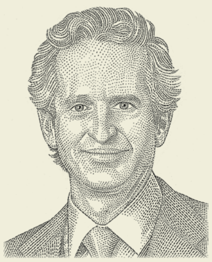


Davis Financial Fund

Update from Portfolio Manager

Christopher Davis

Davis FUNDS

The Equity Specialists

Davis FUNDS

Davis Financial Fund

Annual Review 2019

Executive Summary

Davis Financial Fund achieved a double digit 10-year annualized return ending 2018, despite generating a negative return for the year 2018 as investor fears of an economic downturn led to a sharp sell-off in financial stocks late in the year.[1] With memories of the 2007–2008 financial crisis still vivid in many investors' minds, the fear a future recession will lead to substantial and permanent destruction of value in financial stocks is understandable but we feel misplaced. Unlike 2007, today's leading financial companies are far stronger, more cautious and better positioned than any other time in memory. As a result, the recent sell-off has created what we believe to be an opportunity for investors to take advantage of this misperception.

Given today's low prices, we believe the carefully selected companies that comprise Davis Financial Fund will generate strong relative and absolute returns over the next decade for the simple reason they combine extremely durable business models, the strongest balance sheets in half a century, resilient earnings, good returns on equity, rising dividends, falling share counts, and low valuations.[2] With more than $65 million of our own money invested alongside shareholders, our family and colleagues have put our money where our mouth is and look forward to building on the Fund's strong long-term record in the years ahead.[3] ■

Average Annual Total Returns as of December 31, 2018

Davis Financial Fund Class A	1 Year	5 Years	10 Years
with a maximum 4.75% sales charge	–15.97%	5.80%	11.77%

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 0.98%. 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. This is not a recommendation to buy, sell or hold any specific security. **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.** While very few companies have all of these characteristics, we search for those possessing several of these characteristics, or an appropriate combination of these characteristics. **3.** As of December 31, 2018. Includes the Davis family, Davis Advisors, and our employees.

Results and Outlook

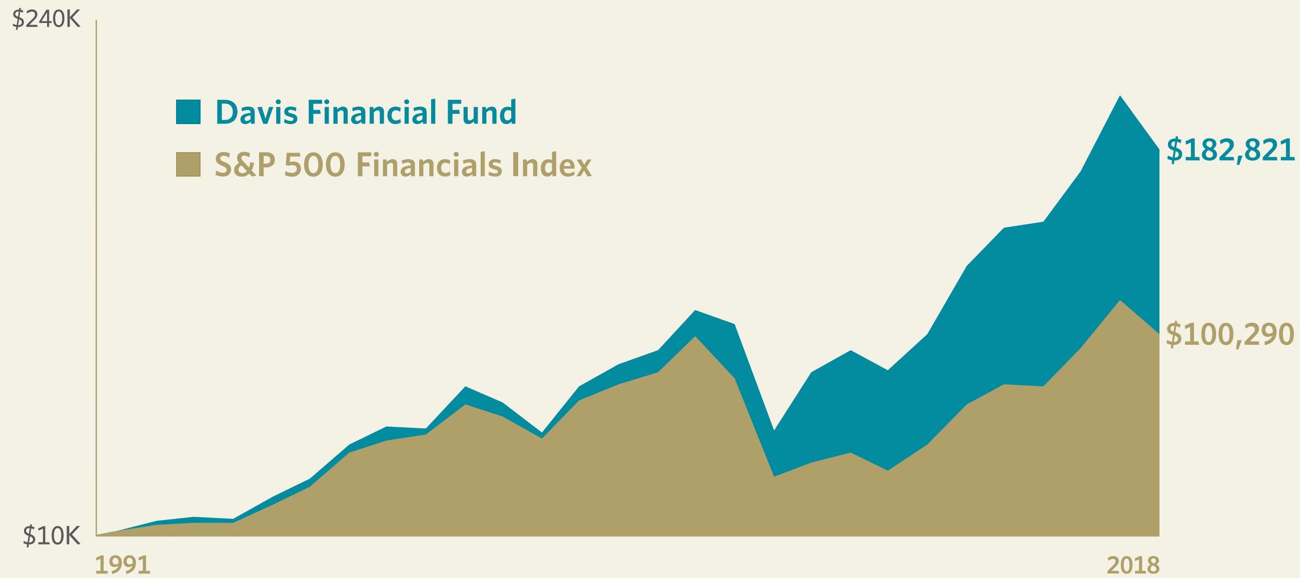
Since its launch in 1991, Davis Financial Fund has compounded shareholder wealth at more than 11% per year, outpacing both the S&P 500 Index as well as the S&P 500 Financials Index after all fees.[4] As shown in the chart below, a $10,000 investment would now be worth more than $180,000, 57% more than a comparable amount invested in the S&P 500 Index and 82% more than a comparable amount invested in the S&P 500 Financials Index.[4] Over the last decade, the Fund has compounded at 12.3% per year, more than tripling the value of a $10,000 initial investment. This result outpaces the S&P 500 Financials Index by approximately 1.5% per year after fees.[4]

In 2018, despite strong earnings and improved balance sheets of most financial companies, investors became nervous about the economy and drove down share prices of financial companies more than 20% on average from their midyear highs and roughly 13% for the year 2018. While Davis Financial Fund declined somewhat less than the S&P 500 Financials Index, the Fund still generated a negative one-year return of –11.8%.[4]

While short-term price changes rarely mean much, often information can be gleaned by examining the underlying market dynamics during such periods. In this case, our analysis is reassuring. For reasons we will discuss, our analysis indicates the recent price declines in the face of strong fundamentals have created an enormous opportunity for long-term investors. In fact, financial stocks are now priced at their most attractive level in many years especially relative to some of the overpriced market darlings. As a result, we believe shares of select financial companies are poised for a prolonged period of strong relative and absolute returns in the years ahead.

Beginning around August of last year, a series of political and economic developments ranging from trade tariffs to rising interest rates led to a sharp increase in investor fear and uncertainty. As a result, investors flocked to so-called low-volatility stocks

Davis Financial Fund Grew to Significantly More Than the Value of the Index[4]



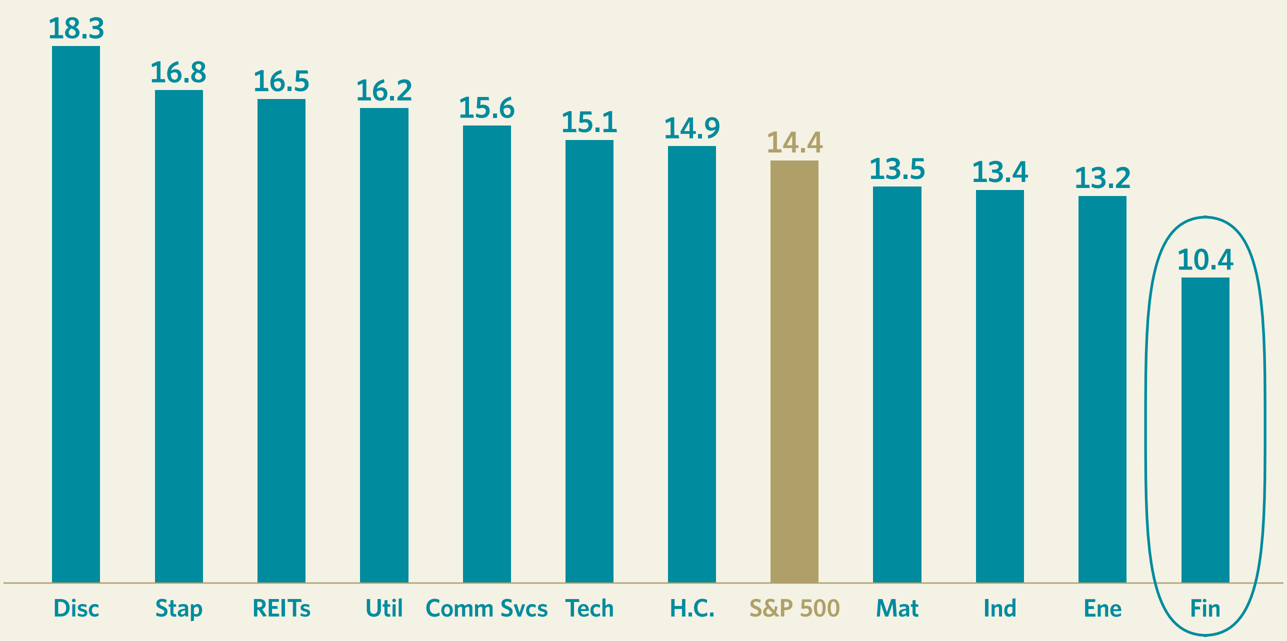
4. Class A shares without a sales charge. Inception date is 5/1/91. As of December 31, 2018. **Past performance is not a guarantee of future results.**

such as consumer goods companies and utilities that have historically been safe havens while selling companies that historically have been more volatile, especially banks, which were hurt so badly during the financial crisis. The key word here, however, is "historically." As Warren Buffett once said, "If history books were the key to riches, the Forbes 400 would consist of librarians."

Although companies in historically less volatile sectors such as consumer products, health care and utilities seem safe looking backward because of their long history of dividend payments and stable results, our analysis indicates many of these companies are significantly overpriced and, in many cases, may face the prospect of future dividend cuts and falling profits. For example, over the last five years, the top 10 holdings of the S&P 500 Low Volatility Index increased their total debt almost 50% while revenue increased only 1.3% per year. Amazingly, the market currently values this toxic combination of no growth and high leverage at a rich 24 times estimated earnings, a 30% premium to the overall market and more than double the valuation of select high-quality financial companies. This data makes clear where investors feel safe they are often taking risk.

In contrast, investors have been dumping shares of banks and other financial companies they perceive as risky for the simple reason shares in such companies declined a great deal in the last recession. Importantly, this perception is based on the past not the present or the future. What many investors are forgetting is the companies we own not only survived the financial crisis, but also took advantage of the demise of many of their competitors to expand their market share significantly and broaden their competitive advantages. Today's financial leaders are not only more dominant, they are also stronger and better capitalized than at any time in the last 50 years. As a result, the selling pressure that has driven down the prices of select, high-quality financial stocks to the point where they are trading at almost half the valuation of the low-volatility stocks mentioned has created an enormous buying opportunity as the chart below shows.

S&P 500 Index Forward P/E, by Sector[5]



5. Note: NTM P/E. Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse. The Forward P/E ratio is the aggregate of the Forward P/E ratios of the S&P 500 Index's holdings. The ratio is not a forecast of performance and is calculated for each security by dividing the current ending price of the stock by a forecast of its projected Earnings Per Share (EPS).

While investors fear calamity, we expect steadily rising dividends, increasing share repurchases and reliable earnings to gradually change investor perceptions so that high-quality financial holdings could be revalued upward and take the place of today's richly valued dividend darlings. More important, while so-called safe haven stocks have been increasing their debt, the vast majority of Davis Financial Fund's holdings have strengthened their balances sheets, reduced their share counts and raised their dividends. Moreover, we have every reason to believe these dividend increases and share count reductions will continue for years to come as capital ratios remain at all-time highs and dividend payout ratios near all-time lows. We believe the chance to own such companies at a steep discount to the market averages should pay off handsomely in the years ahead.

In short, if yesterday's safe havens represent tomorrow's risks, our carefully selected Portfolio of high-quality financial companies should be tomorrow's wealth builders.

As always, our confidence includes the realistic recognition financial stocks can be volatile and selectivity remains critical. In particular, because most financial services companies employ leverage, investors must pay scrupulous attention to the risk management culture at each company. In good times a favorable tide lifts all the boats, making our disciplined focus on risk management seem overly cautious as aggressive companies quickly expand and gain investor attention. But when bad times inevitably come, these companies tend to flounder, wiping out years of gains and leaving an open field for those companies that maintained their underwriting discipline. In the future as in the past, we believe our success will be achieved as much by avoiding the big losers as by picking the big winners.[6]

Our selectivity and focus on risk management stand in stark contrast to passive exchange-traded funds (ETFs). For example, we are amazed more than 40% of the largest and most popular ETF, the Financial Select Sector SPDR ETF (XLF),[7] is invested in only five stocks, four of which are mega-cap banks, including two that devastated shareholders with huge losses and permanent dilution during the financial crisis. We consider our flexibility and diversification an enormous advantage and important contributor to our long-term success versus financial stock indexes.

Keeping this note of caution in mind, the current environment offers significant opportunities within the financial sector. With memories of the 2007–2008 financial crisis still vivid, investors and market commentators remain leery of financial stocks in general and bank stocks in particular. They assume long-term returns have been poor and consider business models highly risky. While true for many financial companies, we don't believe this to be true for the companies that make up Davis Financial Fund. In fact, seven of our top 10 holdings were founded more than 100 years ago, a strong indication of their extraordinary durability and resilience.[8] ■

Portfolio Manager Update

More than a decade ago, Pierce Crosbie joined Davis Advisors as a member of our financial stock research team. In the years since, his talent, work ethic and intelligence have made him a valuable research analyst and his character, ethics and commitment have made him a trusted partner. As a result, I am delighted he has agreed to join me as only the second co-manager in the Davis Financial Fund's 27-year history.[9] His promotion is as deserved as it is overdue. Pierce and I look forward to reporting to you as co-managers in the years and decades ahead. ■

6. There is no guarantee Davis Financial Fund will continue to deliver consistent investment performance. **Past performance is not a guarantee of future results. 7.** Not a solicitation for XLF, which is offered under a separate prospectus and is not affiliated with Davis Selected Advisers, L.P. or Davis Financial Fund. See the endnotes for a description of some of the material differences between traditional mutual funds and ETFs, and for a description of the material differences between the Fund and XLF. **8.** Holdings are subject to change. **9.** Pierce Crosbie became a portfolio manager for Davis Financial Fund effective 12/31/18.

Conclusion

In 1991, we launched Davis Financial Fund because we were convinced financial stocks represented a rare opportunity to buy durable, well-managed businesses at bargain prices. Our goal from the outset was to turn this conviction into investment results. Since then, we have outperformed both the S&P 500 Index as well as the S&P 500 Financials Index.[10]

We are convinced last year's sell-off in financial stocks has created the same opportunity in the select companies we hold in the Portfolio that we saw more than a quarter of a century ago. At the very time many of these companies are reporting record profits with the strongest balance sheets they have ever had, their share prices are trading at significant discounts to the market averages. Now as then, our investment case is simple: over the long term, economic reality trumps market sentiment. As a result, business value and stock prices eventually converge. Since the Fund's inception, this convergence has created wealth for our shareholders, growing a $10,000 investment to more than $180,000 at the end of 2018, beating the same amount invested in the S&P 500 Index by 57% and the S&P 500 Financials Index by 82%.

Nothing provides a stronger indication of our confidence in Davis Financial Fund than the fact my family and colleagues have more than $65 million invested in the Fund side by side with our clients. I began investing my own money in the Fund in 1991 and have never sold a share.

As fellow shareholders, we are as excited about the opportunity we see in financial companies today as we were when we launched Davis Financial Fund. We remain grateful for the trust you have placed in us and mindful of our responsibility. Thank you. ■

10. Class A shares without a sales charge. As of 12/31/18. **Past performance is not a guarantee of future results.**

This report is authorized for use by existing shareholders. A current Davis Financial 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 Financial Fund's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. Under normal circumstances the Fund invests at least 80% of its net assets, plus any borrowing for investment purposes, in securities issued by companies principally engaged in the financial services sector. Some important risks of an investment in the Fund are: **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 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; **financial services risk:** investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to systemic risk, regulatory actions, changes in interest rates, non-diversified loan portfolios, credit, and competition; **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. As of December 31, 2018, the Fund had approximately 16.0% of assets invested in foreign companies; **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; and **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.

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 for Davis Financial Fund were: Berkshire Hathaway Inc., Class A, 7.83%; U.S. Bancorp, 7.30%; Capital One Financial Corp., 6.44%; Markel Corp., 5.64%; Bank of New York Mellon Corp., 5.63%; American Express Co., 5.60%; JPMorgan Chase & Co., 5.60%; Wells Fargo & Co., 5.38%; Chubb Ltd., 4.81%; Loews Corp., 4.07%.

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 **S&P 500 Financials** is a capitalization-weighted index that tracks the companies in the financial sector as a subset of the S&P 500 Index.

Forward P/E ratio: Forward price to earnings (forward P/E) is a measure of the price-to earnings (PE) ratio using forecasted earnings for the PE calculation. Davis does not offer an opinion as to the accuracy of, and does not guarantee, the forecasted numbers.

Traditional Mutual Funds and ETFs. Mutual funds have a sales charge while ETFs can only be purchased on an exchange with no sales charge but may incur transaction costs (e.g., customary brokerage commissions). Shares of mutual funds can only be bought or sold at that day's NAV through a financial intermediary. Shares of ETFs can only be bought and sold on an exchange at the current market price. Shares of ETFs cannot be individually redeemed.

Davis Financial Fund ("Fund") and Financial Select Sector SPDR Fund ("XLF"). The Fund seeks long-term growth of capital while XLF seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in the Financial Select Sector Index. The Fund has a sales charge of up to 4.75% while XLF can only be purchased on an exchange with no sales charge but may incur transaction costs (e.g., customary brokerage commissions). The Fund's expense ratio is 0.98% and that of XLF is 0.13%. Shares of the Fund can only be bought or sold at that's day's NAV through a financial intermediary. Shares of XLF can only be bought and sold on an exchange at the current market price. Shares cannot be individually redeemed. Capital gains of the Fund may be passed on to shareholders annually while capital gains tax on XLF is incurred only upon the sale of the shares. As of 12/31/18, the Fund had 29 holdings, while XLF had 68 holdings.

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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