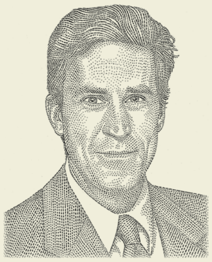
DREF SEMI-ANNUAL REVIEW 2018



Davis Real Estate Fund

Update from Portfolio Managers

Andrew A. Davis and Chandler Spears

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Real Estate Fund

Semi-Annual Review 2018

Investment Results

Davis Real Estate Fund's Class A shares provided a total return on net asset value for the six month period ended June 30, 2018 of 2.37%. Over the same time period the Wilshire U.S. Real Estate Securities Index returned 1.60%. Over the latest three and five year periods, a $10,000 investment in Davis Real Estate Fund has grown to $13,065 and $15,253 respectively.[1] ■

Fund Overview

While 2018 has proven difficult so far for real estate securities, considerable divergence of performance among different property sectors has for the most part benefited Davis Real Estate Fund. Of course talking about success is always difficult during periods when prices in general have declined. Even though we believe investors tend to favor absolute returns over relative returns, relative returns certainly matter at times. Today is one of those times as Davis Real Estate Fund has had a good start to the year.

Fund management long ago positioned the Fund to adapt to structural forces that are changing how individuals consume goods and services. That continues to be a difficult issue because we invest in businesses, not sectors. The common refrain of "retail is dead" does not ring true in all cases because the retail sector encompasses many different types of retail real estate businesses. Some companies own real estate that is poorly located or functionally obsolete, and investment in those assets at any price makes little sense. However, companies like Retail Opportunity Investments Corp. (ROIC) benefit from owning great real estate.[2] Retail Opportunity Investments owns necessity-based retail properties in densely populated markets along the U.S. West Coast. In almost all instances the company has benefited from significant barriers to new construction and strong durable demand. For 15 consecutive quarters occupancy has been at or above 97%, in large part due to Retail Opportunity Investments' focus on shopping centers anchored by grocery stores. As a result, bankruptcies in other types of mall businesses have barely mattered to the company. Unfortunately, investors have been indiscriminate in their disdain for shopping center real estate, which has detracted from Fund performance this year because Retail Opportunity Investments represents one of our largest retail overweighting. Nevertheless, we are willing to wait for our analysis to be proven correct. Even though retailers of all

Average Annual Total Returns as of June 30, 2018

	1 Year	5 Years	10 Years
Davis Advisors Real Estate Fund Class A with a maximum 4.75% sales charge	2.72%	7.76%	5.64%

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 0.97%. 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.*

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.**

stripes are currently experiencing tremendous upheaval, we believe winners will emerge and those winners will favor the type of properties owned by Retail Opportunity Investments.

The Fund has profited tremendously in the first half of 2018 from investments in industrial property companies. Even though we believe the best-located retail real estate will survive, we recognize consumers are increasingly looking to e-commerce sites to fulfill their needs. This shift is made possible by the development of the increasingly complex logistics infrastructure necessary to deliver products in some cases within hours of ordering. While large-scale distribution centers are still integral to the delivery chain, these last-mile fulfillment centers have proven to be the most in-demand industrial real estate. These properties are found in dense urban areas and typically are no more than 200,000 square feet in size. Because building new facilities in these locations is almost impossible, a virtual arms race is underway to acquire such properties or, for companies with the ability to do so, properties that can be repurposed for last-mile distribution.

Rexford Industrial Realty, Inc. (REXR) is focused on just this sort of property in the number one market in the country for last-mile distribution, the greater Los Angeles market. The company is at the vanguard of last-mile logistics because the highly affluent population of Los Angeles is keen to take advantage of technology and also because the nation's two busiest ports are located in the Los Angeles area. As a result, southern California is the largest endpoint for e-commerce distribution in the United States. With all of Rexford's properties located in the Los Angeles area, the company's fundamentals are exceptionally strong and likely to remain so for the foreseeable future. Rexford's markets are more than 98% occupied and over the last year rents on new leases for e-commerce tenants have risen approximately 30%. Given that existing buildings are virtually full, rent growth is likely to persist for some time.

Rexford is not the only company reaping rewards from robust fundamentals. Prologis, Inc. (PLD) recently agreed to acquire DCT Industrial Trust, Inc. (DCT) at a substantial premium to further expand into attractive markets where Prologis seeks greater exposure. Not surprisingly southern California is one of the markets where Prologis should benefit from significant growth opportunities after the transaction is closed later this year. The Fund has a substantial overweight position in DCT that has contributed nicely to performance this year. Even though valuations for industrial real estate companies have expanded considerably, additional growth over the next few years should justify these valuations. ■

Fund Positioning

In early 2017 we began to increase the Fund's investments in companies with short lease durations. In our view, when facing a rising interest rate environment that coincides with steady economic growth, the ability to renew leases more frequently at higher rates should drive superior earnings growth. The type of property with the shortest lease duration is a hotel and the Fund does have a small investment in that sector, although we have never been fans of the business model. We believe the hotel business involves too much operating leverage and the structural capital expenditures necessary to keep properties competitive are onerous. Our only investments in the hotel sector are an underleveraged large capitalization owner of upscale and luxury properties and a smaller owner of independent luxury hotels that we consider a takeover candidate. Indeed, the company has already received an unsolicited bid from a rival that has contributed nicely to Fund performance this year.

We are more enthusiastic about two non-hotel sectors with short duration leases. Self-storage facilities have an average stay of 12 to 18 months. We use the word "stay" because in reality most tenants are paying month-to-month and can cancel with short notice. Further, the owner can increase the rent with 30 days' notice. This lease arrangement gives the owner considerable latitude to adjust rents upward if demand is rising and to lower rents to protect occupancy if demand is weakening. In addition, self-storage structures require very little capital to maintain, which is perhaps the most alluring feature of the business. While hotel and office properties can require more than 15% of net cash operating income to keep properties competitive, self-storage requires only a third of that. Because the self-storage industry has maintained average same-store net operating income growth rates of more than 4% since the early 2000s, it is easy to see why the sector has been one of the best performing real estate sectors over the long term. The key for these businesses has been weathering periods when supply increases and temporarily curbs the growth in lease rates or even results in decreasing lease rates. The industry is working through just such a period now, but we believe core growth is set to reaccelerate in 2019 and 2020.

Apartments also have short lease terms and are therefore one of the sectors we consider fertile ground in seeking "forever investments." Essex Property Trust, Inc. (ESS), which we have written about on many occasions as a forever investment, continues to be a Fund favorite along with AvalonBay Communities, Inc. (AVB), which is now a top Fund holding. The apartment sector did not do well in 2017 as investors became increasingly concerned with excess supply in markets that had produced outsized profits over the past few years. While we too saw a looming supply issue in our models, our research now suggests that demand will be sufficient to match the increased supply. Looking further out to 2019 and 2020, rents may begin to reaccelerate due in large part to continued employment growth, tightening lending standards and increasing construction costs.

Finally, we have always kept a portion of the Fund invested in businesses with defendable franchise values that are underappreciated by most investors. In fact, most of the Fund's investments often consist of such businesses. Perhaps no holding at the moment better exemplifies defendable franchise value than American Campus Communities (ACC), which has been a Fund holding for more than 13 years. One of the most intriguing aspects of student housing is the risk-return profile of the business. The student housing business has not benefited from the huge rent spikes seen in conventional apartments over time. However, when considering the lower volatility of cash flow growth over long durations, student housing has historically produced better risk-adjusted returns. Unfortunately many investors prefer to time the rent spikes in conventional apartments and that means American Campus is periodically left behind. That is certainly the case today as the stock's performance has modestly trailed our benchmark. Even so, we believe American Campus is uniquely positioned in a sector that is finally maturing and for which the potential is greater than in any other real estate sector.

As always, we value the trust you have placed in us and look forward to continuing our investment journey together. ■

This report is authorized for use by existing shareholders. A current Davis Real Estate 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 Real Estate Fund's investment objective is total return through a combination of growth and income. There can be no assurance that the Fund will achieve its objective. Under normal circumstances the Fund invests at least 80% of its net assets, plus any borrowing for investment purposes, in equity, convertible, and debt securities issued by companies principally engaged in the real estate industry. 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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; **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; **real estate risk:** real estate securities are susceptible to the many risks associated with the direct ownership of real estate, such as declines in property values and increases in property taxes; **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines; and **variable current income risk:** the income which the Fund pays to investors is not stable. 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 10 holdings of Davis Real Estate Fund were: Simon Property Group, Inc., 6.50%; AvalonBay Communities, Inc., 4.14%; Prologis, Inc., 3.77%; Equinix, Inc., 3.57%; Forest City Realty Trust, Inc., Class A, 3.22%; Boston Properties, Inc., 2.96%; Public Storage, Inc., 2.69%; Extra Space Storage, Inc., 2.63%; Camden Property Trust, 2.49%; Rexford Industrial Realty, Inc., 2.47%.

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 Wilshire U.S. Real Estate Securities Index is a broad measure of the performance of publicly traded real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The Index is capitalization-weighted. The beginning date was January 1, 1978, and the Index is rebalanced monthly and returns are calculated on a buy and hold basis. 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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