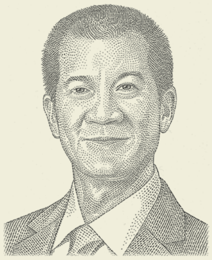

Davis International Fund

Update from Portfolio Manager

Danton Goei

Davis International Fund

Fall Review 2020

Please provide an update on the long-term performance and more recent results for Davis International Fund. Discuss the current positioning:

In the first seven months of 2020, Davis International Fund gained 1.51% compared with a −7.03% decline of the MSCI ACWI (All Country World Index) ex US, an outperformance of 8.54%. The COVID-19 pandemic and economic disruption significantly impacted businesses around the globe, yet we were generally satisfied with the performance of our portfolio companies through this difficult period. Among drivers of outperformance were many of our Chinese consumer companies, including JD.com, New Oriental Education & Technology, Meituan Dianping, Naspers, Prosus (which owns 30% of Tencent) and Alibaba Group Holding. Select global industrials such as Schneider Electric and Ferguson were also key contributors. Detractors to performance were mainly financial companies, including Metro Bank, DNB and Bank of Butterfield, as well as our two energy holdings, Ovintiv and Seven Generations Energy.

Online retail has been rapidly taking share globally, as we all know from how our personal shopping habits have changed over time. In 2019, the online share of U.S. retail sales reached 11.5%, while in China, it is even higher at over 20%.[1] While the lockdowns and travel bans employed to combat the spread of COVID-19 hurt consumer demand, they also accelerated the secular trends favoring e-commerce, working remotely and online learning, which are businesses where Alibaba Group Holding, JD.com and New Oriental Education & Technology are leaders. These consumer Internet leaders are the "blue chips of tomorrow" with strong moats, good growth prospects, cash-generative business models and attractive valuations.

International banks such as DNB in Norway, the Development Bank of Singapore (DBS) and Danske Bank in Denmark have underperformed in the first seven months of 2020. The market fears the impact of the looming recession on bank earnings. While loan losses will naturally rise in the coming recession, the banks are entering this recession with much higher capital ratios—often twice as high—as the last one in 2008–09. Strong balance

The average annual total returns for Davis International Fund's Class A shares for periods ending June 30, 2020, including a maximum 4.75% sales charge, are: 1 year, 0.54%; 5 years, 3.03%; and 10 years, 5.61%. 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 0.99%. 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 an IPO purchase in 2014. After purchase, the IPO rapidly increased in value. Davis Advisors purchases shares intending to benefit from long-term growth of the underlying company; the rapid appreciation of the IPO was an unusual occurrence. The Fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

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. All fund performance discussions within this piece refer to Class A shares without a sales charge and are as of 7/31/20 unless otherwise noted. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results.**

1. https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf sheets, conservative lending decisions in the years following the financial crisis and low valuations are why we see the banks as another area of opportunity. DNB and Danske Bank are both in their second century, and DBS was established in 1968, just three years after the independence of Singapore. These banks have proven their durability by weathering numerous recessions, wars and some even past global pandemics.

Comment on how portfolio construction is done to achieve an "all-weather" portfolio:

Building an "all-weather" portfolio requires three key elements. First and foremost, we want to invest in companies with the balance sheet and cash generation to weather the inevitable financial storms. Every recession is a reminder of the dangers of leverage, and we expect this one to be no different. Secondly, we want the long-term trends in our favor. Companies where time is their friend and that benefit from secular changes, such as those due to technology, consumer preferences or regulatory shifts, are in a position to grow their business and build value over time. Finally, a portfolio can stumble if you pay too high of a price. The attractive valuation of our portfolio is not only what enables us to earn above average returns, but is also our margin of safety in case the future is bleaker than forecast.

Discuss the ways our companies have elements of both offense and defense:

At Davis, we prioritize owning businesses that generate strong levels of cash flow and that can reinvest this cash at high rates of return. Inevitably, to do so requires having a competitive advantage. Admired brands such as New Oriental Education & Technology and Alibaba's Taobao have a real competitive advantage, as do JD.com with its low cost and efficient logistics network and DBS with its low-cost deposit funding. These competitive advantages have withstood numerous challenges over the past decades, but how about the future? Why do we believe these competitive advantages will endure?

The companies in our portfolio maintain their competitive advantage because they keep investing to widen their moat. Sitting on their laurels is not an option. New Oriental Education & Technology in China had been spending over $100 million a year building an online learning service. So when China was locked down in January and February and schools were closed due to COVID-19, New Oriental Education & Technology was able to transition all of its students to an online learning model, while its smaller competitors were forced to end classes, and many have since shut down. In fact, in the quarter that ended in February, New Oriental Education & Technology's revenues grew 19%, and operating income was up 22%. The large investment in an online learning service is not only a good way to reach more students in lower-tier cities who want access to the top teachers in Beijing and Shanghai, but it is also a brilliant way to ensure New Oriental Education & Technology can continue to teach its students even in the midst of a global pandemic.

Discuss some of the businesses Davis International Fund owns and any notable changes during this period:

One of the biggest contributors to 2020 results has been Meituan Dianping, China's leading e-commerce platform for local services, with over 450 million users transacting annually. The company's most popular offerings include food delivery from local restaurants, hotel booking, movie ticket reservations and shared bike rentals. Meituan Dianping dominates the food delivery business in China with a 65% market share. In 2019, 353 million users ordered $56 billion worth of meals, up 39% from 2018. Meituan Dianping's customers have incorporated food delivery into its weekly routine, ordering on average 25 times a year. Long term, we forecast food delivery will be a very profitable business for Meituan Dianping, with significant monetization upside (current take-rates are low relative to global peers) and a long runway of growth (penetration of the restaurant food market is approximately 15%, and penetration of meal occasions is low single digits).

While an attractive business on its own, food delivery is also the core, highly sticky use case that allows the company to cross-promote its range of other services. The company's cross-promotion strategy has proven quite successful, as Meituan Dianping has quickly grown to be the largest seller of domestic hotel room nights in China and a critical advertising and promotion channel for many brick-and-mortar businesses. Many of these adjacent services are already highly profitable, as they benefit from the user traffic generated by food delivery and thus have very low customer acquisition costs. To further take advantage of this dynamic and strengthen its ecosystem, the company continues to invest in new businesses, such as online grocery, which could represent significant upside over the long term. The company is trading at 35x 2021 normalized owner earnings, which is attractive, given the robust growth prospects of even its most mature businesses and management's track record of strong execution and value creation.

Please discuss your thoughts on investing in China:

Over the last decade, China has been the fastest-growing large economy in the world, with a compound annual growth of 10.9%, having surpassed Japan in 2010 to become the world's second-largest economy. In addition to growing rapidly, the Chinese economy has evolved from manufacturing-focused to consumption-based. In 2009, industry was the largest part of the GDP at 46.2%, but by 2019, this had fallen to 39%, during which period the services sector, of which the largest part is household consumption, raced ahead from only 43.4% in 2009 to 53.9% by 2019.[2]

Driving its economic transformation has been rapid urbanization and the growth of the Chinese middle class. Crucially, China is still in the midst of its transformation to a developed world economy and is forecast to have many years of above-average GDP and urbanization growth ahead. In 1978, when the economic reform process was launched, China's urbanization rate was 17.8%, grew to 49.7% by 2010 and today sits at 61.4%.[3] As impressive as this rate of change is, China is still well behind the urbanization rates of the United States at 82.3%, France at 81% and Japan at 91.6%.[4] (Similarly, China's service sector percentage of 53.9% is still well behind developed economies such as the United States at 77%, France at 70% and Japan at 69%.) If, over time, China reaches a U.S.-level urbanization rate, that would mean 280 million more urban residents, adding to the ranks of the middle class and driving the consumer-led economy ahead.

Over this period, Chinese corporations have become among the world's largest and most competitive. In 2009, among the top global Fortune 500 companies, 140 were American, much more than number two Japan with 68 and far ahead of China, which had only 37. Ten years later in 2019, the U.S. still held the top spot with 121, but China now has 119, and number three Japan was well back with 52.[5] American and Chinese firms dominate the global landscape, which in part explains why China is the top location for companies in Davis International Fund.

We believe the most attractive segment of the Chinese investment landscape is the consumer space. The consumer and services sector, as we have discussed, is the fastest-growing part of the Chinese economy, growing at an above-average rate in an already fast-growing economy. Moreover, in

2. https://www.statista.com/statistics/270325/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-china
3. https://en.wikipedia.org/wiki/Urbanization_in_China
4. https://www.statista.com/statistics/270001/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-the-us/
5. www.Fortune.com

the consumer space, you can often find companies with competitive advantages or moats, such as a strong brand, economies of scale and network effects that manifest themselves in high return on capital or high margins. Chinese consumer companies also have the benefit, much like their U.S. counterparts, of a large home market that provides them with ample opportunities to grow, which eventually can act as a base from which to start an international expansion. Moreover, the Chinese consumer companies we own have very strong balance sheets often with net cash positions. For example, the net cash position at our top holdings is substantial: Alibaba Group Holding ($50 billion), JD.com ($7 billion), Meituan Dianping ($8 billion) and New Oriental Education & Technology ($3 billion).

Domestically-oriented consumer companies are also less at risk of trade conflicts, such as the U.S.–China retaliatory tariffs imposed in 2019 or future trade frictions with the U.S. and Europe. While exports were a key contributor to China's economic growth in the past, this is no longer the case. In fact, over the past five years, net exports have had zero contribution to China's GDP growth, while services in 2019 were responsible for 60% of GDP growth.[6] Today, China really is a consumer-led economy.

The noise level today regarding U.S.–China relations is the highest it has been in over 30 years, so of course it bears watching. It is also true, however, that China has never been more important of a market for U.S. corporations. For example, China accounts for 17% of Apple's sales and an even higher percentage of profits; Boeing forecasts China becoming the world's largest aviation market and requiring 8,090 new airplanes over the next two decades (a business transaction worth nearly $3 trillion); and General Motors sells more cars in China than in the United States. The two countries have much more common economic interests than often discussed.

Better relations between China and the U.S. would be preferable, but they are also dependent on the domestic priorities of each country, which is difficult to predict. As equity investors, however, the key determinant of our investment return will be the earnings and cash generated by these businesses over time. As we survey that global investment landscape, we believe the Chinese companies in our portfolio are among the most attractive businesses in the world, run by talented managers and trading at appealing valuations. Should any of these conditions change, however, we will adjust the portfolio accordingly. Today, these Chinese companies are values, but there will be a time when that is no longer the case, and Davis International Fund will reposition its investments. Flexibility and adaptability have always been hallmarks of the Davis investment approach, and that is especially true in a fund with an international outlook.

Looking ahead, what is your outlook for Davis International Fund:

2020 will unfortunately always be remembered as the year the world experienced its worst pandemic in over a century. The healthcare toll with over 500,000 deaths and the economic impact with global GDP forecast to fall 5% is huge. It is, moreover, an event that has affected all of us, many very personally, others of us by causing major disruption in our daily lives.

2020 will likely be remembered, however, as the beginning of the period the world became much safer from future pandemics. Before 9/11, airports had security screening, but it took a major attack for the Transportation Security Administration (TSA) to be created in November 2001. Similarly, the U.S. banking system has long been regulated, but it took the financial crisis to pass the Dodd-Frank Act in 2010, raising banks capital ratios and establishing an annual stress test for large banks conducted by

6. www.ceic.com

the Federal Reserve. Following these events, flying has become much safer, and the U.S. banking system more resilient to shocks. In some ways, we might have been lucky that COVID-19, while very infectious, is not as lethal as other epidemics, such as the 1918 influenza pandemic. Nonetheless, the traumatic experience of COVID-19 will result in better early warning systems and better coordination of national healthcare systems and a more formalized protocol all countries can follow. These efforts, while not foolproof, will make the world better prepared for future pandemics.

The businesses in Davis International Fund's portfolio have by and large performed well relative to the index during the first seven months of 2020, and in some ways just went through their own stress test of how they perform during a serious economic downturn while consumer demand is in freefall. Many of our top holdings, such as Alibaba Group Holding, New Oriental Education & Technology, JD.com and Naspers, produced outstanding results in a difficult environment. We have also spoken about how the banks in the portfolio are better prepared than ever for the current recession.

Fear of a repeat of the financial crisis is so high that financials are by many metrics cheaper than they have ever been relative to the overall stock market—cheaper even than during the financial crisis. The "blue chips of tomorrow" are attractive, since they are in strong competitive positions and benefit from secular tailwinds and historically cheap financials, with very high capital ratios and conservative loan policies; and they are why we are so optimistic that the Davis International Fund will continue to generate long-term returns above the market.

We understand that in uncertain times such as these, it is more important than ever to be able to entrust your savings to an experienced and reliable investment manager with a strong long-term record. Over the 50 years since the firm's founding, the Davis discipline has demonstrated an ability to generate above-average returns, based on in-depth fundamental analysis, a long-term investment horizon and a strong value discipline. While the times have changed, these fundamental principles are timeless and proven. We thank you for your continued trust and interest in Davis International Fund.

This report is authorized for use by existing shareholders. A current Davis International 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.

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.

Objective and Risks. Davis International 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: **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines; **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; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **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; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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; **exposure to industry or sector risk**: significant exposure to a particular industry or sector may cause the Fund to be more impacted by risks relating to and developments affecting the industry or sector; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets. As of 6/30/20, the Fund had approximately 60.2% of net assets invested in securities from emerging markets; **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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; and **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; 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.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 6/30/20, the top ten holdings of Davis International Fund were: JD.com, 12.60%; New Oriental Education & Technology, 10.54%; Alibaba Group Holding, 7.78%; Schneider Electric, 6.04%; Naspers, 5.79%; Missfresh Pvt, 5.07%; DNB, 4.96%; DBS Group Holdings, 4.53%; AIA Group, 4.06%; 58.com, 4.04%.

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, Wilshire, and index websites.

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. Investments cannot be made directly in an index.

After 10/31/20, 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.

Davis Distributors, LLC
2949 East Elvira Road, Suite 101, Tucson, AZ 85756
800-279-0279, davisfunds.com

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