DAIF SEMI-ANNUAL REVIEW 2018

Davis Appreciation and Income Fund

Update from Portfolio Managers

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Davis Funds

THE EQUITY SPECIALISTS

Davis Appreciation and Income Fund

Semi-Annual Review 2018

Market Perspectives

Davis Appreciation and Income Fund returned 1.35% in the year-to-date period.[1] Selectivity is critical today.

In the first half of 2018, Davis Appreciation and Income Fund returned 1.35%. The S&P 500 returned 2.65% in the same period while the Barclays Aggregate Bond Index returned –1.62%.[1] While we provide index data for general reference, Davis Appreciation and Income Fund's principal objective is not to beat any particular industry benchmark in relative terms. Rather, the Fund seeks to provide an all-in-one solution for investors seeking a diversified portfolio of stocks, high-grade bonds and other diversifying assets to generate satisfactory *absolute* returns over the long term.[2] The Fund addresses 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 select 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. Others 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, an advantage of this Fund is its ability to hold other asset classes and securities that do not fall neatly within the stock or bond universe. 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 the opportunities available.

In terms of the current investment environment, the U.S. economy remains strong with robust GDP growth, relatively full employment and muted inflation. At the same time, uncertainty exists with respect to interest rates, the durability of

Average Annual Total Returns as of June 30, 2018

	1 Year	5 Years	10 Years
Davis Appreciation and Income Fund Class A with a maximum 4.75% sales charge	4.81%	6.30%	5.67%

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.** Diversification does not ensure against loss. **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.**

the current economic expansion and geopolitical developments, among other considerations. These are all *important but unknowable* factors.

At Davis, we remain focused on the *important and knowable*, which requires understanding our portfolio holdings company by company and assessing whether the long-term earnings power of the businesses we own remains intact and able to generate satisfactory rates of return over the next five years. In brief, despite share price volatility, these businesses are generating robust earnings with few exceptions and are making good financial progress. In the long run and based on our experience dating back almost 50 years as an independent, research-driven investment firm, long-term earnings power matters far more to our ultimate success as investors than relatively minor share price fluctuations over shorter time periods.

Looking ahead, we believe selectivity in both equities and fixed income markets will be an important prerequisite for adding value in the decade ahead. ■

Portfolio Review

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

The equities portion of Davis Appreciation and Income 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 Texas Instruments, Safran and Amazon.com.[5]

Texas Instruments, a market leader in the Portfolio, is the world's largest manufacturer of analog semiconductor chips. The company designs, tests and builds a broad array of analog and embedded processing products—two areas in the semiconductor industry that offer growth, diversity and attractive financial characteristics. Both analog and embedded processing are pervasive technologies used worldwide by more than 100,000 of the company's customers. Texas Instruments has a strong competitive position in these large and highly fragmented but growing markets that should translate into expanding revenues over the long term. The company invests more than $1 billion annually in R&D to develop new products, exercises greater control over its supply chain by owning its own factories, and has strategically expanded capacity and equipment well ahead of demand. In addition to positioning Texas Instruments for growth, the company's management team distributes a substantial amount of excess cash to shareholders through dividend increases and share buybacks.

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.**

Safran is a manufacturer of aircraft and rocket engines and components, with an additional focus on the aerospace business in recent years. Lead drivers of the company's growth include: vast advantages of scale in manufacturing, steady production rates and innovative development of aerospace propulsion engines (i.e. LEAP engines to replace CFM56 engines used in popular Boeing 737 and Airbus A320 aircraft). Given the expected ongoing growth and development of LEAP engines, optimal positioning to supply engines for narrow-body planes and steady earnings per share growth, we believe Safran will offer attractive returns for long-term shareholders.

Amazon is an 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.

DNB ASA (Den Norske Bank), a representative out-of-the-spotlight holding in the Fund, is the largest financial institution and oldest private bank in Norway. The company's digital leadership and economies of scale are the leading drivers of DNB's strong and durable moat. For instance, more than half of the bank's two million retail customers are active mobile banking users. In addition, DNB reduced the number of its brick-and-mortar retail branches by half over the last two years while gaining customers in the mobile segment of its business. We believe DNB's current valuation, innovative approach to customer service, and position as the leading financial institution in Norway will generate attractive returns over the long term.

The Fund's contrarian investments currently include Apache Corporation, EQT Midstream Partners and Johnson Controls International.

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 potential of equities with a degree of downside protection provided by fixed income investments.

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

6. As of June 30, 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; **difficult to resell risk:** many investors do not want high-yield, high-risk debt securities, and others are prohibited from buying them; **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 June 30, 2018, the Fund had approximately 11.6% 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; **overburdened issuers risk:** issuers of high-yield, high-risk 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; **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 June 30, 2018, the top ten holdings, not including cash and equivalents, of Davis Appreciation and Income Fund were: Berkshire Hathaway, Inc., Class B, 4.83%; Safran S.A., 4.31%; Capital One Financial Corp., 3.73%; United Technologies Corp., 3.70%; Bank of New York Mellon Corp., 3.43%; LafargeHolcim Ltd., 3.41%; EQT Midstream Partners LP, 3.31%; Wells Fargo & Co., 3.23%; U.S. Bancorp, 3.07%; Alphabet, Inc., Class C, 3.03%.

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 Fund can invest in a variety of derivative investments to pursue its investment objective or for hedging purposes. The Adviser and the Fund have claimed exclusions from the definition of the term "commodity pool operator" under the Commodities Exchange Act and, therefore, are not subject to registration or regulation as a pool operator under the Commodities Exchange Act.

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 October 31, 2018, 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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