Davis Opportunity Fund

Semi-Annual Review 2022

Portfolio Manager VIDEO

Update from Portfolio Managers

Market Perspectives

In the first half of 2022, the S&P 1500 Index declined –19.91%. Inflation and interest rates, the war in Ukraine and the potential for a near-term recession are key factors impacting markets presently. We believe bottom-line fundamentals will drive shareholder returns in the long run. Financial services, technology, industrials, communication services and healthcare companies represent the majority of our current investments.

In the year-to-date period through June 30, 2022, the S&P 1500 Index declined –19.91%. During this period, the Federal Reserve explicitly guided towards and instituted a series of interest rate increases in response to signs of inflation in the U.S. The key concerns in our conversations with clients include inflation and interest rates, the war in Ukraine and the potential for a near-term recession, among other topics.

We do not have a precise expectation or view relative to how long above-historic inflation can continue nor when prices will stabilize. We believe, therefore, that we should be prepared for a range of scenarios. We are focused on balance sheet strength, product longevity, valuation and competitive advantages, each of which can be an indicator of durability under a wide range of conditions. While we are being strict in our discipline to guard against potential risks, we also look to capitalize on market price dislocations intelligently where and when they may occur.

From a high level, two attractive sectors represented in the portfolio and that demonstrate the breadth and contrast between individual business types are healthcare and financials—two of the market's most well-established, enduring sectors. Both can generate enormous amounts of cash with attractive full-cycle economics. Within healthcare, we have chosen to own primarily healthcare services, generic pharmaceuticals and health insurance companies in leading industry positions.

The average annual total returns for Davis Opportunity Fund's Class A shares for periods ending June 30, 2022, including a maximum 4.75% sales charge, are: 1 year, −22.61%; 5 years, 5.59%; and 10 years, 11.08%. 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. For most recent month-end performance, visit davisfunds.com or call 800-279-0279. Current performance may be lower or higher than the performance quoted. The total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.93%. The total annual operating expense ratio may vary in future years. Returns and expenses for other classes of shares will vary. 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. All fund performance discussed within this piece refers to Class A shares without a sales charge and are as of 6/30/22 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. The Attractive Growth and Undervalued reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.**

Similarly, in financials, we are invested in what we believe are some of most durable and profitable companies in the sector, all while the sector is trading at relatively low valuations.

We also own a number of information technology leaders in the semiconductor space, in technology-centric communications services and in consumer discretionary enterprises engaged in e-commerce and cloud computing primarily.

Last but not least, our industrial positions and broadly diversified conglomerates, among a handful of other holdings, round out the portfolio. Overall, we believe our capital is spread in selective fashion across 42 distinct holdings, covering a significant number of different business types and even business lines within companies. Our expectation for these businesses is that on balance, they will generate attractive returns on capital—providing growth over a full cycle—and are currently trading at below-market multiples on average.

Shown below are the number of select holdings in the portfolio versus the S&P 1500 Index. The portfolio held 42 positions as of the most recent quarter end. At the same time, the portfolio's five-year trailing EPS growth rates and forward P/E multiples appear to us more attractive than the alternatives available in the broader market today. ■

Selective, Attractive Growth, Undervalued

	Fund	Index
Holdings	42	1,505
EPS Growth (5 Year)	18.5%	17.4%
P/E (Forward)	8.9x	16.1x

Portfolio Review

The Fund's performance has outperformed the S&P 1500 Index. Healthcare and financials benefited our performance in relative terms, while industrials and consumer staples detracted.

In the year-to-date period, Davis Opportunity Fund returned −19.33% versus −19.91% for the S&P 1500 Index.

While our absolute performance was negative, we declined less than the market overall in relative terms. The drivers aiding our relative outperformance include healthcare and financials. Detractors by sector on a relative basis include industrials and consumer staples.

Among recent changes, our percentage of assets in market-leading healthcare companies has increased over the year-to-date period due to active additions to positions and the sector's relatively better returns than the broader market.

We are maintaining our positions in the semiconductor area, as we feel its long-term potential is underestimated and because valuations have come down considerably.

Voids or underweighted sectors in the portfolio include energy, which surged in the first quarter 2022 but reverted somewhat in the most recent quarter. We believe the range of possible outcomes—given new and increasingly stringent regulations and an eventual end to the supply shock associated with the Ukraine conflict—constitute a poor risk/reward profile at this time.

The business types that we favor in our selective approach to investing include:

- Major financial institutions—large, well-capitalized banks such as Wells Fargo, select property casualty and reinsurance companies such as Markel Corporation and the financial elements of Berkshire Hathaway and businesses with significant profit generation from payments and spending such as Capital One

- Leaders in healthcare services and pharmaceuticals—companies with significant market share that possess competitive advantages such as Quest Diagnostics, a leading independent lab services company, and Viatris, a major global pharmaceuticals company with a strong position in generics

- Workhorse technology companies—businesses that specialize in vast, global end markets such as semiconductor-related technologies, including Intel and Applied Materials, as well as an investment in middleware software represented by VMware

- Dominant e-commerce, cloud computing, social media and videogame companies—including Amazon.com, Meta (aka Facebook) and Prosus ■

Fund Outlook

We are positive about the Fund's long-term investments, which represent a selective list of extremely durable companies and industries, all while acknowledging near-term headwinds.

Looking ahead, we would encourage clients to look through the current headlines at what may occur on the other side of our present challenges and to derive conviction from the sheer power and profit potential of the businesses found within Davis Opportunity Fund. While the near term presents headwinds ranging from the political and geopolitical to economic implications from COVID and the war in Ukraine, our view for the long-term attractiveness of equities over other asset classes has not diminished. In fact, valuations have come down to a level where we perceive there to be, purely based on valuation, lower risk in certain areas of the market than just a year ago.

Our businesses reside in extremely durable industries, and at the company level, they provide what we believe are attractive risk/reward proportions, given their balance sheet strength, growth potential over the long term and current valuations. It is a time, in our view, to be selective and to consciously adhere to a discipline of asking continually: What kinds of businesses do we want to own? And how much should we pay for them? This back-to-basics approach has been a central part of our investment discipline since our founding in 1969.

In terms of what can be gleaned from recent price volatility, we would argue that in periods of heightened uncertainty and even dislocation, it is important to bear in mind that historically the nature of such headwinds is that they ebb and flow. Near-term conditions are mixed, but our portfolio of businesses have overall stood the test of time, and in our view, offer attractive long-term economics for shareholders, based on their ongoing relevance and profit generation.

At Davis Advisors, we seek to purchase durable businesses at value prices and to hold them for the long term. The Davis family, its foundation, our company, and our employees and directors have more than $2 billion invested alongside clients in similarly managed portfolios—a testament to our commitment to, and alignment with, shareholders.[1]

We are grateful for your confidence and trust, and we look forward to continuing our investment journey together. ■

1. As of 6/30/22.

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.

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. The investment objective of Davis Opportunity Fund 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. As of 6/30/22, the Fund had approximately 17.5% of net assets invested in foreign companies; **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; **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; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; and **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. See the prospectus for a complete description of the principal risks.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 6/30/22, the top ten holdings of Davis Opportunity Fund were: Cigna, 8.39%; Wells Fargo, 6.74%; Viatris, 5.57%; UnitedHealth, 5.14%; Quest Diagnostics, 5.01%; U.S. Bancorp, 4.91%; Owens Corning, 4.56%; Capital One, 4.45%; Markel, 3.62%; and Teck Resources, 3.46%.

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.

Forward Price/Earnings (Forward P/E) Ratio is a stock's current price divided by the company's forecasted earnings for the following 12 months. The values for the portfolio and index are the weighted average of the P/E ratios of the stocks in the portfolio or index.

Five-Year EPS Growth Rate is the average annualized earning per share growth for a company over the past five years. The values for the portfolio and index are the weighted average of the five-year EPS Growth Rates of the stocks in the portfolio or index.

We gather our index data from a combination of reputable sources, including, but not limited to, Lipper, Wilshire, and index websites.

The S&P 1500 Index includes all stocks in the S&P 500, S&P MidCap 400, and S&P SmallCap 600. This index covers approximately 90% of U.S. market capitalization. Investments cannot be made directly in an index.

After 10/31/22, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

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Item #4420 6/22