Davis Opportunity Fund

Update from Portfolio Managers

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Opportunity Fund

Semi-Annual Review 2018

Market Perspectives

Davis Opportunity Fund delivered 2.03% versus 2.65% for the S&P 500 Index and 2.91% for the S&P 1500 Index in the year-to-date period.[1]

In the first half of 2018, Davis Opportunity Fund returned 2.03%, trailing the broader market. In comparison, the S&P 500 returned 2.65% and the S&P 1500 returned 2.91%. Consumer discretionary and information technology holdings contributed to absolute results while energy holdings were a detractor.

Currently, the U.S. economy remains strong with robust GDP growth, relatively full employment and muted inflation. Still, investors face uncertainty with respect to interest rates, the durability of the current economic expansion and geopolitical developments, among other considerations. These are all *important but unknowable* factors.

At Davis, we remain focused on the i*mportant and knowable*, which requires understanding our portfolio holdings company by company and assessing whether the long-term earnings power of the businesses we own remains intact and able to generate satisfactory rates of return over the next five years. In other words, despite share price volatility, the underlying businesses we own are generating healthy, robust earnings with few exceptions and are making good financial progress. In the long run and based on our experience dating back almost 50 years as an independent, research-driven investment firm, long-term earnings power matters far more to our ultimate success as investors than relatively minor share price fluctuations during shorter time periods.

In today's market, our long-range assumptions include:

- Equities should outperform bonds over the next decade.[2]
- Within the equity universe, selectivity is critical. Durable, well-managed businesses whose true value is not fully recognized by the market in the near term should ultimately outperform.

Average Annual Total Returns as of June 30, 2018

	1 Year	5 Years	10 Years
Davis Opportunity Fund Class A with a maximum 4.75% sales charge	8.52%	13.07%	10.13%

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.** Common stocks and bonds represent different asset classes subject to different risks and rewards. Unlike bonds, the Fund does not offer a fixed rate of return if held to maturity, and the Fund has risks not associated with holding a bond. Bonds are considered to have less risk than equities. Future economic events may favor one asset class over another.

- Opportunities in today's market include dominant market leaders trading at attractive prices, out-of-the-spotlight businesses that often operate in dull behind-the-scenes industries, and contrarian investments with sound long-term business fundamentals despite short-term challenges.[3]

- Risks today include dividend darlings found in sectors such as consumer staples, telecommunications and utilities. These businesses offer above-average dividend yields but are trading at relatively full valuations based on their expected growth rates. ■

Portfolio Review

Dominant market leaders. Out-of-the-spotlight businesses. Contrarian investments.

Davis Opportunity Fund is built from the bottom up, company by company, with the goal of compounding our investors' capital at a satisfactory rate over a multiyear time horizon. In our experience, this patient, time-tested approach is a reliable method for growing shareholder wealth over the long term.

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

Two representative market leaders in the Fund include Safran and Amazon.com.[4]

Safran is a manufacturer of aircraft and rocket engines and components with an additional focus on the aerospace business in recent years. Lead drivers of the company's growth include: vast advantages of scale in manufacturing, steady production rates and innovative development of aerospace propulsion engines (i.e. LEAP engines to replace CFM56 engines used in popular Boeing 737 and Airbus A320 aircraft). Given the expected ongoing growth and development of LEAP engines, optimal positioning to supply engines for narrow-body planes and steady earnings per share growth, we believe Safran will offer attractive returns for long-term shareholders.

Amazon is an e-commerce giant that has profoundly reshaped the retail industry over the years. Amazon offers an optional membership-based business model through its Amazon Prime service. In addition to its retail business, Amazon has a state-of-the-art, rapidly growing web services business (Amazon Web Services) that enables companies and other organizations to outsource their computer systems to Amazon's digital cloud.

A representative out-of-the-spotlight business is Johnson Controls International, a company that was founded in 1885 as one of the first manufacturers of room thermostats. Today, 130 years later, the company is a global supplier of heating, ventilation and air conditioning systems for office buildings as well as a leading manufacturer of batteries and supplier of automobile seat components. We expect all of Johnson Controls' businesses to show steady growth over the years ahead offering increasing opportunities to return more cash to shareholders.

3. While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock 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.**

Contrarian investments include our energy holdings, which are predominantly North American shale exploration and production companies such as Encana and Apache, that we believe the market is under-valuing based on our estimates of future cash flows.

Overall, we believe the durable balance sheets and long-term earnings power of the companies that make up Davis Opportunity Fund strongly position us to continue building shareholder wealth over time.

Since our firm's inception nearly 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 of capital from Davis Advisors, the Davis family and Foundation, our employees, and Fund directors have invested side by side with our clients' savings in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.[5] ■

5. As of June 30, 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 June 30, 2018, the Fund had approximately 23.2% 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 June 30, 2018, the top ten holdings of Davis Opportunity Fund were: Alphabet, Inc., 7.79%; Apache Corp., 6.12%; Amazon.com, Inc., 5.95%; Wells Fargo & Co., 4.88%; Aetna, Inc., 4.72%; United Technologies Corp., 4.18%; Facebook, Inc., Class A, 4.13%; Adient PLC, 3.97%; Grab Holdings, Inc., 3.54%; Encana Corp., 3.45%.

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 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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