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The Case for Active Management: A Look Beyond the Headlines

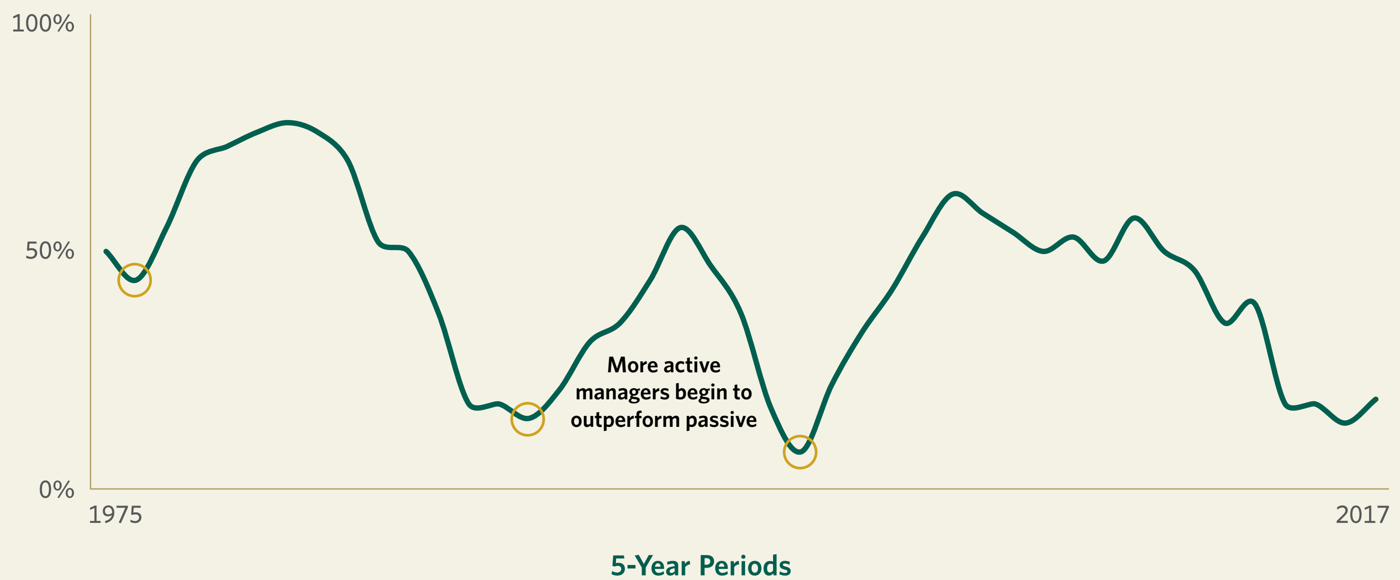
Active May Be Poised to Outperform

A Google search for "the death of active management" produces 1.8 million results. With more than $1 trillion flowing into passive funds and ETFs and $1.1 trillion removed from active managers over the last decade, the tide of investors shifting from active to passive investment strategies has become a tsunami.[1] This wave has been driven by the widespread acceptance of data showing the S&P 500 Index has outperformed the average active manager over the long term. While the data itself is true, we believe the results are misleading in three important ways.

First, active and passive strategies have historically moved in a cycle. During parts of this cycle such as in the last decade or so, passive strategies have tended to outperform active management. However, during other parts of the cycle, even average active managers outperform the index. For example, the chart below tracks the percentage of large cap active managers that outperformed the S&P 500 Index over five-year time periods since 1975. The gold circles represent inflection points where the number of active managers outperforming the market began to increase. If the cycle were to continue, this may point to potential wisdom of moving toward active management.

Active vs. Passive Has Been Cyclical[2]

Percentage of Large Cap Funds that Outperform S&P 500 Index

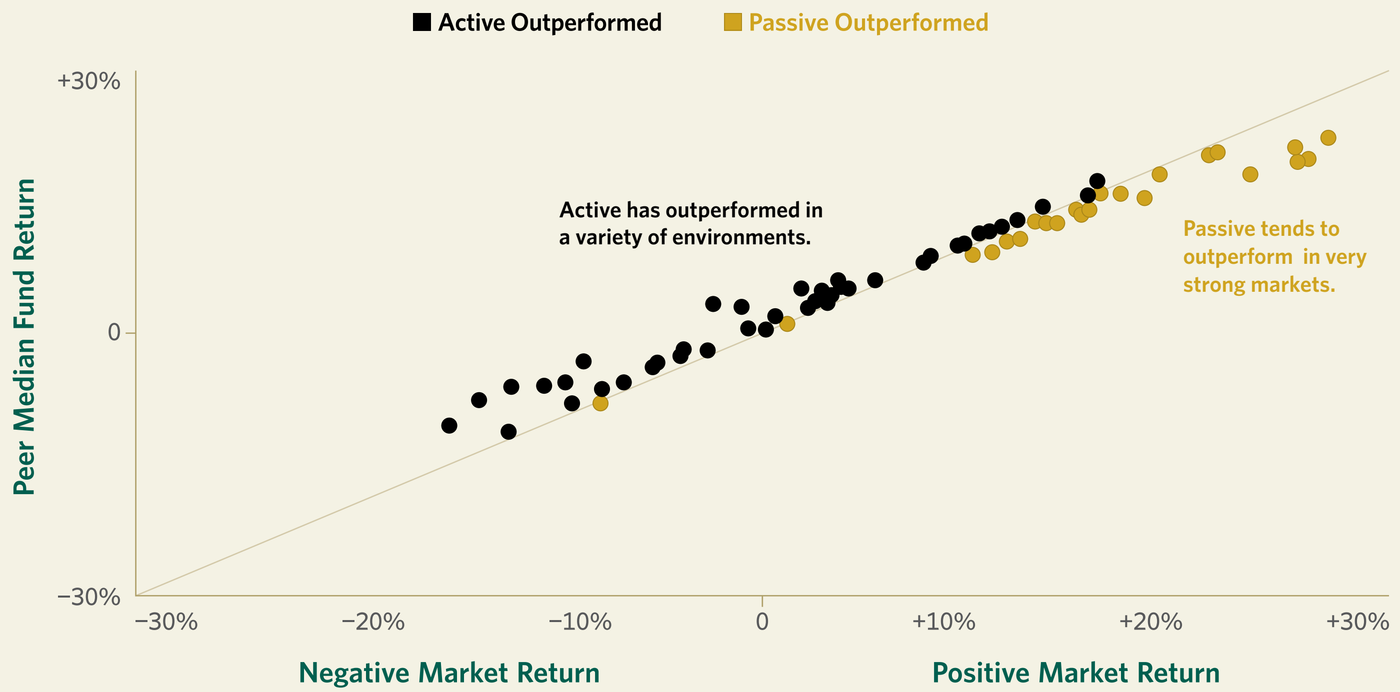


1. Source: Morningstar. U.S. domestic equity funds including open end index funds and ETFs. Date range: 1/1/07–12/31/17. **2.** Source: Morningstar Direct. Universe: Large Value, Large Blend and Large Growth. There is no guarantee that the number of active managers outperforming the market will continue to increase or that active and passive managers will continue to move in cycles.

Active and Passive Outperform in Different Environments

While active managers have historically tended to underperform when the S&P 500 Index has galloped ahead, they have tended to outperform when market returns moderate. In the chart below, each black dot represents a period in which the average manager outperformed the index, while each gold dot represents a period in which the index outperformed. As is clearly shown, the lower the market return, the more active managers outperform. While the direction of the market is unknowable in the short term, the fact the index has almost doubled in the last five years and the market has gone more than seven years without a 20% correction versus an historical average of two-and-a-half years leads us to expect more moderate returns in the years ahead. Active management could be poised for a period of relatively strong results compared to the index.

Active and Passive Outperform in Different Environments[3]

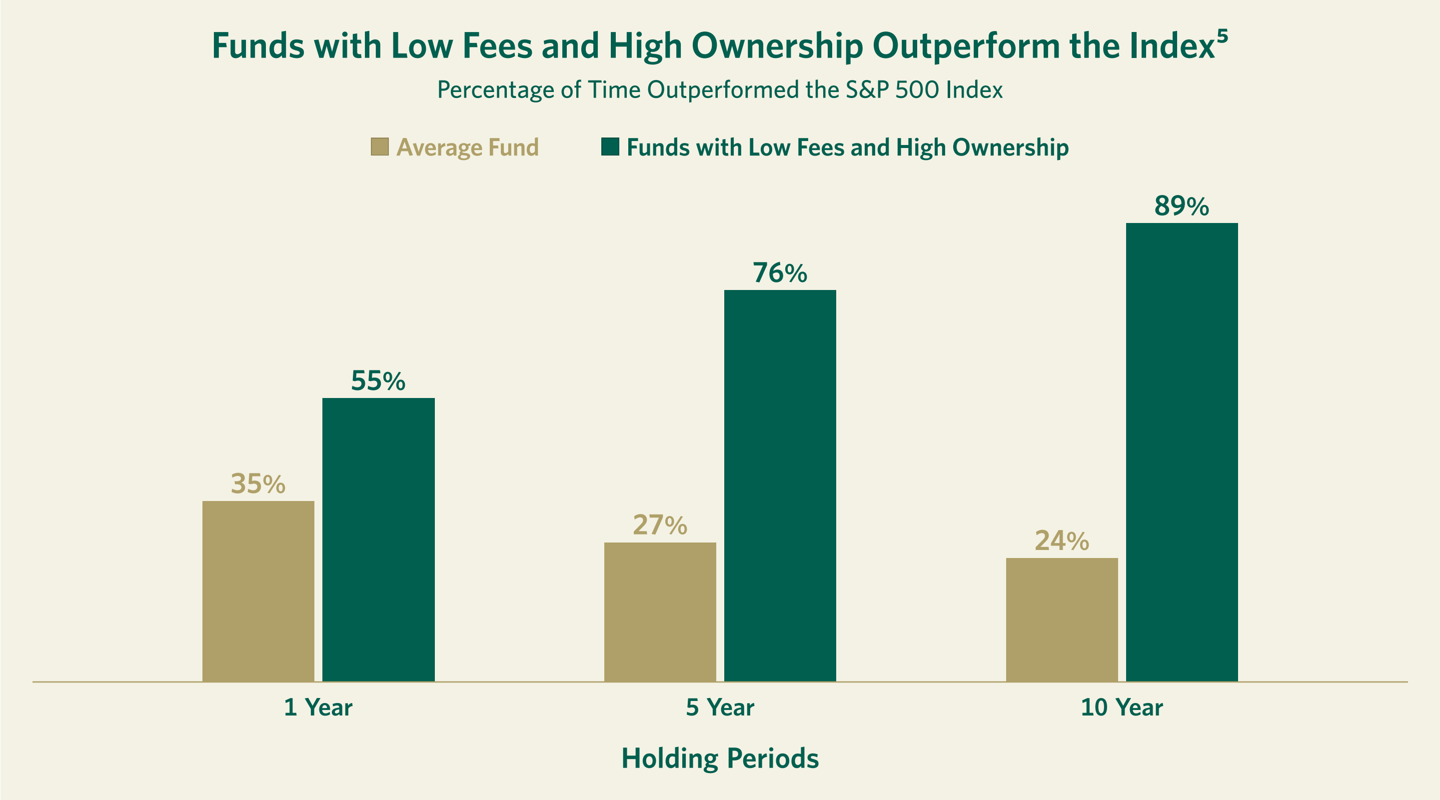


3. Sources: AMG Funds, Morningstar. Chart plots median actively managed large-cap funds, with manager tenure of greater than 10 years (longest-tenured portfolio manager), annualized three-year rolling returns (with a quarterly frequency) over the 20-year period ending March 31, 2016 against the S&P 500 Index returns. Black plot points indicate periods of outperformance and gold plot points represent underperformance. The distance of the points from the diagonal line indicates the degree of over- or underperformance. The fund category used is the Morningstar large-cap fund universe, including growth, value and blend categories. Performance is net of fees. **Past performance is not a guarantee of future results.**

Funds with Low Fees and High Ownership Outperform the Index

Finally, certain active funds including Davis New York Venture Fund have outperformed in the vast majority of rolling 10 year periods.[4] As a result, while the data shows the *average* active manager has underperformed, investors need not choose an average manager. In fact, data suggests active managers with certain identifiable characteristics such as low fees, low turnover, proper incentives, an experienced team, and a differentiated portfolio have historically been more likely to outperform both the index and the average active manager. For example, the chart below shows managers with low fees and a high investment in their own funds have outperformed in 89% of all rolling 10 year periods.

Putting these thoughts together, we believe the head-winds active managers have faced in recent years could well become tailwinds in the years ahead. If so, this would not be the first time the herd mentality proved wrong. After all, not so long ago everyone was buying residential real estate based on the then true but ultimately misleading fact single family real estate prices had never declined nationwide.



4. Since 12/31/78. Benchmark is the S&P 500 Index. Class A Shares without a sales charge. **Past performance is not a guarantee of future results.** **5.** Source: Capital Group, based on Morningstar data. Based on monthly rolling periods from January 1997 to December 2016. Funds in the "Average Fund" group are those U.S. domestic equity funds in the Morningstar Large Value, Large Blend and Large Growth categories. "Funds with Low Fees and High Ownership" group are those U.S. domestic equity funds in the Morningstar Large Value, Large Blend and Large Growth categories filtered for the quartile with the lowest net expense ratios (NER) and the quartile with the highest manager ownership. U.S. index is S&P 500 Index. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. For live funds, only the oldest share class was used. For dead funds with multiple share classes, the median monthly returns were used. **Past performance is not a guarantee of future results.**

Davis Funds

We are further encouraged by data indicating identifiable factors such as relatively low expenses, alignment of interest and a willingness to look different from other investment managers, all of which are central to our firm's investment culture, have historically been durable hallmarks of long-term outperformance. Because these characteristics are shared by all five of the equity strategies managed by our firm, investors should not be surprised that in addition to Davis New York Venture Fund, all of our other equity strategies, including Davis International Fund, Davis Global Fund, Davis Financial Fund, and Davis Opportunity Fund have outperformed their index and their peer category since their inception.[6]

	Outperformed Index and Lipper Peer Category[7] (Since Inception)	**Benchmark Agnostic**[8]	**Lower Expenses vs. Peers**[9]	**Davis Among Largest Shareholders**[10]
Davis New York Venture	✓	✓	✓	✓
Davis International	✓	✓	✓	✓
Davis Global	✓	✓	✓	✓
Davis Financial	✓	✓	✓	✓
Davis Opportunity	✓	✓	✓	✓

6. Class A shares not including a sales charge. **Past performance is not a guarantee of future results.** See endnotes for a description of the peer groups. **7.** As of 6/30/18. Class A shares without a sales charge. Figures will vary in future periods. **Past performance is not a guarantee of future results.** Lipper Peer Category data is compiled using Lipper, as of 6/30/18. The Index and Lipper Peer Category respectively for each fund are: Davis New York Venture Fund: S&P 500 Index and Large Cap Core; Davis International Fund: MSCI ACWI (All Country World Index) ex US and International Multi-Cap Growth; Davis Global Fund: MSCI ACWI (All Country World Index) and Global Multi-Cap Growth; Davis Financial Fund: S&P 500 Index and Financial Services; and Davis Opportunity Fund: S&P 1500 Index and Multi-Cap Core. Index and Lipper Peer Category average returns are based on the Funds' inception dates except for Large Cap Core, which is based on February 28, 1969. Inception dates for the Funds are: Davis New York Venture Fund: 2/17/69; Davis International Fund: 12/29/06; Davis Global Fund: 12/22/04; Davis Financial Fund: 5/1/91; and Davis Opportunity Fund: 12/1/94. **8.** Portfolio is constructed from the bottom up, on a company by company basis, and is not designed to mirror an index. **9.** See endnotes for expense ratios. **10.** Includes Davis Advisors, the Davis family, our employees, Foundation, and Fund directors. As of June 30, 2018.

Before investing in the Davis Funds, you should carefully consider the investment objectives, risks, charges, and expenses of the Funds. The prospectus and summary prospectus contains this and other information about the Funds. You can obtain performance information and a current prospectus and summary prospectus by visiting davisfunds.com or calling 800-279-0279. Please read the prospectus or summary prospectus carefully before investing or sending money. Investing involves risks including possible loss of principal.

The investment objective of Davis New York Venture Fund, Davis International Fund, Davis Global Fund, Davis Financial Fund, and Davis Opportunity Fund is long-term growth of capital. There can be no assurance that a Fund will achieve its objective. Some important risks of investments in Davis New York Venture Fund are stock market risk, manager risk, financial services risk, and foreign country risk. Some important risks of investments in Davis International Fund and Davis Global Fund are stock market risk, manager risk, foreign country risk, and emerging market risk. Some important risks of investments in Davis Financial Fund are stock market risk, manager risk, focused portfolio risk, and financial services risk. Some important risks of investments in Davis Opportunity Fund are stock market risk, manager risk, large-capitalization companies risk, and mid- and small-capitalization companies risk. As of June 30, 2018, Davis New York Venture Fund, Davis Financial Fund, and Davis Opportunity Fund had approximately 24.6%, 13.8% and 23.2% of assets invested in foreign securities, respectively. As of June 30, 2018, Davis International Fund and Davis Global Fund had approximately 48.6% and 38.9% of assets invested in emerging markets, respectively.

Risks. 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; **credit risk:** The issuer of a fixed income security (potentially even the U.S. Government) may be unable to make timely payments of interest and principal; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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; **financial services risk:** investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to problems affecting financial companies; **focused portfolio risk:** investing in a limited number of companies causes changes in the value of a single security to have a more significant effect on the value of the Fund's total portfolio; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **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; **interest rate sensitivity risk:** interest rates may have a powerful influence on the earnings of financial institutions; **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; **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.

Large-Cap Core funds invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's USDE large-cap floor. Large-cap core funds have more latitude in the companies in which they invest. These funds typically have an average characteristics compared to the S&P 500 Index. **International Multi-Cap Growth** funds invest in a variety of market capitalization ranges without concentrating 75% of their equity assets in any one market capitalization range over an extended period of time. International multi-cap growth funds typically have above-average characteristics compared to the MSCI EAFE Index. **Global Multi-Cap Growth** funds invest in a variety of market capitalization ranges without concentrating 75% of their equity assets in any one market capitalization range over an extended period of time. Global multi-cap growth funds typically have above-average characteristics compared to the MSCI World Index. **Financial Service** funds invest primarily in equity securities of domestic companies engaged in providing financial services, including but not limited to banks, finance companies, insurance companies, and securities/brokerage firms. **Multi-Cap Core** funds invest in a variety of market capitalization ranges without concentrating 75% of their equity assets in any one market capitalization range over an extended period of time. **Multi-Cap Core** funds typically have average characteristics compared to the S&P SuperComposite 1500 Index.

Davis International Fund and Davis Global Fund are subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

The expense ratio for Class A shares of each fund vs. its respective peer is: Davis New York Venture Fund: 0.89% vs. 1.48%; Davis International Fund: 1.05% vs. 5.38%; Davis Global Fund: 0.98% vs. 2.15%; Davis Financial Fund: 0.98% vs. 1.52%; Davis Opportunity Fund: 0.95% vs. 1.24%.

As of June 30, 2018, 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

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

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. The **MSCI ACWI (All Country World Index) ex US** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The Index includes reinvestment of dividends, net of foreign withholding taxes. The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets throughout the world. The Index includes reinvestment of dividends, net foreign withholding taxes. The **S&P 1500 Index** is comprised of the S&P 500, MidCap 400, and SmallCap 600, which together represent approximately 90% of the U.S. equity market. Investments cannot be made directly in an index.

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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