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Update from Portfolio Managers
Andrew A. Davis and Chandler Spears

Davis Real Estate Fund

Annual Review 2026

Key Takeaways

- Davis Real Estate Fund (DREF) underperformed its benchmark in 2025 as passive inflows dominated the market, increasing the gravitational attraction of size and making the big bigger, all at the expense of valuation-driven strategies like ours.
- In this review we discuss the performance gap, comment on why funds flow into the sector has become so significant, and explain how we are adapting our strategy in response.
- The fund's performance during 2025 was supported by key sectors like industrials and the office market, especially our holdings in London-based office REITs.
- Looking forward, we are confident in our selective positioning in the apartment, office and life science sectors. We also hold AI-related opportunities, but guardedly, watching the sector closely for any signs of trend change or regulatory risk.

The average annual total returns for Davis Real Estate Fund's Class A shares for periods ending December 31, 2025, including a maximum 4.75% sales charge, are: 1 year, -10.20%; 5 years, 1.77%; and 10 years, 3.61%. 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 1.02%. The Adviser is contractually committed to waive fees and/or reimburse the Fund's expenses to the extent necessary to cap total annual fund operating expenses of Class A shares at 1.00%. For purposes of this expense cap, operating expenses do not include foreign tax reclaim filing expenses. The expense cap expires May 1, 2026. 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 12/31/25, 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.**

Davis Real Estate Fund's (DREF) Class A shares provided a total return on net asset value of -5.72% for the year ended December 31, 2025. Over the same time period, the Wilshire U.S. Real Estate Securities Index returned +3.47%. During the most recent one-, five- and 10-year periods, a \$10,000 investment in Davis Real Estate Fund would have returned \$9,428, \$11,464 and \$14,965, respectively.

As investors with long time horizons we might view DREF's 2025 result, however disappointing, as inevitable variation in building laudable long-term performance. Unfortunately, it was the third year in a row where the fund's performance lagged our benchmark, putting a rather sizable dent in our long-term track record. This has prompted us to invest a considerable amount of time reevaluating our methods and investment goals. It has been a trying process focused on challenging our long-held convictions about what sort of real estate businesses we want to own. ■

■ ■ ■ How Did We Get Here?

Before we get into the results of our reflections, we should describe how the performance gap developed and why it deepened so dramatically during 2025. Simplistically it can be seen as two sins, one of omission and one of inclusion. To frame the discussion, we will use Welltower, a senior housing REIT, and Alexandria Real Estate, a REIT owner/developer of life science real estate. This pairing will be convenient given our under-owning Welltower and over-owning Alexandria, terms that will become better understood in a minute. Together they are the most important reasons for our underperformance during 2025 and, indeed, over the past few years.

DREF's benchmark, the Wilshire U.S. Real Estate Securities Index, has always been top-heavy. As far back as 2005 its top 10 constituents comprised over 40% of the index's total market capitalization. Today that is close to 50% and it has not deviated from that 40-50% range during the past 20 years.

We have never spent much time considering high-level things like index composition. We are not, after all, closet indexers. However, after this most recent period of poor performance we broadened our research effort. What we discovered looking at performance over time is that being big and, more significantly, getting bigger quickly matters far more than we expected. We also found that its importance has accelerated over the past few years. That's where Welltower enters the picture as our sin of omission.

During the height of COVID, Welltower and other healthcare real estate stocks were battered. In the span of two years Welltower's earnings dropped by a third as occupancy in its properties plummeted. Its valuation fell in sympathy and to our eye went too far. Welltower was a small position in the fund as the pandemic hit its peak, and we began adding to our position. When the pandemic receded Welltower began to show tremendous growth as it rebuilt occupancy, albeit off a very low base. Nevertheless, investors were cheered and the company began to experience multiple expansion.

As its cost of equity dropped, the capital markets opened and Welltower began raising capital to purchase senior housing assets that, for all practical purposes, no one else wanted to own. That fueled even better earnings growth above and beyond what it was getting from occupancy growth. A virtuous cycle began where Welltower parlayed positive spread investing to become one of the biggest public real estate companies in existence. It is now the single largest company in our benchmark at almost 9% of its total market capitalization. This compares to 2022 when it was the fifth largest in the benchmark and only 4% of its total market capitalization. But like all good things, there are limits. Welltower has long been and still is the most expensive stock in our universe by a considerable margin, and that's after accounting for robust growth expectations.

What we didn't account for is the significance of funds flow into the sector, and how that has made being big more important than ever. Over the past decade passive investment strategies have realized considerable inflows. Actively managed funds, like DREF, have suffered almost continual outflows. What does that mean? Well, to put it simply, when passive flows trump active flows it creates a valuation-agnostic bid that favors rapidly growing companies. To put that in the context of 2025, passive strategies saw \$1.5 billion of inflows while active strategies suffered \$2.8 billion of outflows. That means every dollar of passive money that entered the sector had to invest almost nine cents in Welltower even though it has been trading at the highest valuation we've ever seen in the REIT sector. And as the company gets bigger, its share of every passive dollar invested increases. It should surprise no one that Welltower was the best performing REIT in our universe and by a considerable margin. Unfortunately for us, we had completely exited the stock by January 2025.

To us the logical reinvestment opportunity was (and remains) Alexandria Real Estate, one of our largest overweight positions heading into 2025. We have spoken about this REIT many times in prior investor letters, most often to describe how it has buoyed fund performance. We can't do that today. Half of Alexandria's market value evaporated during the year, an outcome reminiscent of the Great Financial Crisis. That follows on poor performance during 2024 and 2023. In a very real sense, Alexandria's trajectory, at least in terms of its relevance to DREF's benchmark, followed an inverse path to Welltower. In 2023 Alexandria was the seventh largest company in the index, just slightly smaller than Welltower. Today it is the forty-second largest constituent representing just 57 basis points of our benchmark. (That's just over one half of one percent for those readers not familiar with basis points.) And because Alexandria has been

getting smaller over the years, passive investment funds have been rebalancing out of it, putting selling pressure on its share price. To say that this has been an unenviable situation is an understatement.

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Our patience with Alexandria for the past several years, supported the entire time by an overly punitive valuation, was tested in 2025 as its situation got significantly more complex. We, like most, had been operating under the assumption that life science demand was at least a couple of years away from positive inflection. Indeed, that was the central tendency we were using in our models. During Alexandria's third quarter earnings call it became clear that the company expected positive inflection to be more likely a three-year proposition, perhaps even a bit longer. That was disappointing.

Making matters worse, Alexandria's considerable development funding plan partly depends on leasing success in the core portfolio. If leasing velocity slows materially, as appears almost certain, the company needs to source capital from other areas. And that's just what it decided to do. At its annual investor day this past December, Alexandria announced it would accelerate a non-core asset disposition program and cut the dividend, both of which materially alter the timing and scale of cash flows. We had not factored either of those events into our models. Even if we had, the stock was so significantly discounted we would likely not have altered our position heading into Alexandria's investor day.

Needless to say, the negative stock price reaction for Alexandria during the fourth quarter of 2025 was swift and significant. In all respects it looks like an overreaction, placing at a historic discount what we view as one of the best real estate businesses in the country. Why should that be? What we believe, and for sure what we underestimated, is how much investor time horizons have shortened.

We have long assumed that Alexandria's return to earnings growth would be checked by oversupply of life science property in its primary markets. Unlike during the Great Financial Crisis, when the company's balance sheet was stretched, today it is investment grade-rated with what we consider one of the most well-built balance sheets in the whole of our investment universe. Alexandria has all the markings of a quality company navigating a cyclical downturn but has ended up being priced like a distressed company facing mounting structural headwinds. We disagree with that notion, but it is clear earnings momentum has become the most influential fundamental factor in share price performance. Investors seem content to ignore Alexandria for now and we don't expect much price recovery in the near term.

To some extent we should be faulted for our sin of inclusion. Holding onto Alexandria for so long in the face of mounting fundamental pressure could be seen as wrong-footed. After all, in the past we've watched richly priced companies lose many multiple turns simply because their growth was slowing. Perhaps we should have responded to early signals that the cycle was turning for Alexandria. However true that may be, we are not traders and keep our eyes focused on long-term value. Alexandria's crumbling share price has been inconsistent with long-term fair value as we calculate it, and today it represents one of the most compelling values in our universe.

Like any good student, however, we use trying times to sharpen our process, and this time is no different. We have responded to our twin shortcomings by supplementing our research practice. That includes a more frequent review of our benchmark to tease out information about relative movement among index constituents. Also, we have increased estimate ranges for those variables that matter most to our calculation of fair value. Among them are estimates of core growth—think market rent and occupancy—as well as delivery schedules for new development. Our belief is this will better help us understand the range of all possible outcomes for companies managing through cyclical downturns. ■

■ ■ ■ Performance Review: Under- and Over-Ownership

While it is likely clear from comments above, the single most detrimental factor in our performance in 2025 was under-ownership of Welltower. We should expand on the term “under-ownership” as we are using it here. Prior to liquidating our position in January of 2025, the fund had owned Welltower since before the pandemic. In fact, as the pandemic brutalized the senior housing sector, we were adding to positions in both Welltower and Ventas, another senior housing REIT still in the fund. As a result, we count those senior housing companies as two of the top three contributors to fund performance over the past three years. Indeed, for 2025, Ventas was our top contributor to performance and Welltower, even though we only owned a small position and just for a single month of the year, was still a top 10 contributor. From our standpoint as value investors, however, the meteoric rise in their valuations put us in a difficult position. Exacerbating matters was the

concomitant drop in valuations within other sectors of our real estate universe. That yawning valuation dispersion was too great to ignore, and we began reducing our exposure to senior housing in favor of better value.

Compounding matters was DREF's ownership of Alexandria. Its historically depressed valuation was poor defense against a market keenly focused on earnings momentum. Further, given Alexandria's tough run over the past few years, it is no longer a meaningful part of the fund's benchmark, as we mentioned earlier. Nevertheless, it is discounted beyond any realm of reasonableness when viewed through the lens of long-term investing. The next couple of years may be choppy, but when investors get a sense the life science sector is improving, the first move in the stock price is likely to be the biggest.

Supply issues have been a problem for the apartment sector, an area where the fund has a heavy overweight position. None of our positions aided performance this past year given lingering concerns about the timing and recovery of market rents even as historic additions to supply have begun to wane. Our top holding in this sector, AvalonBay, fared particularly poorly. That is likely due to its development focus, something investors seemed to shun regardless of sector. Our sense is most felt disappointed that dwindling supply did not result in an inflection of market rents during 2025. That the wait would be longer kept enthusiasm for a recovery muted, though the extended wait does not chasten our sanguine stance on the sector.

There were some notable positives for the fund in 2025 which give us confidence our long-term approach to underwriting is still working. The industrial sector, which was maligned for a couple of years

given burgeoning supply and slowing earnings growth, began to show signs of life. With supply additions dropping meaningfully in most areas of the country, market rents found a floor. Our top industrial holding, Prologis, though not our greatest overweight in the sector, performed very well.

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The same can be said of EastGroup Properties and Rexford Industrial Realty, though the latter was helped a good bit by shareholder activism. There is much to like about a sector that still trades at a reasonable discount and can in limited instances parlay existing property into data centers. More on that in a minute. Our enthusiasm, however, is checked by valuation less compelling than a couple of years ago and a macroeconomic environment that is still working through tariff and immigration issues. We are likely to stick with our weighting at its current level.

Lastly, it was nice to see the fund's investment in London-based office REITs continue to perform. The submarkets in which Great Portland invests have proven as robust as the best submarkets in the U.S. In fact, the investment potential on offer in U.K. office REITs is better than U.S. office REITs given valuations that are even more steeply discounted. The only thing that keeps the fund's investment in the U.K. bounded at current levels is that our benchmark is limited to U.S.-listed real estate companies. ■

■ ■ ■ Positioning for the Future

We've often thought quietly to ourselves that investment management is an exercise in managing the tidal flow between looking smart and looking, well, less than smart. The latter, where DREF has been for some time, poses a unique risk that we are trying to avoid. Making investment decisions from a position of loss can invite unnecessary risk-taking. The obvious risk is chasing last year's winners even though we now more fully appreciate the advantages of being a very big company among a universe of smaller players in our investment universe. Not to put too fine a point on it, we are fine with our underweight position in senior housing.

We are also confident that our overweight position in the apartment sector will begin to produce positive results as an inflection in rents, though delayed, is likely to come into sharper focus as the year progresses. That is particularly true for Sunbelt-focused apartment REITs Camden Property Trust and Mid-America Apartment Communities, the fund's favorite apartment ideas. Neither are likely to produce any earnings growth this year but, given that the market behaves like a barometer, valuations may begin to reflect a potential recovery in 2027, sooner than many expect.

Even though there are reasons to believe the recovery in office could be short-circuited by softening employment, we continue to be strong believers in BXP Inc. and Cousins Properties. Our thesis on office was never based on the notion that demand for space would need consistent employment growth. Rather, we believe office REITs need only win the renewal competition. In fact, closer scrutiny of the leasing done over the past couple of years by DREF's office holdings illustrates that they are winning market share at the expense of less desirable property. In a world that seems to have settled on a mostly in-office workweek, those with premium space like BXP and Cousins should continue to outperform. That they trade at compelling discounts with a number of catalysts strengthens our resolve.

Despite the good news with most of our office holdings, our stance on a couple of West Coast office REITs has begun to waver. There are two small positions in the fund whose markets have experienced an uneven and protracted recovery. We've stuck with Hudson Pacific and Douglas Emmett for several years now given their historic valuation discounts and our belief their markets would eventually recover. Even though Hudson Pacific has a presence in several markets, it's the two companies' common interest in Los Angeles that has proven problematic. Southern California's economy is highly dependent on the entertainment industry. This drives a tremendous amount of space demand across multiple property types, including production studios, in which Hudson Pacific has a material interest.

An unprecedented slowdown in film production over the past two years or so has curtailed property leasing in the office and studio sectors beyond our original conservative estimates. With each passing earnings release during 2025 both companies continued to push off meaningful leasing recovery. That of course did nothing for the stocks. There are a couple of catalysts for each company that we hope will propel much improved valuation, but it's fair to say we view 2026 as the final litmus test for both.

Lastly, we are believers in Alexandria. Its situation has gotten far more complicated than we imagined, but there is a glide path to an eventual return to earnings growth. It will take time, likely a couple of years, but the stock is trading cheaper than it ever has and we are willing to wait for the recovery to take hold. Yes, the balance sheet will be tested given funding demands from new development and leasing capital expenditures that will be required to maintain and grow occupancy. We believe Alexandria is up to the challenge with one of the longest debt durations in the sector and coverage ratios that seem well-positioned to weather the tough times ahead. ■

Closely Watched Data Centers

No investment commentary for 2025 would be complete without some nod to AI and all it entails. The demand for data center space is as great as it has ever been. Whether the pendulum has swung too far, with industry players overcommitting to space, is a story whose conclusion will not be known for years. In the meantime, two of our holdings, Digital Realty and Equinix, stand to benefit from leasing and construction deals signed over the past couple of years, as does industrial giant Prologis.

Some other industrial REITs might also be able to rezone some of their holdings for data center use. For the AI real estate landscape as a whole, there is every reason to believe demand will continue to grow apace throughout 2026, but there are risks. Beyond valuation risks—Digital Realty and Equinix are not cheap—there are other risks related to power availability and transmission. These will act as a governor on how quickly all this demand can transition into cash flow for data center owners. Beyond that there are lingering questions about return expectations for those businesses occupying data centers and the very real threat that technology could one day blunt or even obviate the need for all the data centers built and planned.

We continue to hold Digital Realty and Equinix at a level roughly in line with our benchmark since the risks outlined above are not likely to impact fundamentals over the near term. In fact, most of the recent leasing each REIT has done is with investment-grade companies. We consider those money-good deals. What is less knowable over the near term is how sentiment might change, which in this sector is a powerful driver of short-term stock performance. For now, we feel content to hold on to the fund's data center investments, but remain attentive to changes afoot in chip technology, energy production and energy transmission, as well as any potential regulatory hurdles to data center growth. ■

Together on This Journey

For more than 50 years, Davis Advisors has 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.¹ We are grateful for your trust and are well-positioned for the future. ■

¹ As of 12/31/25, 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.

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Objective and Risks. The investment objective of Davis Real Estate Fund is total return through a combination of growth and income. 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; **real estate risk:** real estate securities are susceptible to the many risks associated with the direct ownership of real estate, such as declines in property values and increases in property taxes; **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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating

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The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 12/31/25, the top ten holdings of Davis Real Estate Fund were: Prologis, 6.02%; BXP, 4.98%; Brixmor Property Group, 4.81%; AvalonBay Communities, 4.40%; Rexford Industrial Realty, 4.26%; Equinix, 4.16%; American Tower, 4.09%; Cousins Properties, 4.03%; Sunstone Hotel Investors, 3.89%; and Digital Realty Trust, 3.58%.

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 or call 800-279-0279 for the most current public portfolio holdings information.

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

The **Wilshire US Real Estate Securities Index** is a broad measure of the performance of publicly traded real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The index is capitalization-weighted. The beginning date was 1/1/78, and the index is rebalanced monthly and returns are calculated on a buy and hold basis. Investments cannot be made directly in an index.

After 4/30/26, this material must be accompanied by a supplement containing performance data for the most recent quarter end.