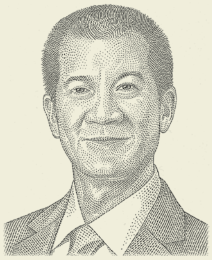

Davis Global Fund

Update from Portfolio Manager

Danton Goei

Davis FUNDS

The Equity Specialists

Davis FUNDS

Davis Global Fund

Annual Review 2019

Investment Results

Davis Global Fund's underperformance in 2018 was driven by our holdings in the consumer discretionary and industrial sectors.

After outperforming the MSCI ACWI (All Country World Index) in the first half of 2018, Davis Global Fund underperformed in the second half of 2018.[1] For the year 2018, Davis Global Fund declined –20.81% compared with the –9.42% decline of the MSCI ACWI, an underperformance of –11.39%.[1] Among the drivers of underperformance were several of our Chinese consumer holdings including New Oriental Education and Technology Group, Naspers, which owns 30% of Tencent, and JD.com, as well as the U.S. car seat manufacturer Adient.[2] Positive contributors included the U.S. e-commerce and cloud computing leader Amazon.com, the business conglomerate Berkshire Hathaway and Brazilian health insurer SulAmerica.

Encouragingly, despite 2018's underperformance, the Fund's longer term record is still positive with the Fund outperforming the MSCI ACWI over the latest 10 years and since the Fund's inception 14 years ago.[3] While we believe a good long-term record reflects a sound process and strong team, we also know short-term periods of underperformance are inevitable especially since the goal of Davis Advisors is not to mimic the index but to beat it over the long term.

By holding on for the long term to a focused Portfolio of roughly 30 to 50 high quality companies, we believe we will outperform the index, which is composed of more than 2,700 companies. This is particularly true, since a large number of these 2,700 companies are state-owned enterprises not managed to maximize shareholder value operating in unattractive industries and in countries where the risk of political and economic instability is high. What the Fund does not own is critical, especially when investing internationally. ■

Average Annual Total Returns as of December 31, 2018

Davis Global Fund Class A	1 Year	5 Years	10 Years
with a maximum 4.75% sales charge	–24.57%	3.15%	10.11%

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 Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days. 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. The Fund's performance benefited from IPO purchases in 2013 and 2014. After purchase, the IPOs rapidly increased in value. Davis Advisors purchases shares intending to benefit from long-term growth of the underlying company; the rapid appreciation of the IPOs were unusual occurrences.*

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. Equity markets are volatile and an investor may lose money. **1.** Class A shares without a sales charge. **Past performance is not a guarantee of future results. 2.** 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. **3.** As of 12/31/18. **Past performance is not a guarantee of future results.**

Perspectives on Our Global Investment Approach and Portfolio Positioning

The Fund invests around the world in select businesses to take advantage of long-term global trends.[4]

Since our underperformance in 2018 is due in large part to our Chinese holdings, examining why we continue to have confidence in these companies is important. A significant reason for the poor performance of Chinese equities in 2018 has been the tariffs imposed by the United States on Chinese imports starting in July, which led to a series of retaliatory measures. As investors reacted negatively to these macroeconomic concerns, Chinese equities underperformed U.S. stocks. Major Chinese indexes such as the Shanghai Stock Exchange Composite Index and the MSCI China Index declined by –26.91% and –18.86% respectively in 2018. As a result of these price declines, these indexes are trading at highly attractive price to earnings ratios of 10 times earnings and 11 times earnings, respectively. Thus, investor fear is creating what we believe to be an attractive buying opportunity today.

In addition, although the U.S.-China trade dispute will be a headwind to Chinese economic growth, we believe the impact has been overstated. While the export sector was historically a key part of the Chinese economy and a big driver of growth, today exports are a much smaller part of the economy. For example, net exports, which represented 9% of GDP in 2007, fell to only 2% in 2017. While trade's contribution to GDP growth has declined, the consumer sector has taken up the slack. In the first nine months of the year, consumer spending accounted for 78% of GDP growth compared to a 46% contribution five years ago in 2013.[5]

While macroeconomic conditions can be important, we are not investing in the country of China or even in the Chinese market as a whole. Over the past several years our Chinese investments have focused on a certain part of the Chinese market: consumer companies. China's consumption as a percentage of GDP has grown from 35% in 2010 to 38% in 2018 but is still well below the current European Union level of 56% and the United States level of 68%.[6]

The Chinese consumer sector is not just growing rapidly but more importantly includes companies with investment characteristics we seek such as high returns on capital, low capital intensity, iconic brands, economies of scale, the network effects associated with a fast-growing user base, and high barriers to entry that ultimately yield durable competitive advantages. We have identified a number of Chinese consumer companies we believe have strong competitive positions, durable business models, good management teams, and attractive valuations. Moreover, these companies such as Alibaba Group, JD.com and New Oriental Education are driven by Chinese consumer demand with minimal exposure to U.S. exports. While the stock prices of these companies have been heavily affected by concerns about the impact of the U.S. trade dispute, the businesses and earnings potential of our holdings have not, which we believe makes them attractive investment opportunities. ■

Representative Holdings

New Oriental Education is an example of a company that has seen its stock price decline due to trade concerns but that will not be affected by U.S. tariffs in our view, which is why we added to the position in 2018. New Oriental Education is the largest provider of private education services in China. The company started in 1993 as a test preparation business, but in recent years has shifted into kindergarten through 12th grade after-school tutoring, which is now its largest and fastest-growing business. We believe this is an industry with several long-term drivers of growth, not the least of which is a different cultural approach to

4. Foreign investments, particularly those in emerging markets, involve greater risk than U.S. investments. Some of these risks are foreign country risk, currency risk, market risk, and emerging market risk. See endnotes for a complete description of these risks. **5.** World Bank and CEIC figures. **6.** World Bank national accounts data and OECD national accounts data files. As of 9/30/18.

children's education. As a percentage of income, Chinese parents spend more than four times as much as U.S. parents on their children's education. This spending is driven by a need to bridge the gap between low public spending on education and extremely competitive university admission rates in China. For example, the admission rate for the top 50 U.S. universities is 23% versus an admission rate of only 2% for the top 39 Chinese universities. Admission into these top universities depends on a student's performance on the national Gaokao exam. The Gaokao exam lasts nine hours, spanning two days, and tests students' knowledge of literature, math, English, and science. In anticipation of the Gaokao exam, students start attending after-school tutoring schools as young as kindergarten age, providing a recurring revenue stream for New Oriental Education, which also benefits from a measurable cost advantage in attracting desirable students as a result of the company's brand name.

While regulation in the industry is increasing and currently weighing on multiples, we believe fundamentals remain strong and regulation will be a long-term positive for both the industry and New Oriental Education, the industry leader. In our view, the company benefits from both a strong reputation and a strong brand, two key competitive advantages in building its business relative to lower quality, lower cost providers. We expect the Chinese education market and New Oriental Education's market share to grow over time. New Oriental Education currently trades at 20 times estimated fiscal year 2020 owner earnings with a foreign-exchange neutral revenue growth rate in the high 20s.

Berkshire Hathaway, run by Warren Buffett, is an example of a top long-term holding of the Fund that has performed well over time through a combination of owning businesses with durable competitive moats, great capital allocation and an attractive starting valuation. Berkshire is well known for its insurance operations, which include the competitively advantaged auto insurer GEICO and the exemplary reinsurance business managed by the talented Ajit Jain. Given their strong operations and conservative nature, these insurance subsidiaries generate a large amount of excess capital that can be invested in equities. Berkshire's approximately $200 billion stock portfolio represents approximately 40% of its market capitalization. Almost half of this portfolio is invested in U.S. financial institutions (most notably Bank of America, Wells Fargo, American Express and U.S. Bancorp), and approximately $45 billion is invested in Apple stock.

Berkshire's portfolio of controlled businesses—the most significant of which are the railroad BNSF, the power utility holding company Berkshire Hathaway Energy, aircraft parts maker Precision Castparts, and the consumer products company Kraft Heinz—now contribute approximately 60% of the company's earnings. More than $20 billion of earnings are distributed annually for Warren Buffett to redeploy, and Berkshire is currently holding an unusually high cash balance of more than $100 billion that is also available for investment in higher yielding investments at an opportune time. Berkshire has both the capital and investing prowess to take advantage of any market dislocations, in our view. Berkshire is trading at 15.5 times look-through earnings and 1.4 times book value and continues to be, in our opinion, highly attractive.

One area where the Fund is finding value now is select international financial companies. A good example of a recent addition to the Portfolio is the Development Bank of Singapore (DBS), the largest bank in Singapore and one of the largest in Asia. With 60% of the bank's deposit base in low cost current accounts and savings accounts, DBS has a significant advantage in the cost of funding. In addition to a retail customer base with strong brand loyalty, DBS has increased its competitive advantage and ability to attract low cost deposits by offering sophisticated cash management services for corporate clients and by making wealth management a strategic focus for the bank. DBS has become one of the top five banks in Asia for wealth management services where it benefits from a few structural advantages including domicile in a AAA-rated rule of law country and having Temasek, Singapore's Sovereign Wealth Fund, as an anchor investor. Aside from its home market in Singapore, DBS is building its presence in Greater China (China, Hong Kong and Taiwan), India and Indonesia. While this development, apart from its growth in Hong Kong, is currently diluting the company's overall return profile, we think as business efforts in any of those countries increase in scale they will meaningfully boost DBS's earnings power. Management also had the foresight to see the threat from nontraditional competitors and has invested to make DBS one of the most technologically advanced banks globally. We think its approach to digital banking will maintain the company's competitive advantage in terms of efficiency and customer retention for the foreseeable future. DBS trades at just under 10 times estimated 2019 owner earnings, delivering a return on tangible equity in the mid-teens and a 5% cash yield. ■

Conclusion

We believe a key reason for the Fund's long-term outperformance since the Fund was established in 2004 is our focus and willingness to look quite different from the Fund's benchmark index, the MSCI ACWI.[7] While this inevitably leads to periods where we are out of sync with the index over the short term, the fact that Davis Advisors has consistently generated successful long-term results for 50 years gives us great conviction in our fundamental, bottom up, long-term approach to investing. As we apply this tried and true investment approach, we are encouraged by the strong competitive positioning and positive business outlook for the companies the Fund owns. We thank you for your continued trust and interest. ■

7. Class A shares without a sales charge. **Past performance is not a guarantee of future results.**

This report is authorized for use by existing shareholders. A current Davis Global 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 Global Fund's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. 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; **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. As of December 31, 2018, the Fund had approximately 47.3% of assets invested in securities from emerging markets; **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; **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; **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.

The Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

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 Global Fund were: New Oriental Education & Technology ADR, 6.78%; Alphabet Inc., 6.09%; Alibaba Group Holding Ltd., ADR, 6.00%; Naspers Ltd.–N, 5.76%; Missfresh, Ltd., Series E, 5.07%; Ferguson PLC, 4.51%; Wells Fargo & Co., 4.41%; Amazon.com, Inc., 4.15%; Hollysys Automation Technologies Ltd., 3.97%; JD.com Inc., Class A, ADR, 3.81%.

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 **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. 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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