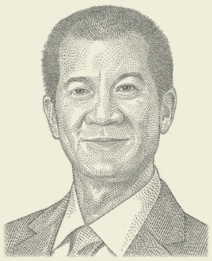

Davis International Fund

Update from Portfolio Manager

Danton Goei

The Equity Specialists

Davis International Fund

Semi-Annual Review 2018

Investment Results

Davis International Fund's performance in the first half of 2018 was driven by our holdings in the consumer discretionary, industrials and technology sectors.

Davis International Fund returned 0.3% in the first half of 2018 compared with –3.8% for the MSCI ACWI (All Country World Index) ex US, an outperformance of 4.1%.[1] Generally speaking, the companies and sectors that outperformed in 2017 continued their strong performance in the first half of 2018. Alibaba continues to drive the more than 30% growth of e-commerce in China.[2] The French aerospace company Safran is growing revenues on an organic basis by 10% by increasing output and sales internally and maintains a more than seven-year order backlog for jet engines. The Chinese education leader New Oriental Education & Technology Group continues to increase market share in the rapidly growing for-profit education sector in China. Finally, we participated in the initial public offering of iQiyi, a leading Chinese online video company that has performed well.

The leading detractor from performance in the first half of 2018 was Tarena International, the leader in Chinese information technology (IT) training, where a slowdown in the company's adult IT training business and continued losses in the company's rapidly expanding kindergarten to 12th grade (K–12) science and technology after-school education business led to a drop in earnings. Long-term demand for Tarena's classes, however, remains strong, driven by the growing internet and technology sector in China. Assuming no value for the promising K–12 segment, Tarena's core adult IT business is trading at an attractive 12–13 times fiscal year 2018 owner earnings. ■

The average annual total returns for Davis International Fund's Class A shares for the period ending June 30, 2018, including a maximum 4.75% sales charge, are: 1 year, 10.90%; 5 years, 8.70%; and 10 years, 3.48%. 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 1.05%. 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.*

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.** 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.**

Representative Holdings

We invest around the world in select businesses to take advantage of long-term international trends.[3]

Our goal is to identify long-term "compounding machines" for our capital and our investments span a range of business types and geographies.

In China, for instance, we hold Alibaba and its main competitor JD.com, among other online businesses. These two companies have pioneered the "new retail" concept where a single facility enables customers to shop, order online for home delivery or eat in the retail store. Alibaba started the year with more than 20 of these new retail stores with the brand name Hema, and the company's goal is to open 2,000 locations across China over the next three to five years.

Ferguson PLC is the largest plumbing and heating distributor in the U.S. with an 18% market share and just over $20 billion in sales, far larger than the company's closest competitor. As a distributor with 44,000 suppliers and more than one million customers, Ferguson has built a reputation for superior selection and service in a business where timely service and trusted brands matter (anyone who has experienced a burst pipe or a shower without hot water learns this lesson quickly). Despite the company's dominant market position, Ferguson is not well known to most U.S. investors. The company started under the name Wolseley in the United Kingdom 131 years ago and remains listed on the London Stock Exchange. Only last year did the company change its name to Ferguson, the name of its U.S. subsidiary, to reflect that the U.S. market now accounts for 85%–90% of earnings.

Ferguson generates attractive returns on tangible capital, has a strong balance sheet, and a history of returning cash to shareholders through dividends. A key risk would be a current rapid decline in U.S. commercial and residential construction. However, because Ferguson's business mix increasingly skews more to the renovation and retrofit business than in the past, we believe the company is better positioned to weather the next downturn than it did the last one. Ferguson now trades at 18 times fiscal year 2018 earnings and 16 times fiscal year 2019 earnings.

Naspers, founded in 1915, began as a South African media conglomerate and still owns major print media and pay-TV operations in Africa. However, over the last decade, the company has largely shifted its focus to investing in internet companies around the globe. Naspers' management's success has created what we believe to be an attractive portfolio of equity stakes in high-quality internet-enabled companies, primarily doing business in the emerging markets. Key holdings include Tencent, the social media and digital lifestyle giant in China; Delivery Hero, a food delivery service operating in Europe, Asia, Latin America, and the Middle East; and OLX Group, the leading online classifieds business in more than 35 countries including Russia, Brazil, India, and Indonesia.

Naspers' ownership stake in Tencent Holdings was acquired in 2001 for just $31 million and today has a market value of $149 billion. Tencent is the dominant social media and messaging platform in China and the largest video game operator in the world. In addition, the company owns promising video, music, payments, and cloud computing platforms in China. WeChat, Tencent's core messaging app, has more than one billion monthly

3. 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.

active users. According to estimates from industry analysts, more than 50% of mobile time spent online in China takes place on Tencent products. Tencent's loyal user base and unmatched array of products and services creates a highly durable competitive moat, providing the company with outstanding opportunities for future growth.

We believe investing in Naspers is an attractive way to gain exposure to Tencent at a significant discount to its intrinsic value. Adding the market value of the company's stake in Tencent ($149 billion) to a conservative estimate of the value of the company's non-Tencent assets ($18 billion) yields a total gross asset value of $167 billion. At the same time, the company's total enterprise value today is just $96 billion, a 42% discount to total gross asset value. Although some discount should exist given liquidity, conglomerate and tax issues, we believe today's wide discount will likely narrow substantially over time. At the current discount, we are purchasing Tencent shares at a compelling 21 times the company's 2019 price-earnings ratio. The multiple would be even lower if we excluded losses generated by the company's aggressive investments in areas such as offline payments and video content. Even if the current discount persists, assuming we are proven right in our belief Naspers' underlying assets will compound value over the long term, Naspers' stock should still generate attractive returns going forward. ■

Conclusion

Much of the business news focuses on the macro-economic environment and understandably so as the latest trade war threat, cryptocurrency price spike and interest rate forecast are much more captivating than the daily activities of steady businesses such as Safran's jet engine segment or Ferguson's distribution of plumbing and heating supplies. Yet often a sign of a durable competitive advantage is a company's ability to continue generating steadily growing business results and dominate its industry for decades. This is the durable competitive advantage we seek at Davis International Fund and ultimately find captivating in its own right. We are enthusiastic about owning a portfolio of such companies with durable competitive advantages internationally. 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.

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: **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 June 30, 2018, the Fund had approximately 48.6% 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 June 30, 2018, the top ten holdings of Davis International Fund were: Naspers Ltd.–N, 7.63%; Alibaba Group Holding Ltd., ADR, 6.37%; New Oriental Education & Technology ADR, 4.89%; JD.com Inc., Class A, ADR, 4.65%; DBS Group Holdings Ltd., 4.48%; Safran S.A., 4.37%; Ferguson PLC, 3.99%; Schneider Electric SE, 3.39%; Hollysys Automation Technologies Ltd., 3.37%; DNB ASA, 3.35%.

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.

During the period from inception (December 29, 2006) through December 30, 2009, only the directors, officers and employees of the Fund or its investment adviser and sub-adviser (and the investment adviser itself and affiliated companies) were eligible to purchase Fund shares. Since inception, the Fund's investment strategies and operations have remained substantially the same.

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) ex U.S. 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 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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