20,992,000
	<b>Total Repurchase Agreements (Cost: \$20,992,000)</b>		<b>20,992,000</b>
	<b>Total Short Term Investments (Cost: \$45,992,000)</b>		<b>45,992,000</b>
	Total Investments (Cost \$974,376,323)—100.2%		\$ 965,675,939
	Foreign Currencies (Proceeds \$291,423)—0.0%		\$ 296,529
	Other Liabilities In Excess Of Other Assets—(0.2)% (d)		(1,703,867)
	<b>Total Net Assets—100%</b>		<b><u>\$964,268,601</u></b>

- (a) Non-income producing security.
- (b) Represents an American Depository Receipt.
- (c) Represents a Global Depository Receipt.
- (d) Includes transaction hedges.

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

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



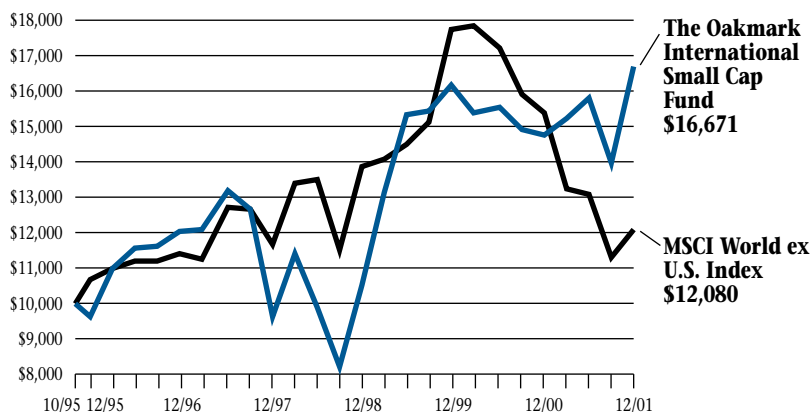
## Portfolio Update

A number of stocks provided solid contributions to The Oakmark International Small Cap Fund's 2001 performance. Fletcher Building of New Zealand, which started the year as one of the Fund's biggest positions, returned over 50% as the market embraced a new management team and their increased focus on improving overall group returns. Two Korean companies, Hite Brewery and Tae Young, also provided nice increases to the Fund's NAV.<sup>24</sup> In fact, 2001 marked the fourth year in a row that Hite Brewery was one of Oakmark International Small Cap's best contributors. A dream investment for us is one where the share price outperforms but business value grows almost as quickly, and so far that has been the case with Hite.

Jusco Stores (Hong Kong), Enix (Japan), and House of Fraser (UK) also all made solid contributions. Jusco Stores, up 200% in 2001, had the biggest absolute return of any of our small cap investments. With Enix, this is the second time that we have owned this long-time favorite, in our opinion one of the best-managed companies in Japan. In 2001, our patience with House of Fraser was rewarded with a 50% total return.

Only one stock had a materially negative impact on NAV and it was Royal Doulton of the UK. Its shares lost three-quarters of their value in 2001. While management has done all the right things, we have very much overestimated the quality of the business and the industry.

## THE VALUE OF A \$10,000 INVESTMENT IN THE OAKMARK INTERNATIONAL SMALL CAP FUND FROM ITS INCEPTION (11/1/95) TO PRESENT (12/31/01) AS COMPARED TO THE MSCI WORLD EX U.S. INDEX<sup>19</sup>



## Average Annual Total Returns<sup>1</sup>

(as of 12/31/01)

	Total Return Last 3 Months*	1-year	5-year	Since Inception (11/1/95)
<b>Oakmark International Small Cap Fund</b>	<b>19.19%</b>	<b>12.98%</b>	<b>6.72%</b>	<b>8.63%</b>
MSCI World ex. U.S.	7.16%	-21.40%	1.13%	3.11%
Lipper International Small Cap Average <sup>25</sup>	10.35%	-21.82%	6.52%	9.33%

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

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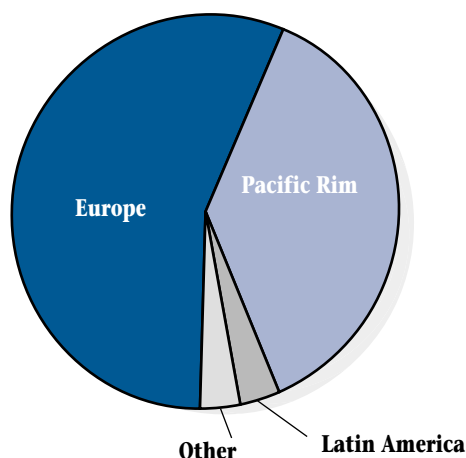
Michael J. Welsh, CFA, CPA

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January 8, 2002

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

International Diversification—December 31, 2001



	<u>% of Fund Net Assets</u>		<u>% of Fund Net Assets</u>
<span style="display: inline-block; width: 15px; height: 15px; background-color: #0056b3; border: 1px solid black; margin-right: 5px;"></span> <b>Europe</b>	<b>53.3%</b>	<span style="display: inline-block; width: 15px; height: 15px; background-color: #a6b8d9; border: 1px solid black; margin-right: 5px;"></span> <b>Pacific Rim</b>	<b>35.1%</b>
* Italy	10.0%	Japan	10.3%
Great Britain	9.6%	Hong Kong	5.6%
* France	7.9%	Korea	4.8%
Switzerland	7.4%	Australia	4.2%
Spain	3.8%	New Zealand	3.4%
Denmark	3.4%	Philippines	2.8%
* Netherlands	3.0%	Singapore	2.7%
* Belgium	2.7%	Thailand	1.3%
* Germany	2.5%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #808080; border: 1px solid black; margin-right: 5px;"></span> <b>Latin America</b>	<b>3.2%</b>
* Ireland	1.1%	Mexico	3.2%
Norway	0.9%	<span style="display: inline-block; width: 15px; height: 15px; background-color: #e0e0e0; border: 1px solid black; margin-right: 5px;"></span> <b>Other</b>	<b>3.1%</b>
Sweden	0.8%	Bermuda	1.8%
* Finland	0.2%	United States	1.3%

\* Euro currency countries comprise 27.4% of the Fund.

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—December 31, 2001

Name	Description	Shares Held	Market Value
<b>Common Stocks—94.7%</b>			
<b>Food &amp; Beverage—11.0%</b>			
Hite Brewery Co., Ltd. (Korea)	Brewer	114,500	\$ 4,707,757
Baron De Ley, S.A. (Spain), (a)	Wines & Spirits Manufacturer	194,985	4,521,392
Campari Group (Italy), (a)	Soft Drinks, Wines, & Spirits Producer	182,000	4,293,194
Mikuni Coca-Cola Bottling Co., Ltd. (Japan)	Soft Drink Manufacturer	436,000	3,823,861
Grupo Continental, S.A. (Mexico)	Soft Drink Manufacturer	1,237,000	1,823,886
Alaska Milk Corporation (Philippines)	Milk Producer	49,394,000	1,723,047
			<u>20,893,137</u>
<b>Apparel—1.1%</b>			
Kingmaker Footwear Holdings Limited (Hong Kong)	Athletic Footwear Manufacturer	10,527,000	\$ 2,065,507
<b>Retail—6.7%</b>			
Carpetright plc (Great Britain)	Carpet Retailer	456,000	\$ 4,126,754
House of Fraser Plc (Great Britain)	Department Store	2,360,000	2,907,743
Dairy Farm International Holdings Limited (Singapore), (a)	Supermarket Chain	2,502,000	1,626,300
Jusco Stores (Hong Kong) Co., Limited (Hong Kong)	Department Stores	5,486,000	1,600,545
Harvey Nichols plc (Great Britain)	High Fashion Clothing Retailer	443,400	1,256,998
Bulgari S.p.A. (Italy)	Jewelry Manufacturer & Retailer	79,000	613,207
Signet Group plc (Great Britain)	Jewelry Retailer	389,000	537,251
			<u>12,668,798</u>
<b>Home Furnishings—2.5%</b>			
Industrie Natuzzi S.p.A. (Italy), (b)	Home Furniture Manufacturer	319,500	\$ 4,677,480
<b>Office Equipment—2.1%</b>			
Neopost SA (France), (a)	Mailroom Equipment Supplier	139,300	\$ 4,057,212

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—94.7% (cont.)</b>			
<b>Other Consumer Goods &amp; Services—1.2%</b>			
Ilshin Spinning Co., Ltd. (Korea)	Fabric & Yarn Manufacturer	44,550	\$ 1,225,678
Royal Doulton plc (Great Britain), (a)	Tableware & Giftware	4,387,000	<u>1,020,451</u>
			2,246,129
<b>Insurance—1.4%</b>			
IPC Holdings, Ltd. (Bermuda)	Reinsurance Provider	87,700	\$ 2,595,920
<b>Other Financial—3.2%</b>			
Ichiyoshi Securities Co., Ltd. (Japan)	Stock Broker	1,302,000	\$ 3,975,269
JCG Holdings Limited (Hong Kong)	Consumer Finance	3,321,000	<u>2,065,577</u>
			6,040,846
<b>Hotels &amp; Motels—2.6%</b>			
Jarvis Hotels plc (Great Britain)	Hotel Operator	3,885,000	\$ 5,026,728
<b>Human Resources—5.7%</b>			
United Services Group NV (Netherlands)	Temporary Staffing Services	290,447	\$ 5,649,130
Creyf's NV (Belgium)	Temporary Staffing Services	286,300	<u>5,147,970</u>
			10,797,100
<b>Marketing Services—2.4%</b>			
Asatsu-DK Inc. (Japan)	Advertising Services Provider	237,000	\$ 4,631,097
<b>Computer Software—1.4%</b>			
Enix Corporation (Japan)	Entertainment Software	146,600	\$ 2,691,192
<b>Computer Systems—2.8%</b>			
Lectra (France), (a)	Manufacturing Process Systems	1,084,000	\$ 5,278,127
<b>Broadcasting &amp; Cable TV—2.6%</b>			
ABS-CBN Broadcasting Corporation (Philippines)	Television & Broadcasting Operator	8,034,400	\$ 3,698,004
Ulster Television plc (Great Britain)	Television Operator	261,000	<u>1,246,465</u>
			4,944,469

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—94.7% (cont.)</b>			
<b>Broadcasting &amp; Publishing—1.1%</b>			
Tamedia AG (Switzerland)	TV Broadcasting & Publishing	33,100	\$ 2,014,401
<b>Publishing—7.4%</b>			
Edipresse S.A. (Switzerland)	Newspaper & Magazine Publisher	13,980	\$ 4,885,756
Recoletos Grupo de Comunicacion, S.A. (Spain), (a)	Publisher	634,000	2,759,697
Hollinger International Inc. (United States)	Newspaper Publisher	210,000	2,457,000
Matchon Public Company Limited, Foreign Shares (Thailand)	Newspaper Publisher	2,039,500	2,397,784
VLT AB, Class B (Sweden)	Newspaper Publisher	182,250	1,534,296
			<u>14,034,533</u>
<b>Automobiles—3.3%</b>			
Ducati Motor Holding S.p.A. (Italy), (a)	Motorcycle Manufacturer	3,876,200	\$ 6,245,224
<b>Transportation Services—2.9%</b>			
Mainfreight Limited (New Zealand)	Logistics Services	3,993,551	\$ 2,460,523
Bergesen d.y. ASA, Class A Shares (Norway)	Tanker Operator	95,300	1,688,022
DelGro Corporation Limited (Singapore)	Bus, Taxi, & Car Leasing	1,066,000	1,443,271
			<u>5,591,816</u>
<b>Airport Maintenance—5.6%</b>			
Kobenhavns Lufthavne A/S (Copenhagen Airports A/S) (Denmark)	Airport Management & Operations	98,545	\$ 6,383,396
Grupo Aeroportuario del Sureste S.A. de C.V. (Mexico), (a)(b)	Airport Operator	279,500	4,304,300
			<u>10,687,696</u>

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held	Market Value
<b>Common Stocks—94.7% (cont.)</b>			
<b>Instruments—0.1%</b>			
Vaisala Oyj, Class A (Finland)	Atmospheric Observation Equipment	11,200	\$ 272,172
<b>Machinery &amp; Industrial Processing—4.7%</b>			
ASM Pacific Technology Limited (Hong Kong)	Semiconductor Machinery	2,508,500	\$ 4,938,024
Pfeiffer Vacuum Technology AG (Germany)	Vacuum Pump Manufacturer	113,700	3,543,365
Carbone Lorraine SA (France)	Electrical Systems Manufacturer	13,157	<u>351,351</u>
			8,832,740
<b>Building Materials &amp; Construction—3.2%</b>			
Fletcher Building Limited (New Zealand)	Building Materials Manufacturer	3,224,000	\$ 3,945,925
Grafton Group plc (Ireland)	Building Materials Distributor	723,000	<u>2,091,630</u>
			6,037,555
<b>Chemicals—4.4%</b>			
Taiyo Ink Mfg. Co., Ltd. (Japan)	Manufacturer of Resist Inks	150,500	\$ 4,480,192
Gurit-Heberlien AG (Switzerland)	Chemical Producer	4,880	<u>3,852,013</u>
			8,332,205
<b>Production Equipment—3.1%</b>			
Interpump Group S.p.A. (Italy)	Pump and Piston Manufacturer	821,500	\$ 3,180,974
NSC Groupe (France)	Textile Equipment Manufacturer	17,466	1,399,262
Krones AG (Germany)	Production Machinery Manufacturer	29,300	<u>1,207,569</u>
			5,787,805
<b>Other Industrial Goods &amp; Services—3.1%</b>			
GFI Industries SA (France)	Industrial Fastener Manufacturer	177,844	\$ 3,956,114
Coats plc (Great Britain)	Textile Manufacturer	2,872,000	<u>1,972,834</u>
			5,928,948

# THE OAKMARK INTERNATIONAL SMALL CAP FUND

## Schedule of Investments—December 31, 2001 cont.

Name	Description	Shares Held/ Par Value	Market Value
<b>Common Stocks—94.7% (cont.)</b>			
<b>Diversified Conglomerates—9.1%</b>			
Pacific Dunlop Limited (Australia)	Diversified Manufacturer	15,103,626	\$ 7,962,716
Pargesa Holding AG (Switzerland)	Diversified Operations	1,640	3,241,263
Haw Par Corporation Limited (Singapore)	Healthcare & Leisure Products	903,000	1,985,475
Jardine Strategic Holdings Limited (Bermuda)	Diversified Operations	340,700	896,041
Tae Young Corp. (Korea)	Heavy Construction	106,600	3,217,960
			<u>17,303,455</u>
<b>Total Common Stocks (Cost: \$173,943,088)</b>			<b>179,682,292</b>
<b>Short Term Investments—5.0%</b>			
<b>Commercial Paper—3.7%</b>			
Citicorp, 1.92% due 1/2/2002		\$3,000,000	\$ 3,000,000
General Electric Capital Corporation, 1.75% due 1/2/2002		4,000,000	4,000,000
<b>Total Commercial Paper (Cost: \$7,000,000)</b>			<b>7,000,000</b>
<b>Repurchase Agreements—1.3%</b>			
State Street Repurchase Agreement, 1.57% due 1/2/2002		\$2,613,000	\$ 2,613,000
<b>Total Repurchase Agreements (Cost: \$2,613,000)</b>			<b>2,613,000</b>
<b>Total Short Term Investments (Cost: \$9,613,000)</b>			<b>9,613,000</b>
Total Investments (Cost \$183,556,088)—99.7%			\$ 189,295,292
Foreign Currencies (Proceeds \$481,784)—0.3%			483,249
Other Liabilities In Excess Of Other Assets—0.0% (c)			<u>(3,129)</u>
<b>Total Net Assets—100%</b>			<b><u>\$189,775,412</u></b>

- (a) Non-income producing security.  
 (b) Represents an American Depository Receipt.  
 (c) Includes transaction hedges.

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

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

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

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

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

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

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

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

1. 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.

2. Portfolio holdings are subject to change without notice and are not intended as recommendations of individual stocks.
3. During the period since inception (8/4/99), IPOs contributed an annualized 3.15% 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.
4. The Price-Earnings Ratio ("P/E") is the most common measure of how expensive a stock is.
5. The S&P 500 Index is a broad market-weighted average of U.S. blue-chip companies.
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. 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.
11. The S&P Small Cap 600 Index measures the performance of selected U.S. stocks with small market capitalizations.
12. The Lipper Small Cap Value Fund Index measures the performance of the thirty largest U.S. small-cap value funds tracked by Lipper.
13. The Lipper Balanced Fund Index measures the performance of the thirty largest U.S. balanced funds tracked by Lipper.
14. The Lehman Govt./Corp. Bond Index is an unmanaged index that includes the Lehman Government and Lehman Corporate indices.
15. The NASDAQ Composite Index is a market value weighted index of all common stocks listed on NASDAQ.
16. 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.
17. The Lipper Global Fund Index is an unmanaged index that includes 30 mutual funds that invest in securities throughout the world.
18. Lipper, Inc. is an independent monitor of mutual fund performance. For the period ended 12/31/01, Global ranked #1 of 290 funds for the 1-year period, #1 of 231 for the 2-year period, and #1 of 222 since inception (8/4/99).
19. The MSCI World Ex U.S. Index is an unmanaged index made up of 19 country sub-indexes, excluding the U.S.
20. The Lipper International Fund Index is an unmanaged index that includes 30 mutual funds that invest in securities whose primary markets are outside the U.S.
21. Morningstar proprietary ratings reflect historical risk-adjusted performance and are subject to change every month. Morningstar ratings are calculated from a fund's 3- and 5-year average annual returns in excess of 90-day T-bill returns with appropriate fee adjustments, and a risk factor that reflects fund performance below 90-day T-bill returns. The top 10% of the funds in an investment category receive five stars and the next 22.5% receive four stars. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) returns. International received 4 stars overall, 5 stars of 1,349 for the 3-year period and 4 stars of 897 for the 5-year period; Intl Small Cap received 4 stars overall, 5 stars of 1,349 for the 3-year period and 4 stars of 897 for the 5-year period.
22. Lipper, Inc. is an independent monitor of mutual fund performance. For the period ended 12/31/01, International ranked 4 of 87 funds since inception (9/30/92), 8 of 758 for the 1-year period, and 30 of 351 for the 5-year period.
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.
24. NAV stands for Net Asset Value. NAV is the dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities divided by the number of shares outstanding.
25. The Lipper International Small Cap Average includes 76 mutual funds that invest in securities whose primary markets are outside the U.S.

# 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.”

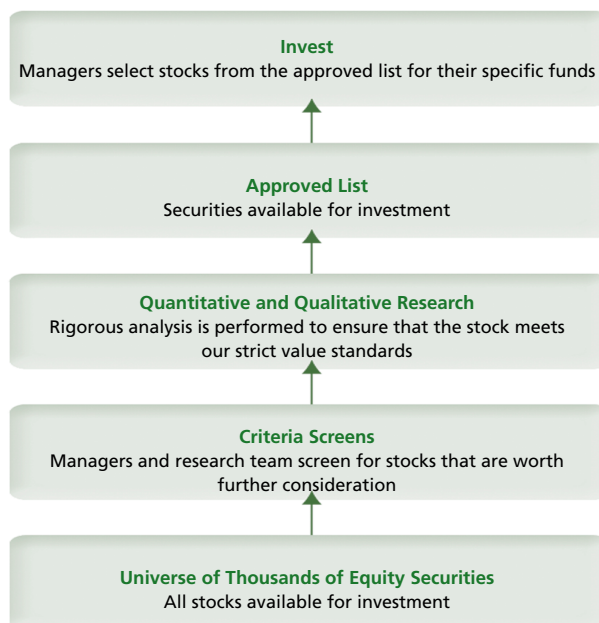
**The Result:** a unified effort aimed at identifying the best values in the marketplace. From the list of approved stocks, each fund manager constructs a relatively focused portfolio, built on a stock-by-stock basis from the bottom up.

## 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

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

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

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

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

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

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

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

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

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

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

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

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

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



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# THE OAKMARK FAMILY OF FUNDS

## *Trustees and Officers*

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### *Trustees*

Victor A. Morgenstern—*Chairman*  
Michael J. Friduss  
Thomas H. Hayden  
Christine M. Maki  
Allan J. Reich  
Marv Rotter  
Burton W. Ruder  
Peter S. Voss  
Gary Wilner, M.D.

### *Officers*

Robert M. Levy—*President*  
James P. Benson—*Vice President*  
Henry R. Berghoef—*Vice President*  
Kevin G. Grant—*Vice President*  
David G. Herro—*Vice President*  
Gregory L. Jackson—*Vice President*  
Clyde S. McGregor—*Vice President*  
Anita M. Nagler—*Vice President*  
William C. Nygren—*Vice President*  
Janet L. Reali—*Vice President and Secretary*  
Ann W. Regan—*Vice President—*  
*Shareholder Operations and Assistant Secretary*  
Edward A. Studzinski—*Vice President*  
Michael J. Welsh—*Vice President*  
Kristi L. Rowsell—*Treasurer*  
John J. Kane—*Assistant Treasurer*

### **Other Information**

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Chicago, Illinois 60602-3790

#### *Transfer Agent*

CDC IXIS Asset Management Services, Inc.  
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P.O. Box 8510  
Boston, Massachusetts 02266-8510

#### *Legal Counsel*

Bell, Boyd & Lloyd LLC  
Chicago, Illinois

#### *Independent Public Accountants*

Arthur Andersen LLP  
Chicago, Illinois

#### *For More Information:*

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

#### *Website*

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

#### *24-hour NAV hotline*

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

#### *E-mail Address*

[ServiceComments@oakmark.com](mailto:ServiceComments@oakmark.com)

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