Davis Opportunity Fund

Update from Portfolio Managers

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Opportunity Fund

Annual Review 2019

Market Perspectives

Davis Opportunity Fund invests selectively in durable businesses irrespective of market capitalization. The Fund lagged in 2018 but is undervalued in our view as U.S. economic and business fundamentals remain favorable overall.

In 2018, Davis Opportunity Fund returned –13.50%, trailing the broader market.[1] In comparison, the S&P 500 Index returned –4.38% and the S&P 1500 Index returned –4.96%.[2] Energy, consumer discretionary and industrials were detractors in the period.

U.S. economic fundamentals remain strong with historically low unemployment, robust gross domestic product (GDP) growth and modest inflation. The Federal Reserve has continued to normalize interest rates but is doing so at a measured pace thus far. In brief, the U.S. economic backdrop and fundamentals appear favorable overall.

Still, starting in mid-2018, investors have turned more cautious due to a confluence of factors including the U.S.-China trade dispute, rising interest rates and the economic outlook.

In the second half of the year, when volatility increased, it became a tale of two markets. A number of stocks and sectors that had contributed meaningfully to our strong results over the previous three to four years underperformed, as investors sought sectors with historically lower share price volatility. In our minds, the trade-off is clear: we can continue to own and purchase more shares of companies that in our estimation have a high probability of delivering competitive results over the *long term* but that are somewhat out of favor or more volatile than other groups in the near term. Or we could theoretically follow nervous investors into areas of the market we regard as marginal long-term investment choices given their extremely low to negative topline growth, risky balance sheets where debt has increased considerably, and margins and dividend payout ratios that may be unsustainable over time. Therefore, while 2018 was a period in which we underperformed, we believe many of those companies that were detractors in the year will ultimately be among the long-term wealth builders in the Portfolio in the years ahead.

In our experience, the capital markets eventually tend to direct capital to those businesses that deliver evidence of strong long-term earnings power, and we recognize being selective about owning the

Average Annual Total Returns as of December 31, 2018

Davis Opportunity Fund Class A	1 Year	5 Years	10 Years
with a maximum 4.75% sales charge	−17.61%	5.64%	12.79%

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 0.95%. 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. 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. Past performance is not a guarantee of future results.**

right businesses is ultimately more important than trying to avoid short-term price fluctuations. As Peter Lynch famously said, "Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves." We absolutely agree having navigated markets for the last 50 years.

In brief, we believe investment success over the long term requires building a Portfolio that is superior to the broader market. We believe we hold above-average businesses trading at below-average prices that can reliably compound capital over the long term, which should allow the power of compounding to drive total returns for our clients. We remain steadfastly focused on ensuring our businesses continue to demonstrate the potential to deliver superior long-term results for shareholders, regardless of short-term price volatility, which is a normal part of the investment equation.

While we have seen only one side of the "valley" in terms of the market correction of the last six months, we encourage investors to keep in mind that the market is incredibly resilient and tends to march upward with corporate profit growth over time, that the backdrop and underpinnings of the overall economy are strong, and that this environment of uncertainty and low prices, in our opinion, makes this an especially attractive time to increase ownership in great long-term businesses, disconcerting as short-term price fluctuations can be. ■

Portfolio Review

In keeping with our philosophy of buying durable businesses at value prices and holding them for the long term, we are investing selectively in businesses with attractive valuations that meet our investment criteria of strong balance sheets, durable competitive moats, and the potential for earnings to expand over time.

Davis Opportunity Fund holds three categories of businesses including in order of proportion:

- Dominant market leaders
- Lesser-known, "out-of-the-spotlight" businesses
- Contrarian investments[3]

A representative market leader is UnitedHealth Group, the largest health care insurance company in the United States.[4] The company focuses solely on its core health care business through a diversified product line including underwriting health insurance plans for large employers, administering employer-funded plans on a non-risk basis, and offering Medicare Advantage plans to senior citizens as a competitive alternative to traditional Medicare. In addition, the company has successfully built an array of less regulated health care related noninsurance businesses, including the third largest pharmacy benefit management company, and also offers consulting and other services in the area of health care information technology. We view UnitedHealth Group as a well-managed and durable franchise with ample opportunity for continued growth.

3. While we research companies subject to such contingencies, we cannot be correct every time, and a company's may never recover. **4.** 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.**

Intel, a second example of a market leader, is a U.S.-based leader in microprocessors with a market capitalization of $170 billion. Intel is the second largest semiconductor chipmaker globally based on revenue and dominates the PC, Mac, and server markets with a vast installed user base of platforms that run on the company's design. We believe the company will continue to expand margins as its unit costs gradually decline while at the same time growing revenue in the high single digit range for years to come.

Facebook, which has quickly emerged as a market leader, is the largest social network in the world with 2.2 billion active monthly users and an array of offerings including Instagram, Messenger, WhatsApp, and Oculus. Given Facebook's enormous scale and expanding user base the company is in a unique position to offer advertisers extensive targeted data and analytics on consumer preferences as well as to interact with consumers directly in a large-scale, highly efficient manner. We expect Facebook's earnings power to increase dramatically as advertisers continue to devote more of their advertising budgets to online platforms, especially the burgeoning market for mobile devices.

Out-of-the-spotlight businesses include a wide range of mundane or niche businesses that span a wide range of industries. Examples include: Quest Diagnostics (an independent laboratory services provider); Johnson Controls International (a global heating, ventilation and air conditioning systems (HVAC), fire protection and building security company); and Safran (a French manufacturer of jet engines and parts serving the global aerospace industry).

In the contrarian or headline risk category is Apache Corporation, a shale oil company with the reserve base and operating expertise to increase production at double-digit rates into the future, especially as the Alpine High discovery in the Permian basin begins to contribute to cash flow. The price of oil has fallen recently as have the shares of energy companies. We believe the future for Apache could well be much better in terms of production and returns on capital spending than in many past years when the former leaders of the company focused on a much larger but low-return asset base. In our view the market has been slow to recognize this change in the company's prospects.

In addition to contrarian investments in energy, we have also invested in a number of headline risk companies on a case-by-case basis such as Adient, a leading seat system manufacturer and services company that has experienced a number of operational challenges that the company's new management can correct, in our view. We also hold shares of General Electric (GE), a more complex investment that is based on our view the company can, through a variety of asset sales, shore up its balance sheet and ultimately break up so shareholders will have the opportunity to own GE's attractive aerospace business. We understand owning shares in headline risk companies can be unsettling for investors. Our rationale for owning headline risk investments is based on both facts and assumptions. Should the facts change significantly our views of course would change, but we currently believe these contrarian investments are trading at steeply discounted valuations that can compensate us for the risks involved.

Since our firm's inception 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 the Davis family and Foundation, Davis Advisors, and our employees have invested in similarly managed accounts and strategies remains a true sign of our commitment to, and conviction in, this enduring philosophy.[5] ■

5. As of December 31, 2018.

This report is authorized for use by existing shareholders. A current Davis Opportunity 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 Opportunity 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 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; **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 26.0% 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; **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 of Davis Opportunity Fund were: Alphabet Inc., Class C, 5.48%; United Technologies Corp., 5.37%; Grab Holdings Inc., 5.13%; Wells Fargo & Co., 4.81%; Apache Corp., 4.48%; Quest Diagnostics Inc., 4.38%; Didi Chuxing Joint Co., 4.20%; Magnolia Oil & Gas Corp., Class A, 4.20%; Amazon.com, Inc., 3.86%; Johnson Controls International PLC, 3.41%.

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 1500 Index** is comprised of the S&P 500, MidCap 400, and SmallCap 600, which together represent approximately 90% of the U.S. equity market. 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.

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

Item #4776 12/18