



# Davis Opportunity Fund

Semi-Annual Review 2025

Update from Portfolio Managers

## Key Takeaways

- Davis Opportunity Fund (DOF) returned 9.50% in the first six months of 2025, outperforming its benchmark.
- The market delivered a positive performance during the period, but not in a straight-line fashion, falling close to 20% from the high before rebounding. This classically illustrates the difference between volatility and risk, which has implications for investors, as we discuss below.
- Following our investment discipline, DOF's portfolio is selectively focused on a small number of businesses that are growing earnings faster than the benchmark, on average, while trading at lower valuations. We are comfortable with our positioning and look forward to these businesses' values becoming more widely apparent to the capital markets over time.

## Market Perspectives: Volatility vs. Risk

In the first half of 2025, Davis Opportunity Fund (DOF) returned 9.50%, outperforming its benchmark, the S&P 1500 Index, which returned 5.61%.

While the market's performance was positive for the year-to-date period, those results did not occur in a straight-line fashion. Indeed, from late February through early April the market indexes fell close to 20% from high to low before rebounding by more than 20% (albeit off a lower base) to their current levels in positive territory.

In other words, despite a very strong long-term record of appreciating, stock prices can be volatile in the short run, and the first half of 2025 was no different in that respect.

The market's behavior over this period highlights the very real difference between stock price volatility and risk. Volatility, by definition, consists of both up and down price movements. We think that investors tacitly seek and expect volatility as long as the overall path produces a satisfactory return over time and is skewed to the positive. Given the market's rise over the last century, this seems a reasonable expectation for stocks. On the other hand, risk implies

***The average annual total returns for Davis Opportunity Fund's Class A shares for periods ending June 30, 2025, including a maximum 4.75% sales charge, are: 1 year, 9.13%; 5 years, 13.90%; and 10 years, 10.34%. 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. For most recent month-end performance, visit davisfunds.com or call 800-279-0279. Current performance may be lower or higher than the performance quoted. The total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.93%. The total annual operating expense ratio may vary in future years. Returns and expenses for other classes of shares will vary.***

This material 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. All fund performance discussed within this material refers to Class A shares without a sales charge and are as of 6/30/25, unless otherwise noted. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.**

a *permanent and significant loss of capital*. This could be due to a real decline in the intrinsic worth of the businesses in a portfolio (as measured by earnings power) or to a meaningful contraction in their stock price-to-earnings multiples, or both.

It seems nearly inconceivable to us that the businesses making up the broader market could lose nearly 20% of their *intrinsic* worth, then quickly recover that value and more, all in the span of a six-month period. (In fact, earnings growth rates for the first half of 2025 have not even been determined given the quarterly reporting cycle of most U.S. public corporations.)

What have changed in the short run are news headlines and the daily pricing and repricing of uncertainties. These uncertainties range from mixed U.S. domestic economic data, including a modest contraction in the first quarter, to geopolitical events around the world like ongoing tariff negotiations and two major conflicts overseas.

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Our view is that what will matter most to the market’s progress in the long run is whether businesses experience growth in raw earnings power. The uncertainties of the moment make

near-term predictions hard at best. However, our research suggests that many businesses are becoming *more* valuable over time based on their economic models, strategies, market demand and execution, even though their stock prices may decline at times.

As for the new macro environment, it is being shaped by three transitions underway that we describe below. In this environment, investors need to be open-minded, flexible and vigilant, with the willingness to adapt as circumstances evolve.

The first transition is that money now has a cost in terms of interest rates, whereas for most of the past decade that was not the case. Money was either very cheap or entirely free in the years following the 2008-2009 financial crisis. Higher rates means that interest expenses for businesses reliant on a significant amount of debt may be greater now and can eat into profit margins. All else equal, if revenues remain constant for a company with a material debt burden, its profit margins might suffer due to the now-higher interest expense.

The second transition underway is geopolitical in nature. It includes tariff uncertainty as well as the conflicts in Ukraine and the Middle East. This type of geopolitical uncertainty is always unpredictable. However, we believe we are operating in an environment with even greater uncertainty than usual, one where the range of potential outcomes is quite wide relative to the decades of the 1990s and 2000s, for example.

The third transition is the reversal in the drive towards globalization which had been in place since World War II. It is unlikely to revert anytime soon, in our opinion. America's age-old alliances with European countries and with Canada and Mexico are in flux. Domestic tensions have boiled to the surface in the area of immigration. The rise of China as an economic and military superpower is a tectonic shift in the global balance of power compared to what it was through most of the last half century.

All three transitions amount to a great uncertainty factor. It is all the more important for investors to remain flexible and willing to adapt while also being reasonably conservative in the types of businesses they own and the prices they pay. Above all, they should understand and appreciate the businesses they invest in, consistent with the "know what you own" principle. A lower P/E multiple can theoretically compensate equity investors for added uncertainty. In the value investing paradigm, investors need to build in a margin of safety before proceeding.

Meanwhile, the S&P 1500 Index still trades at a forward P/E multiple of 22.5x which we regard as a rather aggressive valuation, given the unknowns. By contrast, DOF's forward P/E is under 14x, a full third cheaper than the index.<sup>1</sup>

With only 45 holdings in the fund (versus over 1,500 securities in the benchmark), we feel we know every one of our businesses well enough to understand their principal pros and cons. That is, we seek always to maintain a standard of "knowing what we own." When constructing portfolios, we weight positions both on business strength and attractiveness looking out several years, and on the relative merits of each company's valuation. Over a typical year we will likely make several changes

to the portfolio, given the market's dynamism and the need for active repositioning. By contrast, index rebalances are rules-based and calendar-driven.

We seek businesses with attractive earnings growth. All else equal, they are worth more than those with flat or declining earnings growth. The average five-year earnings per share growth rate of the businesses held in DOF is over 20% per annum versus a more modest 15% for the benchmark.<sup>2</sup> Despite the higher earnings growth, the portfolio's multiple is a third less than the index's, reflecting our conservative posture in the face of current events and the transitions we discussed above.

As an active manager with a 56-year history of bottom-up stock picking, our firm has the ability to be flexible, adapt to change, make conscious decisions around risk and reward, and apply a deliberative portfolio construction process. This is in sharp contrast to rules-based passive alternatives. ■

## Portfolio Review: Capital Allocation

We select the fund's holdings on an individual basis according to the Davis Investment Discipline—that is, we seek to purchase durable, well-managed businesses at value prices and hold them for the long term. This bottom-up process has served us well over the life of the strategy. It allows us to allocate capital rather surgically into specific businesses at specific prices, and lets us structure and shape the portfolio in a conscious fashion—with risk and reward both equally important.

1. Forward Price/Earnings (Forward P/E) Ratio is a stock's price at the date indicated divided by the company's forecasted earnings for the following 12 months based on estimates provided by the Fund's data provider. These values for both the Fund and the Index are the weighted average of the stocks in the portfolio or Index. 2. Five-year EPS Growth Rate (5-year EPS) is the average annualized earnings per share growth for a company over the past 5 years. The values shown are the weighted average of the 5-year EPS of the stocks in the Fund or Index. Approximately 10.64% of the assets of the Fund are not accounted for in the calculation of 5-year EPS as relevant information on certain companies is not available to the Fund's data provider.

The overall positioning of DOF can be described by its contrast with the S&P 1500 Index in terms of number of portfolio holdings, historical earnings per share growth, and forward price-to-earnings (P/E) multiples as follows:

### Selective, Attractive Growth, Undervalued

|                     | Fund  | Index |
|---------------------|-------|-------|
| Holdings            | 45    | 1,506 |
| EPS Growth (5 Year) | 20.1% | 15.1% |
| P/E (Forward)       | 13.2x | 22.5x |

The portfolio's current focus is on businesses in four main areas of the economy: (1) dominant healthcare companies (predominantly healthcare services that are both cheap and underestimated in our view), (2) durable financial services, (3) leading technology-related companies, and (4) industrials.

Within **healthcare**, our holdings range over managed insurance, lab and diagnostics services, generic pharmaceuticals and medical supply businesses. What these businesses have in common is that they all participate in the large profit pool of the U.S. healthcare sector, with total healthcare spend representing close to 20% of our country's gross domestic product. As the population ages, we expect aggregate healthcare spend in absolute terms will continue to climb over the coming decade. The healthcare areas where we have invested are relatively cheap, by our analysis, and we believe their

growth potential is underestimated. Representative businesses include Quest Diagnostics, Viatris, CVS Health and Cigna Group, among others.

**Financials** mean different things to different people. Many investors see the financial sector as primarily banking. This is one facet of the industry but there are many others. They include credit cards and payments companies, global insurers and reinsurers, and various businesses driven by the capital markets—for example, investment banks, trust and custody institutions, or conglomerates with a financial arm. Our representative financial holdings include Capital One Financial, Markel Group and U.S. Bancorp.

*"We look forward to measuring the results and witnessing the strengths of these businesses over the next five to 10 years as they become more widely apparent to the capital markets."*

**Technology-driven companies**<sup>3</sup> have been meaningful allocations in DOF for decades. Meta Platforms is our largest holding in this group. It is pricier than it was at the time of our last major purchase in early 2023 but is still an attractive investment, in our view, given its rather extraordinary global growth. Meta is a true modern-day, next-generation media and advertising company that is highly innovative and dominant in social media.

3. Includes information technology and communication services companies.

**Industrial businesses** in the portfolio currently include Wesco International, which provides B2B distribution, logistics and supply chain solutions, and AGCO, a farm equipment manufacturer.

Our remaining holdings balance out and diversify the portfolio. They represent sectors as diverse as consumer-related businesses and materials.

Overall, we are very comfortable with our positioning. The portfolio, as noted earlier, has a forward P/E of less than 14x and a five-year EPS growth rate of approximately 20%, which we regard as an attractive combination of attributes. We look forward to measuring the results and witnessing the strengths of these businesses over the next five to 10 years as they become more widely apparent to the capital markets. ■

## ■ Outlook: Balancing Risk and Reward

The equity market is really a vast market of individual stocks tied to thousands of individual businesses. In our experience, striking the right balance between risk and reward and consciously repositioning as circumstances change are critical to long-run success. We look forward to continuing our investment journey with our shareholders.

For more than 50 years at Davis Advisors we have navigated a constantly changing investment landscape guided by one North Star: to grow the value of the funds entrusted to us. We are pleased to have achieved strong results thus far and look forward to the decades ahead. With more than \$2 billion of our own money invested in our portfolios, we stand shoulder to shoulder with our clients on this long journey.<sup>4</sup> We are grateful for your trust and are well-positioned for the future. ■



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#### Topics

- Why you make most of your money in a bear market
- Viewing volatility as a cost of admission to building wealth
- Saving like a pessimist, but investing like an optimist

4. As of 6/30/25, Davis Advisors, the Davis family and Foundation, our employees, and Fund directors have more than \$2 billion invested alongside clients in similarly managed accounts and strategies.

*This material 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 material 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.

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 material. 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.

**Objective and Risks.** The investment objective of Davis Opportunity Fund 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; **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; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified. As of 6/30/25, the Fund had approximately 20.3% of net assets invested in foreign companies; **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 \$20.5 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 \$20.5 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; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **depository receipts risk:** depository receipts involve higher expenses and 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; and **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. See the prospectus for a complete description of the principal risks.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 6/30/25, the top ten holdings of Davis Opportunity Fund were: Capital One Financial, 7.69%; Quest Diagnostics, 6.57%; Markel Group, 5.63%; CVS Health, 4.65%; Viatris, 4.27%; Teck Resources, 3.80%; Solventum, 3.71%; Wesco International, 3.70%; U.S. Bancorp, 3.50%; and Tourmaline Oil, 3.41%.

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 Statement of Additional Information. Holding percentages are subject to change. Visit [davisfunds.com](http://davisfunds.com) or call 800-279-0279 for the most current public portfolio holdings information.

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The ranges reflected for large, mid, and small cap reflect the current ranges utilized by the S&P Composite 1500 Market Cap Guidelines, as may be amended from time to time. The current ranges are: large-capitalization, over \$20.5 billion; mid-capitalization, between \$7.4 billion and \$20.5 billion; small-capitalization, under \$7.4 billion.

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

The **S&P 1500 Index** includes all stocks in the S&P 500, S&P MidCap 400, and S&P SmallCap 600. This index covers approximately 90% of U.S. market capitalization. Investments cannot be made directly in an index.

After 10/31/25, this material must be accompanied by a supplement containing performance data for the most recent quarter end.