Davis Appreciation and Income Fund

Update from Portfolio Managers

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Davis FUNDS

The Equity Specialists

Davis Appreciation and Income Fund

Annual Review 2019

Market Perspectives

Davis Appreciation and Income Fund seeks to provide an all-in-one solution by way of total return through a combination of growth and income. Selectivity in equities and fixed income is critical today.

For the year 2018, Davis Appreciation and Income Fund returned –8.02%.[1] The S&P 500 returned –4.38% in the same period while the Barclays Aggregate Bond Index returned 0.01%.[2] Although we provide index performance data for general reference, the Fund's principal objective is to deliver an all-in-one solution for investors seeking a portfolio of stocks, high-grade bonds and other diversifying assets to maintain and grow purchasing power over the long term. The Fund seeks to address three common needs of investors today: growth of capital, income and a degree of downside protection.[3]

To generate growth of capital, we draw on our expertise as equity specialists to invest in highly durable businesses with solid long-term growth prospects and deep competitive moats that are trading at attractive prices. We construct the equity portion of the Fund company by company and weight holdings according to our convictions. Normally, equities represent at least 60% of the Fund and most of the equity securities pay current, and in most cases, rising dividends. Other holdings may not pay dividends today but have demonstrated the capacity to do so in our view.

The stock portion of the Fund is balanced by a number of high-grade bonds and other fixed income instruments including corporate bonds, asset-backed securities and mortgages. While the Fund's asset allocation is relatively simple at the present time and currently focuses on common stocks and bonds, this Fund has the ability to hold other asset classes and securities that do not fall neatly within the stock or bond universes. For example, we may at times own other asset classes where we have considerable competence such as real estate investment trusts (REITs) or invest in other parts of the capital structure such as preferred stocks. Our asset allocation, in other words, is subject to gradual change over time depending on where we see value among the opportunities available. Looking ahead, we believe selectivity in equities as well as fixed income securities will be critical to growing shareholders' capital in a reliable way over the long term. ■

Average Annual Total Returns as of December 31, 2018

Davis Appreciation and Income Fund Class A	1 Year	5 Years	10 Years
with a maximum 4.75% sales charge	–12.39%	1.03%	9.35%

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 1.02%. 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.*

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. Past performance is not a guarantee of future results. 3.** While we seek to structure a portfolio that will increase in value when the S&P 500 Index increases and that will provide downside protection when the S&P 500 Index declines in value there can be no assurance that the portfolio will perform in line with our expectations. **Past performance is not a guarantee of future results.**

Portfolio Review

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

The equities portion of the Fund predominantly consists of large, well-capitalized businesses with the potential to compound capital consistently over full market cycles, based on our independent, research-based analysis.

The Fund holds three categories of businesses in the equities portion of the Portfolio, including in order of proportion:

- Dominant market leaders
- Lesser-known, "out-of-the-spotlight" businesses
- Contrarian investments[4]

Among the Fund's market leaders are Berkshire Hathaway, Amazon.com and Wells Fargo.[5]

Berkshire Hathaway is one of the largest holding companies in the world with investments ranging from insurance and reinsurance to utilities, industrial, railroad and manufacturing businesses among others. The business is really a portfolio of cash-generating companies whose chief capital allocators have historically been Warren Buffett and Charlie Munger and now include a small group of additional investors. Shares in Berkshire Hathaway have compounded at more than 19% since the mid-1960s, making the company one of the great success stories of American business and investment history. While returns must be more moderate in the future if only because of Berkshire's larger size today, we believe the company is well priced given the cash earnings it generates and its proven ability to earn attractive returns on invested capital.

Another representative market leader in the Portfolio is Amazon.com, the e-commerce giant that has profoundly reshaped the retail industry over the years. 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 (Amazon Web Services) that enables companies and other organizations to outsource their computer systems to Amazon's digital cloud. In recent years, the company has extended its reach not only in terms of overall users but has also entered many new markets in different parts of the world, deepened its competitive position in both retail and cloud services, and is finding new ways to monetize its position as a major player in the global advertising market.

Wells Fargo, a third representative market leader, is a financial services company that is attractively valued given its strong position across North America in banking, insurance, investments, mortgages, and consumer and commercial finance services. While Wells Fargo continues to reestablish credibility with regulators and shareholders due to past business practices that have been eliminated and previous management that has been replaced, the company remains an earnings machine. Even amid controversy, the company generated more than $27 billion of pretax income in 2017, and we

4. While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock may never recover. **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.**

anticipate that with an eventual reprieve from the temporary cap on its assets, Wells Fargo's true value and earnings power will become more evident to investors.

Out-of-the-spotlight businesses in the Portfolio today include businesses that are large but not household names such as LafargeHolcim, the largest cement and aggregates company globally, and other businesses that operate in mundane areas of the global economy such as the property casualty insurer Chubb.

The Fund's contrarian investments currently include our two energy holdings, Encana and Apache Corporation. As two of the most focused companies in the shale oil extraction business, we believe Encana and Apache have both the reserve base and operating expertise to grow production at double-digit rates over the next three to five years or longer.

In 2018, our equity holdings underperformed the broader U.S. stock market as shares in some of our financials, industrial and energy businesses declined. We believe the durability and growth potential of these companies, coupled with their reasonable valuations and in most cases their dividends, are not fully appreciated by the market. Over the long term, we believe our selective approach of buying businesses with the potential to expand their earnings power over time will be rewarded and that some of today's detractors will be among tomorrow's wealth builders in the Fund.

The fixed income portion of the Portfolio is invested rather conservatively in high-grade securities with a weighted average credit rating of A– and a duration of less than two years. Our fixed income securities are relatively liquid and contribute to the Fund's overall goals of providing income and a degree of downside protection, complementing the capital appreciation provided by our stock holdings.

Overall, we believe the durable balance sheets and long-term earnings power of the companies that make up Davis Appreciation and Income Fund strongly position us to continue building shareholder wealth over time. By combining the appreciation and income potential of select equities with a degree of downside protection and the income provided by our fixed income investments, we seek to address the priorities of growth, income and capital preservation.

Since our firm's inception 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 Davis Advisors, the Davis family and Foundation, our employees, and Fund directors have invested in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.[6] ■

6. As of December 31, 2018.

This report is authorized for use by existing shareholders. A current Davis Appreciation and Income 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 Appreciation and Income Fund's investment objective is total return through a combination of growth and income. There can be no assurance that the Fund will achieve its objective. The Fund is subject to both equity and debt risk. Some important risks of an investment in the Fund are: **bonds and other debt securities risk:** Bonds and other debt securities generally are subject to credit risk and interest rate risk; **changes in debt rating risk:** if a rating agency gives a fixed income security a low rating, the value of the security will decline; **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; **convertible securities risk:** convertible securities are often lower-quality debt securities; **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 may trade at a discount (or premium) to the underlying security and may be less liquid than the underlying securities listed on an exchange; **extension and prepayment risk:** the pace at which borrowers prepay affects the yield and the cash flow to holders of securities and the market value of those securities; **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, 2018, the Fund had approximately 11.1% of 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; **high-yield, high-risk debt securities risk:** issuers of these debt securities are unlikely to have a cushion from which to make their payments when their earnings are poor or when the economy in general is in decline. These issuers are likely to have a substantial amount of other debt, which will be senior to the high-yield, high-risk debt securities. An issuer must be current on its senior obligations before it can pay bondholders; **interest rate risk:** interest rate increases can cause the price of a debt security to decrease; **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; **preferred stock risk:** preferred stock is a form of equity security and is generally ranked behind an issuer's debt securities in claims for dividends and assets of an issuer in a liquidation or bankruptcy. An adverse event may have a negative impact on a company and could result in a decline in the price of its preferred stock; **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines; and **variable current income risk:** the income which the Fund pays to investors is not stable. 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, 2018, the top ten holdings of Davis Appreciation and Income were: Berkshire Hathaway Inc., Class B, 5.59%; Wells Fargo & Co., 4.28%; U.S. Bancorp, 3.44%; United Technologies Corp., 3.33%; Capital One Financial Corp., 3.20%; Bank of New York Mellon Corp., 3.12%; LafargeHolcim Ltd., 3.02%; Alphabet Inc., Class C, 2.98%; Microsoft Corp., 2.97%; Intel Corp., 2.95%. The cash and equivalents were 9.27%.

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 **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 **Barclays Capital Aggregate Bond Index** is an index made up of the Barclays Capital Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are of investment-grade quality or better, have at least one year to maturity, and have a coupon that is fixed or steps according to a predetermined schedule. Investments cannot be made directly in an index.

After April 30, 2019, 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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