Davis Opportunity Fund

Update from Portfolio Managers

Davis FUNDS

THE EQUITY SPECIALISTS™

Davis Opportunity Fund

Semi-Annual Review 2017

Market Perspectives

Davis Opportunity Fund delivered 10.23% versus 9.34% for the S&P 500 Index and 8.93% for the Russell 3000 Index in the first half of 2017.[1]

In the first half of 2017 the U.S. stock market advanced with the S&P 500 Index returning 9.34% and the Russell 3000 Index returning 8.93%. Davis Opportunity Fund outperformed the broader market, returning 10.23% in the period. Consumer discretionary and information technology contributed to relative results while energy was a detractor.

The U.S. economy continues to expand with relatively full employment, prompting the Federal Reserve to raise short-term interest rates earlier this year. Still, both interest rates and inflation remain subdued. At the same time, many U.S. businesses have generated what we consider robust earnings growth in recent periods. Market valuations reflect this healthy backdrop on balance. Given this fact, we believe it is perhaps more critical than at any other point in the current business cycle for investors to select companies individually using true active management as businesses differ widely in their growth rates and valuations and, as a result, in their risk and return profiles. We continue to find value on a company by company basis and are focusing heavily on areas of the market where operating margins have room to improve and where meaningful inefficiencies persist such as financial services, energy and industrial businesses. We have also made long-term investments in leading technology companies whose long-term growth is more durable than the market recognizes in our estimation.

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 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]

The average annual total returns for Davis Opportunity Fund Class A shares for periods ending June 30, 2017, including a maximum 4.75% sales charge, are: 1 year, 16.27%; 5 years, 15.71%; and 10 years, 5.90%. 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 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 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.

- Risks in today's market include companies with near peak profit margins and overvalued dividend darlings that are riskier than they appear.
- Technology and globalization are reconfiguring industries at an unprecedented rate. Many long-standing brands and business moats that enable 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 become obsolete. At the current rate of change, 75% of the companies in the S&P 500 Index could be replaced in the coming decade. To succeed, investors should avoid conventional thinking and remain flexible. ■

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.

The Portfolio holds three categories of investments:

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

Berkshire Hathaway, a representative market leader in the Portfolio, is a diversified holding company with interests in insurance, reinsurance, railroads, utilities, manufacturing, retailing, and a host of other business lines.[4] Under the strong leadership of Warren Buffett and team the company has compounded book value at almost 20% per year on average over the last 50 years. During that time Berkshire has quietly evolved from a textile manufacturer to a well-run insurance operation and more recently to a diversified business with almost two-thirds of its earnings generated by nonfinancial operations. We believe Berkshire is a financial powerhouse and well positioned for continued steady growth, although at a somewhat slower pace given its already large size.

Amazon, an e-commerce giant that has profoundly reshaped the retail industry over the years, is another example of a market leader in the Portfolio. Borrowing a concept from Costco, Amazon offers an optional membership-based business model through its Amazon Prime service. In addition to its retail business, Amazon has a state-of-the-art, rapidly growing web services business that enables companies and other organizations to outsource their computer systems to Amazon's digital cloud.

A representative out-of-the-spotlight business 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 per year to 40 different original equipment manufacturers. Adient is an attractive new addition to our Portfolio given its seasoned management team, dominant market share and low valuation.

Liberty Global is another example of a dominant, lesser-known business. The company is a leader in cable television and broadband services throughout Europe and is controlled by John Malone, a pioneer in the U.S. cable industry with an outstanding record as a capital allocator. During the past decade, Liberty Global has opportunistically acquired several European cable TV systems, most of which were inefficiently run. We expect Liberty Global to improve the efficiency of these operations substantially over time and seek expansion opportunities in a shareholder friendly manner.

A representative contrarian investment and recent addition to the Portfolio is FedEx, one of the few U.S. conglomerates left that is still closely associated with its living founder, Fred Smith. Since the company was

4. 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.**

established in 1971, FedEx has become a leader in the integrated package delivery business, alongside the United Parcel Service (UPS) as well as the U.S. Postal Service domestically and a more fragmented array of competitors internationally. We believe FedEx is an attractive business given the industry's high barriers to entry as well as the company's growth potential in e-commerce and its exceptional management team. Notwithstanding the cloud FedEx faces given possible competition from Amazon's potential entry into the package delivery industry, we believe FedEx is currently trading at a below-average valuation with an above-average potential growth rate.

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

At Davis Advisors we seek to own durable businesses at attractive prices that can be held for the long term. The Davis family, our firm and our employees have more than $2 billion invested side by side with clients.[5] We look forward to continuing our investment journey together. ■

5. As of June 30, 2017.

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 June 30, 2017, the Fund had approximately 21.6% 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 June 30, 2017, the top ten holdings of Davis Opportunity Fund were: Alphabet Inc., 6.94%; Apache Corp., 5.63%; Wells Fargo & Co., 5.22%; Amazon.com, Inc., 5.20%; Cabot Oil & Gas Corp., 4.36%; Didi Chuxing Joint Co., 3.79%; United Technologies Corp., 3.78%; Delphi Automotive PLC, 3.41%; Encana Corp., 3.35%; Adient PLC, 3.18%.

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.

Small-cap companies have market capitalizations less than $3 billion. Mid-cap companies have market capitalizations from $3 billion to $10 billion. Large-cap companies have market capitalizations more than $10 billion. Under normal circumstances, Davis Opportunity Fund invests the majority of its assets in equity securities issued by companies with market capitalizations of less than $20 billion.

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. The **S&P 500 Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. 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.

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Item #4420 6/17