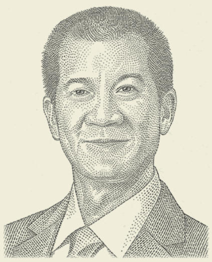
DGF SEMI-ANNUAL REVIEW 2017



Davis Global Fund

Update from Portfolio Manager

Danton Goei

Davis Funds

The Equity Specialists™

Davis Global Fund

Semi-Annual Review 2017

Investment Results

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

Davis Global Fund's achieved strong results in the first half of 2017, rising 14.18% as of June 30, 2017 versus 11.48% for the Fund's benchmark index, the MSCI ACWI (All Country World Index).[1] The Fund's outperformance was driven by holdings in Amazon.com, New Oriental Education and Technology Group, and Alphabet as well as other holdings in the consumer discretionary, industrials and materials sectors.[2] The energy sector with holdings such as Encana, Apache and EQT was the largest detractor from performance. ■

Perspectives on the Global Investment Landscape and Portfolio Positioning

Investing around the world in select businesses to take advantage of favorable global investment conditions.

Global investment conditions have been quite favorable in recent periods. Global gross domestic product (GDP) growth of 3.1% in 2016 was decent and followed a similar 3.2% increase in 2015. Also consistent with previous periods was the higher growth experienced in emerging markets, which grew GDP by 4.1% in 2016 compared to the United States with 1.6% growth and the Euro Area with 1.7% growth. Notably, China's GDP grew by 6.7%, India's by 6.6% and countries in the Association of Southeast Asian Nations (ASEAN) by 4.8%.

Over the past two decades we have witnessed the extraordinary economic development of Asia, which encompasses more than half of the world's population. In fact since 1999 world GDP growth averaged 3.8% while U.S. growth was only 2.1%, the Euro Area was even weaker at only 1.3% and Japan remained at 0.8%. Meanwhile emerging and developing Asian countries averaged a robust 7.7% growth rate driven mainly by China with an average GDP growth rate of 9.3% over the 18-year period.[3]

That sustained high level of economic growth for such a long period in part explains why Davis Global Fund has been investing in companies that can benefit from the transformation of China into a developed economy. Historically this largely meant investing in multinational corporations that sold their products in China such as Coca-Cola, Merck, Nestle, and Diageo. These companies continue to consider China an important market but increasingly the big winners

The average annual total returns for Davis Global Fund Class A shares for periods ending June 30, 2017, including a maximum 4.75% sales charge, are: 1 year, 18.51%; 5 years, 13.38%; and 10 years, 3.91%. 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.** IMF World Economic Outlook Update April 2017.

have been Chinese companies. These dominant local firms benefit from focus, a better understanding of customer needs and government support. This does not mean, however, that companies like Alibaba, Didi Chuxing and JD.com do not face challenges. In fact, often their biggest challenge is other ambitious, well-funded and entrepreneurial local competitors. In such cases fierce competition can persist over several years, making a long-term investment horizon critical.

Europe and Japan, however, are experiencing weak growth and in an effort to stimulate the economy have lowered several key interest rates so low they have dipped into negative territory. The European Central Bank (ECB) was the first to implement negative interest rates in June 2014 and today charges Euro Area banks 0.4% per year to deposit their reserves at the ECB. In mid June 2017 Euribor three-month rates were negative 0.33% and German five-year bonds were negative 0.39%.[4] In fact, the real inflation-adjusted return on short-term German bonds currently stands at around minus 2.5% per year.[5] The long-term implications of negative interest rates are unknown because they have never occurred before. At the 2016 Berkshire Hathaway shareholder meeting, Warren Buffett said, "We had a rule for 2,600 years ...that a bird in the hand was worth two in the bush. These days in Europe, it's worth 9/10ths of a bird in the bush." And Charlie Munger also stated, "Anybody who is intelligent, who is not confused, doesn't understand the situation very well."[6]

As the U.S. economic expansion enters its eighth year, the third longest expansion in U.S. history going back to 1854,[7] and unemployment falls to 4.3%,[8] the Federal Reserve has begun a move to more normal interest rate levels. From December 2016 to June 2017 the Federal Reserve implemented three 25 basis points rate hikes with at least one more increase expected later this year. Ultimately, a more normal rate environment should be positive for banks such as our holdings in JPMorgan Chase, Wells Fargo and BNY Mellon while making investments that appear interesting mainly for their dividend yield such as utilities and telecommunications companies less attractive. ■

Representative Holdings

In our view the Chinese consumer market continues to be one of the largest, fastest growing and most attractive places to search for great investments. Consumer consumption represents only 37% of gross domestic product (GDP) compared to the world average of 58%, the Euro Area at 55% and the U.S. at 68%[9] but is growing rapidly as the economy shifts to a more sustainable consumption-based model. One area that benefits from both the rising middle class and the Chinese cultural emphasis on education is after-school tutoring schools.

New Oriental Education & Technology Group (EDU) and TAL Education Group (TAL) are the two largest Chinese education companies. The vast Chinese education population totals 226 million students, second only in size to India's. Lack of resources, however, results in a dearth of higher education institutions and faculty. For example, the admission rate for the top 50 U.S. universities is 28% versus only 2.2% for the top 39 Chinese universities, meaning the Chinese system is almost 13 times more selective. Admission into a student's university of choice depends on the student's performance on the national college entrance exam, commonly known as the Gaokao exam. The Gaokao exam lasts nine hours spread over two days and tests knowledge of Chinese literature, math, English, and science. To prepare for the Gaokao exam, students begin attending after-school tutoring schools as young as kindergarten age.

While New Oriental Education and TAL Education are the two leaders in the kindergarten through grade 12 after-school tutoring market, the two companies combined still account for less than 5% of the market. This market is forecast to grow at a healthy 22% compound annual growth rate through 2020 and by leveraging their strong brands and much larger scale the two leaders are growing at above market rates. New Oriental Education currently trades at 29 times fiscal year 2018 earnings and is growing earnings per share at a rate of 29% per year while TAL Education

4. Bloomberg. **5.** www.zerohedge.com/news/2017-04-06. **6.** Forbes 3/26/15. "Flabbergasted! Quote of the Year from Berkshire Hathaway's Charlie Munger" by Phil DeMuth. **7.** www.cnbc.com, 2017/05/08. **8.** Bureau of Labor Statistics, 6/13/17. **9.** 2015 data from the World Bank.

currently trades at 33 times February 29, 2019 fiscal year earnings and is growing earnings per share at a rate of 73% per year.

InterGlobe Aviation (INDIGO IN) owns the leading Indian commercial airline, IndiGo Airlines, with a robust 41% share of domestic passenger volume. The Indian airline market is still at an early stage of development with the potential for a great deal of future growth. The number of airline seats per person in India is less than a quarter of China's, a fifth of Indonesia's and only one-thirtieth of the United States'. Surprisingly, India currently has less than 500 commercial aircraft serving a country of nearly 1.3 billion people.[10] Starting from such a low base the Indian domestic aviation market grew 21.6% in fiscal year 2016[11] and is forecast to grow by 9.3% per annum over the next 20 years.[12]

IndiGo operates a fleet of 135 Airbus A320s, including 22 new generation A320Neos with 15% better fuel efficiency. The company is also well positioned to meet future demand with approximately 400 A320Neos on order. The young age of its Airbus fleet and fast turnaround times mean IndiGo has the lowest costs in the industry. Given the company's strong long-term growth prospects, InterGlobe Aviation is attractively priced at 23 times fiscal year 2018 earnings and 20 times fiscal year 2019 earnings (March year end).

Wells Fargo (WFC) is among the largest U.S. commercial banks, with $1.3 trillion of customer deposits and $950 billion of loans. The bank's competitive position is driven by its high market share in each of its local markets (which is sometimes referred to as deposit density). As a result the bank paid a low 11 basis points for its deposits in 2016. Wells Fargo is also the U.S. market share leader in residential mortgages and does significant business with commercial clients. Wells Fargo earns a return on tangible equity in the mid teens, ranking at the high end of its peers despite the current low interest rate environment. The company is currently valued at 12 times our estimate of 2017 owner earnings.

The last year has been a challenging one at Wells Fargo due to a poorly structured incentive system at its community bank. The bank has long maintained a sales-oriented culture with a particular emphasis on cross-selling to customers in order to deepen client relationships. This strategy is based on customer convenience and has been an integral part of the bank's decades-long history of profitable growth. However, a poorly designed and monitored incentive system, which largely rewarded gross sales volumes, resulted in the widespread opening of unauthorized deposit and credit card accounts. The financial cost to customers was immaterial, but the breach of trust was not. Several senior executives ultimately left the company as a result, including the chief executive officer. Not surprisingly growth at the community bank declined from prior levels in the aftermath, although the business seems to have stabilized now. While rebuilding Wells Fargo's reputation and customers' trust will take time and resources, we are confident the bank has the ability to do so. ■

Conclusion

With the Davis family and employees the largest shareholders in Davis Global Fund, we stand side by side with our investors as we seek to achieve both strong relative and absolute returns, which we have accomplished over the past year and since the Fund's inception in 2004. We thank you for you continued trust and interest in Davis Global Fund. ■

10. The CIA World Factbook, June 15, 2017. **11.** InterGlobe Aviation Annual Report 2015–16, p.28. **12.** Airbus Global Market Forecast 2017–2036, "Growing horizons."

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 June 30, 2017, the Fund had approximately 33.75% 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 June 30, 2017, the top ten holdings of Davis Global Fund were: Alphabet Inc., 5.83%; Wells Fargo & Co., 4.61%; Amazon.com, Inc., 4.21%; Didi Chuxing Joint Co., 3.40%; Naspers Ltd.–N, 3.21%; Safan S.A., 3.17%; Hollysys Automation Technologies Ltd., 3.13%; Berkshire Hathaway Inc., Class B, 3.10%; Encana Corp., 2.91%; New Oriental Education & Technology, 2.77%.

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.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its funds and providing continuing support to clients and shareholders. For example, broker-dealers and other financial intermediaries may charge: sales commissions; distribution and service fees; and record-keeping fees. In addition, payments or reimbursements may be requested for: marketing support concerning Davis Advisors' products; placement on a list of offered products; access to sales meetings, sales representatives and management representatives; and participation in conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. Financial advisors should not consider Davis Advisors' payment(s) to a financial intermediary as a basis for recommending Davis Advisors.

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. Investments cannot be made directly in an index.

After October 31, 2017, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

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.

Davis Distributors, LLC
2949 East Elvira Road, Suite 101, Tucson, AZ 85756
800-279-0279, davisfunds.com

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