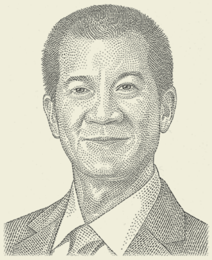

Davis Global Fund

Update from Portfolio Manager

Danton Goei

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Global Fund

Annual Review 2018

Investment Results

Davis Global Fund's strong performance in 2017 was driven by our holdings in the consumer discretionary, industrials and technology sectors.

Davis Global Fund enjoyed strong absolute and relative results in 2017, rising 33.3% compared to a gain of 24.0% for the MSCI ACWI (All Country World Index), an outperformance of 9.3%.[1] Drivers of outperformance were broad-based. Consumer goods companies in China were strong performers, including Alibaba, JD.com, New Oriental Education and Technology Group, and TAL Education.[2] U.S.-based multinational internet companies such as Amazon.com and Alphabet also experienced strong growth during the year, driven not only by their core e-commerce and search businesses but also by their other businesses including cloud computing with AWS (owned by Amazon) and online video at YouTube (owned by Alphabet). In addition, stalwarts such as JPMorgan Chase and Federal Express were strong contributors. ■

Perspectives on the Global Investment Landscape and Portfolio Positioning

Investing around the world in select businesses to take advantage of long-term global trends.

While we are bottom-up investors we also look for multiyear trends that provide tailwinds over our long holding period. One such trend driving growth in several of our portfolio companies is the rise of the global online consumer. The global e-commerce market is forecast to grow 18% a year through 2021.[3] Just as important more than 80% of e-commerce purchases are made outside the United States so limiting the e-commerce investable universe to Amazon would be a mistake.[4] In fact, China has clearly passed the United States as the world's largest e-commerce market. While U.S. online purchases account for 12% of U.S. retail sales, in China that percentage is 20% and growing rapidly. Because Chinese consumers attained middle class income levels in the era of the internet and the smartphone many

The average annual total returns for Davis Global Fund Class A shares for periods ending December 31, 2017, including a maximum 4.75% sales charge, are: 1 year, 27.00%; 5 years, 14.67%; and 10 years, 5.17%. The performance presented represents past performance and is not a guarantee of future results. *Total return assumes reinvestment of dividends and capital gain distributions. Investment return and principal value will vary so that, when redeemed, an investor's shares may be worth more or less than their original cost. The Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days. The total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.97%. The total annual operating expense ratio may vary in future years. Returns and expenses for other classes of shares will vary. Current performance may be higher or lower than the performance quoted. For most recent month-end performance, visit davisfunds.com or call 800-279-0279. The Fund's performance benefited from IPO purchases in 2013 and 2014. After purchase, the IPOs rapidly increased in value. Davis Advisors purchases shares intending to benefit from long-term growth of the underlying company; the rapid appreciation of the IPOs were unusual occurrences.*

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. Equity markets are volatile and an investor may lose money. **Past performance is not a guarantee of future results. 1.** Class A shares without a sales charge. **Past performance is not a guarantee of future results. 2.** Individual securities are discussed in this piece. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. The return of a security to the Fund will vary based on weighting and timing of purchase. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results. 3.** eMarketer, June 2017**. 4.** "Global Ecommerce" by Aaron Orendorff, Shopify, September 1, 2017.

leapfrogged the traditional mall and big box retail shopping experience and instead are shopping on their phones. The two giants of Chinese e-commerce, Alibaba and JD.com, together account for more than 80% of business to consumer online sales.

Another long-term trend we are taking advantage of is the growth in global travel. Revenue passenger miles have grown at a healthy 6% for many years, driven by global economic growth and the rise of the middle class in emerging markets. In fact, China is projected to become the world's largest air travel market by 2022.[5] Meanwhile, India was the world's fastest growing aviation market in 2016. The Asia-Pacific region now accounts for 32.9% of air travel and is growing well above the global average at 10.7% per year.[6]

Detractors from Fund performance were relatively limited in 2017 but included our energy holdings. Apache was a particular disappointment in 2017 following a fairly strong showing in 2016. In last year's Annual Review, we noted CEO John Christmann was refocusing the company on higher return, lower cost assets and selling low return high cost assets. That process continued in 2017 with Apache selling all assets in Canada and dedicating resources primarily to the Permian Basin, particularly to the new Alpine High discovery. Test wells are still being drilled and analyzed so the full value of Alpine High will not be known for some time but the upside potential could be meaningful. The market, however, has been skeptical and the stock has suffered as a result. We continue to like Apache's returns-focused management and think the substantial acreage the company has in the Permian Basin makes the stock undervalued regardless of the ultimate value of the Alpine High.

What we do not own is just as important as what we do. We continue to avoid stocks that trade at high price-earnings (P/E) multiples because of their dividend yield, so called "dividend darlings." According to Morningstar, the average P/E ratio of the 25 most widely held dividend-paying stocks is 27 times earnings with a payout ratio (the portion of earnings paid out as dividends to shareholders) of 66% and five-year average revenue growth of *negative* 0.4%.[7] In the current environment, investors are naturally starved for yield, which has made them willing to pay high multiples for slow growth businesses often in increasingly challenged industries with little opportunity to significantly increase dividends. We expect these dividend darlings to generate subpar investment results especially as interest rates rise over time, making the dividend less attractive. As a result, we own few consumer staples, utilities, telecommunications, and real estate investments.

Representative Holdings

Safran is a French aerospace equipment manufacturer that produces and services engines, landing gear, brakes, nacelles (the outer casing of an aircraft engine), and other equipment for commercial and military customers. A key attraction of the business is the company's 50/50 joint venture with General Electric in the narrow-body commercial aircraft market, which supplies 100% of the engines for Boeing 737s and competes with United Technologies for a share of the Airbus A320 market. Safran's scale in this niche market is unrivalled, and the company's legacy product, the CFM56, is the most successful commercial engine ever produced. This business has great long-term potential given the seven to eight year engine production backlog and the high margin aftermarket business of more than 20 years after a plane is first delivered. At the same time, the business is currently experiencing a product transition, as Safran begins delivery of new fuel efficient LEAP engines that will replace CFM56 engines for the next generation of Boeing

5. "China to overtake the U.S. as largest air travel market," by Jon Ostrower, CNNMoney, August 27, 2017. **6.** Air Passenger Market Analysis–March 2017, International Air Transport Association (IATA). **7.** Morningstar Direct Stock Intersection Report as of November 30, 2017.

and Airbus narrow-body planes. Although this transition is currently depressing profits, the cost profile of these new engines should materially improve by 2019–2020, which should significantly boost profitability. Safran currently trades at 19 times 2018 owner earnings.

Capital One is the nation's fourth largest credit card issuer as well as a commercial bank with more than $200 billion of deposits, providing it with a stable funding base. The credit card business historically has generated attractive returns on capital, although competition has recently increased particularly for higher spending rewards cards. Capital One is often considered a company that skews its business toward subprime borrowers. However, in our view, the company shifts its capital as required to capitalize on the best risk-adjusted opportunities, which in recent years have included parts of the subprime lending spectrum. CEO Richard Fairbank has led the company since its founding in 1993, building a culture that emphasizes data analytics to make smart issuance and lending decisions. Moreover, we consider the company attractively valued at 10–11 times our estimate of owner earnings.

Alibaba Group is the largest e-commerce marketplace in China and the world with $700 billion of gross merchandise volume this year. As a pure marketplace, the company allows third-party merchants to sell on its platform and generates revenue mostly through advertising. Merchants greatly value Alibaba's large and highly active user base (200 million active daily users and 500 million active monthly users), and many merchants derive the vast majority of their online sales from Alibaba's marketplace. Given the company's enviable competitive position, increasing use as an advertising platform, and promising investments abroad, we expect Alibaba to grow e-commerce revenues at a rate faster than the e-commerce market overall. When also considering the company's leadership position in emerging businesses with large potential such as internet payments (Alipay), internet finance (ANT Financial), cloud computing (Alibaba Cloud), digital media (Youku Tudou), and offline retail (multiple investments), we believe Alibaba is uniquely positioned in the world's largest online market. After assigning credible, although likely to be conservative valuations to these emerging business initiatives, the company's core e-commerce business is trading at 26 times fiscal year March 31, 2019 earnings. ■

Conclusion

We believe a key reason for Davis Global Fund's long-term outperformance since the Fund was established in 2004 is our focus and willingness to look quite different from its benchmark index, the MSCI ACWI. Davis Global Fund has approximately 50 holdings compared with the MSCI ACWI benchmark, which has 2,490 holdings. Obviously, there are not 2,490 great companies in the world, and the Index includes many state-run financial companies, utilities and industrial businesses that often have other priorities than shareholder returns. Similarly, when approaching investing in emerging markets we are highly selective. Our emerging markets holdings are focused on four countries where we see superior investment opportunities compared with the benchmark approach of spreading emerging market investments across 24 countries. This selective strategy coupled with our long-term investment horizon is a key pillar of the Davis investment approach. We value the trust you have placed in us and look forward to continuing our investment journey together. ■

This report is authorized for use by existing shareholders. A current Davis Global Fund prospectus must accompany or precede this material if it is distributed to prospective shareholders. You should carefully consider the Fund's investment objective, risks, charges, and expenses before investing. Read the prospectus carefully before you invest or send money.

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Objective and Risks. Davis Global Fund's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. Some important risks of an investment in the Fund are: **common stock risk:** an adverse event may have a negative impact on a company and could result in a decline in the price of its common stock; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **emerging market risk**: securities of issuers in emerging and developing markets may present risks not found in more mature markets. As of December 31, 2017, the Fund had approximately 38.48% of assets invested in securities from emerging markets; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **foreign currency risk:** the change in value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign currency; **headline risk:** the Fund may invest in a company when the company becomes the center of controversy. The company's stock may never recover or may become worthless; **large-capitalization companies risk:** companies with $10 billion or more in market capitalization generally experience slower rates of growth in earnings per share than do mid- and small-capitalization companies; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **mid- and small-capitalization companies risk:** companies with less than $10 billion in market capitalization typically have more limited product lines, markets and financial resources than larger companies, and may trade less frequently and in more limited volume; and **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines. See the prospectus for a complete description of the principal risks.

The Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of December 31, 2017, the top ten holdings of Davis Global Fund were: Alphabet Inc., 5.94%; Naspers Ltd.–N, 4.88%; Wells Fargo & Co., 4.48%; Capital One Financial Corp., 4.28%; Alibaba Group Holding Ltd.–ADR, 4.23%; Amazon.com, Inc., 3.91%; Hollysys Automation Technologies Ltd., 3.76%; United Technologies Corp., 3.46%; Encana Corp., 3.39%; New Oriental Education & Technology–ADR, 3.32%.

Davis Funds has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in the prospectus. Holding percentages are subject to change. Visit davisfunds.com or call 800-279-0279 for the most current public portfolio holdings information.

Trailing Price/Earnings (P/E) Ratio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. Portfolio totals are computed using an inverse harmonic methodology.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper and index websites.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets throughout the world. The Index includes reinvestment of dividends, net foreign withholding taxes.

After April 30, 2018, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

The Equity Specialists™ is a service mark of Davis Selected Advisers, L.P.

Shares of the Davis Funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

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