Davis Opportunity Fund

Update from Portfolio Managers

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Opportunity Fund

Annual Review 2018

Market Perspectives

Davis Opportunity Fund delivered 23.1% versus 21.8% for the S&P 500 Index and 21.1% for the Russell 3000 Index in 2017.[1]

In 2017 the U.S. stock market returned 21.8% for the S&P 500 Index and 21.1% for the Russell 3000 Index in 2017. This progress occurred against a relatively favorable economic backdrop. The U.S. economy is growing gross domestic product (GDP) at an annualized rate of approximately 3% with relatively full employment while interest rates and inflation remain muted.

Davis Opportunity Fund delivered strong results during the year as well, outperforming its benchmark, the Russell 3000 Index, and growing the wealth and savings of our shareholders at a double-digit rate through what we feel is a time-tested, reliable long-term investment approach. Consumer discretionary and information technology holdings contributed to relative results while energy holdings were a detractor.

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.

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

- Equities should outperform bonds over the next decade given bond yields are at low levels not seen for centuries.[2]
- Within the equity universe, selectivity is critical. Durable, well-managed businesses whose true value is not fully 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.[3]
- Risks in today's market include companies with near peak profit margins and overvalued dividend darlings that are riskier than they appear.[4] ■

The average annual total returns for Davis Opportunity Fund's Class A shares for periods ending December 31, 2017, including a maximum 4.75% sales charge, are: 1 year, 17.25%; 5 years, 16.66%; and 10 years, 7.85%. 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 0.95%. 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.** 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.** While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock may never recover. **4.** While Davis Advisors attempts to manage risk there is no guarantee that an investor will not lose money. Equity markets are volatile and the investment return and principal value of an investment will vary. Diversification does not ensure against loss.

Portfolio Review

Dominant market leaders. Out-of-the-spotlight businesses. Contrarian investments.

Davis Opportunity Fund is built from the bottom up, company by company, with the goal of compounding our investors' capital at a satisfactory rate over a multiyear time horizon. In our experience, this patient, time-tested approach is a reliable method for growing shareholder wealth over the long term.

Davis Opportunity Fund holds three categories of businesses including in order of proportion:

- Dominant market leaders
- Lesser-known, "out-of-the-spotlight" businesses
- Contrarian investments

Three representative market leaders in the Fund include JPMorgan Chase, United Technologies and Aetna.[5]

With more than $2.5 trillion in assets, JPMorgan Chase's diversified operations include one of the top private banks in the country, one of the largest investment banks, the largest U.S. credit card company as measured by loans outstanding, and a retail bank ranked in the top three based on deposits. This well-diversified business mix provides some stability for the company's cash flow through various economic cycles.

United Technologies, a second market leader, is a U.S.-based industrial conglomerate with strong business lines primarily in aerospace and building services, including aircraft engine company Pratt & Whitney, Otis Elevator and Carrier among subsidiaries. United Technologies has strong competitive moats and the potential to deliver steady growth in the years ahead, driven particularly by strong demand for its aerospace products.

Aetna, another market leader in the Portfolio, ranks among the five largest health insurers in the United States. Aetna has a strong negotiating position in most markets and has successfully branched into the Medicare and Medicaid markets in addition to the company's commercial health insurance lines. We like Aetna's solid business model, good growth prospects and return on capital coupled with its fair valuation. As an indication of the company's value, CVS offered to acquire Aetna at a healthy premium with the aim of creating a vertically integrated health care conglomerate. That merger is subject to regulatory review and may be consummated in 2018.

A representative out-of-the-spotlight company in the Fund is JD.com, one of only a handful of businesses that has gained the critical size and scale to prosper in the Chinese e-commerce market. The company, whose shares are traded on NASDAQ in the United States, is the largest e-commerce retailer in mainland China, which is now the largest e-commerce market in the world. JD.com sells from its own stocked inventory while also offering inventory from more than 160,000 merchants in its marketplace and has a well-developed infrastructure of more than 405 warehouses across China. We believe JD.com will continue to grow rapidly both by taking market share from smaller rivals as well as from the overall growth of Chinese online commerce.

In the contrarian investment category, Encana and Cabot Oil & Gas are two energy companies focused on the exploration and production of oil and natural gas in North American shale formations. Both represent compelling long-term investments despite the fact they are currently in an out-of-favor sector.

Encana is a Canadian-based company with properties in both Canada and the United States. Since taking the helm in June 2013, Encana CEO Doug Suttles has radically altered the company's direction by divesting low value, low return assets and focusing on a slimmed down portfolio of high value, high return opportunities, including purchasing prime properties in the Eagle Ford shale formation. We expect meaningful production growth

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.**

over the years to come and believe the company's stock, which declined in value along with the recent drop in oil prices, is undervalued and offers patient investors attractive long-term returns.

Cabot Oil & Gas is a leading independent natural gas producer with the majority of its production coming from properties in the Marcellus Shale in northeast Pennsylvania. Extraction costs at the company's Marcellus properties are among the lowest in the industry, providing an important competitive advantage in our view. In addition, Marcellus gas is near the large Boston and New York markets, which are easily accessible through an established pipeline network.

Overall, we believe the durable balance sheets and long-term earnings power of the companies that make up Davis Opportunity Fund strongly position us to continue building shareholder wealth over time.

Since our firm's inception nearly 50 years ago, we have adhered to the same, time-tested investment philosophy and rigorous research process of buying durable businesses at attractive prices and holding them for the long term. The more than $2 billion of capital from Davis Advisors, the Davis family and Foundation, our employees, and Fund directors have invested side by side with our clients' savings in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy. ■

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: **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 may trade at a discount (or premium) to the underlying security and may be less liquid than the underlying securities listed on an exchange; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature 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. As of December 31, 2017, the Fund had approximately 21.2% of assets invested in foreign companies; **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.

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 Opportunity Fund were: Alphabet Inc., 7.00%; Amazon.com, Inc., 5.55%; Wells Fargo & Co., 5.35%; Apache Corp., 5.00%; Encana Corp., 4.75%; Cabot Oil & Gas Corp., 4.65%; United Technologies Corp., 3.69%; Adient PLC, 3.58%; Grab Inc., 3.55%; Didi Chuxing Joint Co., 3.54%.

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.

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

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, 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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