DOF ANNUAL REVIEW 2017

Davis Opportunity Fund

Update from Portfolio Managers

Davis Funds

The Equity Specialists™

Davis Opportunity Fund

Annual Review 2017

Short-Term and Long-Term Results

Davis Opportunity Fund returned 15.26% versus 12.74% for the Russell 3000 Index in 2016.[1]

While no investment approach consistently outperforms the market over the short term, Davis Opportunity Fund has outperformed its benchmark by a wide margin since inception more than 15 years ago.

Looking ahead, we believe the durability and growth potential of the individually selected companies that make up Davis Opportunity Fund position the Fund strongly for the years and even decades to come.

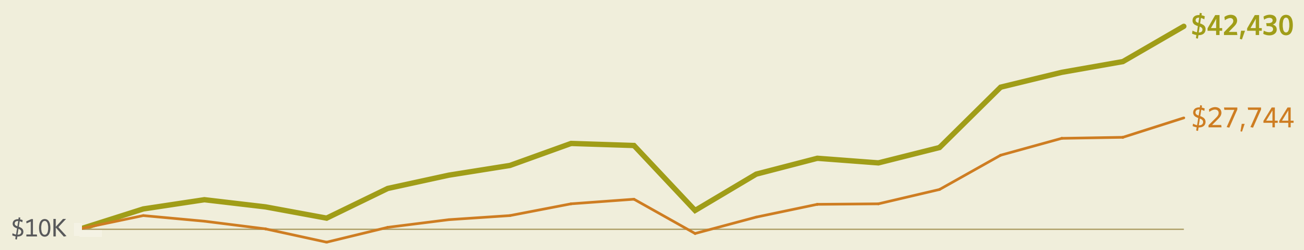
Investment Outlook

Equities should outperform bonds for the next decade.[2] Avoid overpriced dividend darlings and expensive companies with peak profit margins. Technology and globalization are disrupting industries at an unprecedented rate.

When evaluating the investment landscape, we do not make investment decisions based on short-term forecasts, which history has shown can be unreliable. Instead, we focus on the important and knowable while maintaining a long-term perspective.

Hypothetical $10,000 Investment Growth Since Inception[3]

1/1/99–12/31/16



The average annual total returns for Davis Opportunity Fund's Class A shares for periods ending December 31, 2016, including a maximum 4.75% sales charge, are: 1 year, 9.79%; 5 years, 14.51%; and 10 years, 5.48%. 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 total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.96%. 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 2010, 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 not including a sales charge. **Past performance is not a guarantee of future results. 2.** Common stocks and bonds represent different asset classes subject to different risks and rewards. Unlike bonds, the Fund does not offer a fixed rate of return if held to maturity, and the Fund has risks not associated with holding a bond. Bonds are considered to have less risk than equities. Future economic events may favor one asset class over another. **3.** Inception date shown is January 1, 1999, the date on which Davis Advisors began active daily management of Davis Opportunity Fund. From May 1, 1984, until December 31, 1998, Davis Advisors had a sub-advisor that handled the active daily management of the fund.

In today's market, our long-range assumptions include:

- Equities should outperform bonds over the next decade given that bond yields are at multi-century lows.
- Within the equity universe, selectivity is critical. Durable, well-managed businesses whose true value is not recognized by the market in the near term should ultimately outperform.
- Opportunities in today's market include global leaders selling at bargain prices, dominant lesser-known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.[4]
- Risks in today's market include companies with near peak margins and overvalued dividend darlings that are riskier than they appear. The 25 most commonly held stocks in the five largest dividend-focused exchange-traded funds are valued at 25 times earnings, a P/E ratio significantly higher than the market.
- Technology and globalization are reconfiguring industries at an unprecedented rate. Many long-standing brands and business moats that have enabled companies to maintain competitive advantages are being disrupted in unexpected ways. For example, in recent years iconic companies in the newspaper, retailing and media industries have all become obsolete. At the current rate of change, much of the Russell 3000 Index could be replaced in the coming decade. To succeed, investors should avoid conventional thinking and remain flexible. ■

The Portfolio

Global leaders trading at bargain prices. Dominant lesser-known businesses. Blue chips of tomorrow. Beneficiaries of short-term misperceptions.

Unlike the index benchmarks, which by definition must own most of the largest publicly traded companies in the United States without making distinctions based on quality or price, Davis Opportunity Fund seeks to own a focused group of extraordinary businesses that in general offer above-average resiliency and growth with below-average prices.

Global Leaders Trading at Bargain Prices—Some of the strongest and best-known companies in the world make up the largest portion of the Fund. Short-term economic concerns over the past year have reduced the share prices of many global leaders to bargain levels at a time of high valuations for the average company. Buying top-tier businesses at bargain prices should be a goal for long-term investors in any environment.

Applied Materials, an example of a global leader in the Portfolio, is an industry-leading producer of semiconductor fabrication tools that was founded in 1967 in Mountain View, California.[5] The company has 15,600 employees in 17 countries providing materials engineering solutions for semiconductor manufacturing. In addition to that core business, the company is a leading supplier of manufacturing tools for advanced flat-panel display screens that have similar technologies to semiconductor fabrication. Demand for Applied Materials' products and support services should continue to increase as the semiconductor fabrication process becomes more complex. With a leading market share and a top-notch management team, we believe the company is well positioned for future growth.

Microsoft, United Technologies, Berkshire Hathaway, and UnitedHealth Group are other examples of well-known global leaders in the Fund.

Dominant Lesser-Known Businesses—The Fund's investments also include lesser-known businesses that dominate dull but necessary niches in the global economy that operate in unglamorous industries or are headquartered in different countries and are not household names. As a result, their shares often trade at a discount to better-known companies despite having the same qualities of market dominance and durability as the global leaders described above. These businesses combine the strengths and resilience of blue chip companies with below-average valuations.

4. While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock may never recover. **5.** 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.**

A representative business in this category is Adient, a global manufacturer of automotive seating and interiors that was spun-off from Johnson Controls in October 2016. Headquartered in Dublin, Ireland, the company is the industry's leading seating supplier delivering 25 million seating systems each year to 40 different original equipment manufacturers. Adient, a new purchase in the fourth quarter of 2016, is an attractive addition to the Fund given its seasoned management team, dominant market share and low valuation.

Other lesser-known businesses with strong competitive moats and attractive long-term growth prospects include Delphi Automotive, Markel and Liberty Global.

Blue Chips of Tomorrow—Another theme is fast-moving companies that use innovation to disrupt the economics of larger but less agile competitors. Capitalism is a process of constant change that rewards businesses that can adapt. Over decades, we have seen many examples of today's disrupters emerging as tomorrow's blue chips. Several of Davis Opportunity Fund's core holdings, particularly in the online retailing and social media sectors, are currently in this category.

Alphabet, the parent company of Google, globally dominates the business of online search with a market share of more than 65%. The company's Google search engine allows users to search the World Wide Web for free but charges advertisers for placing ads on the search results page. Advertisers gladly pay for this ad placement as their ads are displayed only when searches are relevant to their business. This makes Alphabet a new generation media company in our view with a business model that is exceptionally well positioned to capitalize on the continuing transition from traditional print and television media to Internet-based content and advertising. In addition the company owns YouTube and has been successful in increasing advertising from this excellent business.

Amazon.com and Didi Chuxing are two additional companies we consider blue chips of tomorrow as both have innovative and disruptive business models that are taking market share in enormous markets.

Beneficiaries of Short-Term Misperceptions— Investors with a short-term focus often avoid companies that face any type of controversy or a negative near-term outlook, creating an opportunity for long-term investors willing to look beyond today's headlines. Since oil prices began their steep decline several years ago, investors have fled the energy sector in response to the dramatic (and unsustainable) collapse in oil prices. While oil prices are unknowable in the short term, they must exceed the cost of replacing reserves over time. This simple fact will eventually lead to higher energy prices and should drive future returns for the well-positioned, low-cost producers in the Fund.

Apache Corporation is a North American based energy exploration and development company focused on oil production, anchored by its excellent properties in the Permian Basin in Texas and New Mexico. Apache's new CEO John Christmann is properly focused on shareholder returns, and the company has recently completed a series of advantageous property sales using a substantial portion of the proceeds to reduce debt. In addition, Apache recently discovered an exceptionally large basin of shale oil in the Permian Basin, which has the potential to more than double the company's reserves. Given the quality and productivity of its acreage, Apache is well positioned in our estimation to increase production at a double-digit rate over the next decade. ■

Conclusion

Building wealth in the coming decade will require equity investors to look beyond the market index and be selective, adaptable and flexible. Given the quality and valuations of the companies in Davis Opportunity Fund, we believe we are well positioned to grow shareholder wealth and exceed the performance of the broader market over the long term. ■

This report is authorized for use by existing shareholders. A current Davis Opportunity 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 Opportunity 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: stock market risk: stock markets have periods of rising prices and periods of falling prices, including sharp declines; manager risk: poor security selection may cause the Fund to underperform relevant benchmarks; 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; 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; 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; 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; foreign country risk: foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified. As of December 31, 2016, the Fund had approximately 20.9% of assets invested in foreign companies; emerging market risk: securities of issuers in emerging and developing markets may present risks not found in more mature markets; 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; depositary receipts risk: depositary receipts may trade at a discount (or premium) to the underlying security and may be less liquid than the underlying securities listed on an exchange; and fees and expenses risk: the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund. See the prospectus for a complete description of the principal risks.

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, 2016, the top ten holdings of Davis Opportunity Fund were: Alphabet, Inc., 6.13%; Apache Corp., 5.63%; Wells Fargo & Co., 5.40%; Amazon.com, Inc., 4.94%; Encana Corp., 4.65%; Cabot Oil & Gas Corp., 3.71%; United Technologies Corp., 3.52%; Adient PLC, 2.97%; Delphi Automotive PLC, 2.72%; UnitedHealth Group, Inc., 2.65%.

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.

Davis Advisors began active daily management of the Fund on January 1, 1999. From May 1, 1984, until December 31, 1998, Davis Advisors had a sub-advisor that handled the active daily management of the fund.

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

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.

The Russell 3000 Index measures the performance of the 3,000 largest companies incorporated in the United States and its territories and listed on the NYSE, AMEX, or NASDAQ. The companies are ranked by decreased total market capitalizations. Investments cannot be made directly in an index.

After April 30, 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.

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