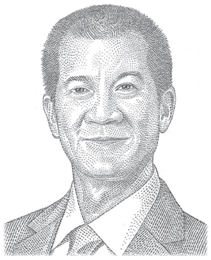
Why China Is Creating Some of the World's Best Investment Opportunities:

A Conversation with Davis PM Danton Goei



Danton serves as Portfolio Manager of Davis Global Fund and Davis International Fund and is Co-Portfolio Manager of Davis New York Venture Fund with Chris Davis.

Executive Summary

- We believe an allocation to China should be a part of every investor's well-diversified portfolio.
- China is the world's second largest economy and is on track to become the largest by 2028.
- A rapidly growing middle class and high rates of urbanization translate into rising demand for goods and services, and ultimately above-average growth rates.
- China has evolved from an export-driven economy to a domestic, consumer-driven economy more similar to the U.S., Japan and developed Europe.
- China has the largest number of companies in the Fortune Global 500. It possesses leading artificial intelligence, cloud computing and e-commerce businesses.
- China has many world-class companies that offer the rare combination of compelling growth rates at attractive valuations.
- The MSCI China and Hang Seng Indexes are trading at a 23% and 41% discount to the S&P 500 Index, respectively.
- While political rhetoric has led to heightened stock price volatility and a perceived increase in risk investing in China, there has been little real world effect on the underlying businesses.
- We expect the Chinese government to act in a way that promotes capitalism, economic growth, internal stability and its long-term goal to become a major global player.
- Davis Global Fund and Davis International Fund have outperformed their respective benchmarks over the trailing 1-, 5- and 10-year periods, as well as since inception about 15 years ago.

China has undergone a multi-decade economic transformation. Can you help put this shift into perspective?

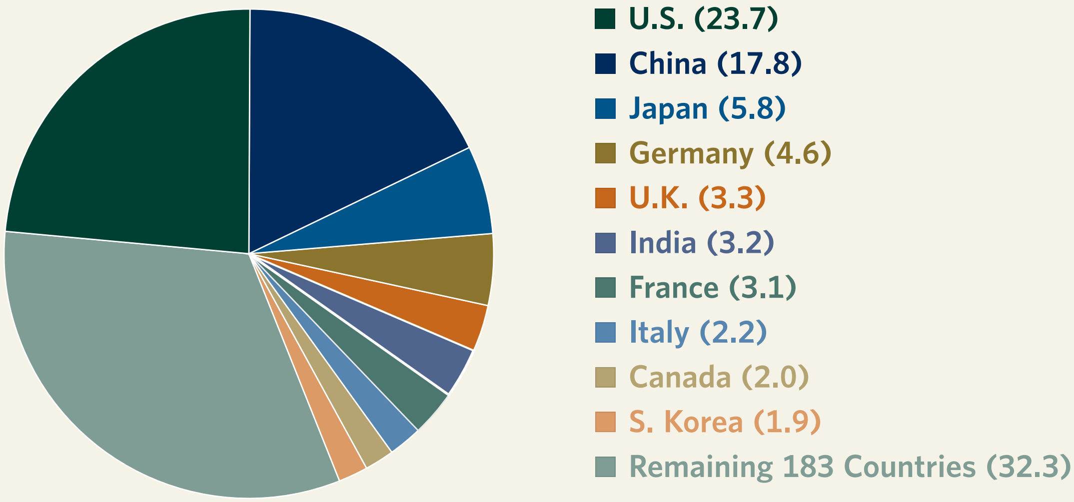
Today China is the largest economy in Asia and the second largest in the world. We believe an allocation to China should be a part of every investor's well-diversified portfolio. It is an area of the world that should not be overlooked, in our opinion, as prudent and thoughtful stewards of client capital seeking to generate above-average shareholder returns.

Over the last 20 years, China has evolved from an export-driven economy focused on producing agricultural and industrials goods to a domestic, consumer-driven economy more similar in nature to the U.S., Japan and developed Europe. The country is no longer dominated by commodity-oriented and low-end manufacturing companies, but today is home to leading artificial intelligence, cloud computing, and e-commerce champions. 2020 marked the 16th year in a row that China was the largest contributor to global growth, and the country is on track to become the largest global economy by 2028.

China currently accounts for approximately 18% of world GDP. Despite its meaningful contribution to world GDP, China only accounts for 5% of the MSCI ACWI. Indices do not reflect economic reality and are on a slow glide path to catch up. Even still, most U.S. investors are meaningfully underweight in China and, we believe, are missing a meaningful opportunity to add value to their portfolios.

The U.S. and China Lead the Global Economy[1]

Share of Global Economy (%)



1. Source: IMF for 2020 estimates. Figures represent Nominal GDP.

What has driven the transformation and why should this matter to investors?

A rapidly growing middle class and high rates of urbanization translate into rising demand for goods and services and ultimately, above-average growth rates, particularly for consumer-oriented businesses in China. We believe there is an enormous opportunity ahead for smart investors to participate.

Over the next decade, Asia is forecast to contribute 60% of the world's economic growth, in large part because 90% of the 2.4 billion new members of the global middle class will be from Asia. One-third of those new members will come from China, and this continues to be an enormous source of growth for consumer-oriented businesses, a huge part of the growth engine in China today.

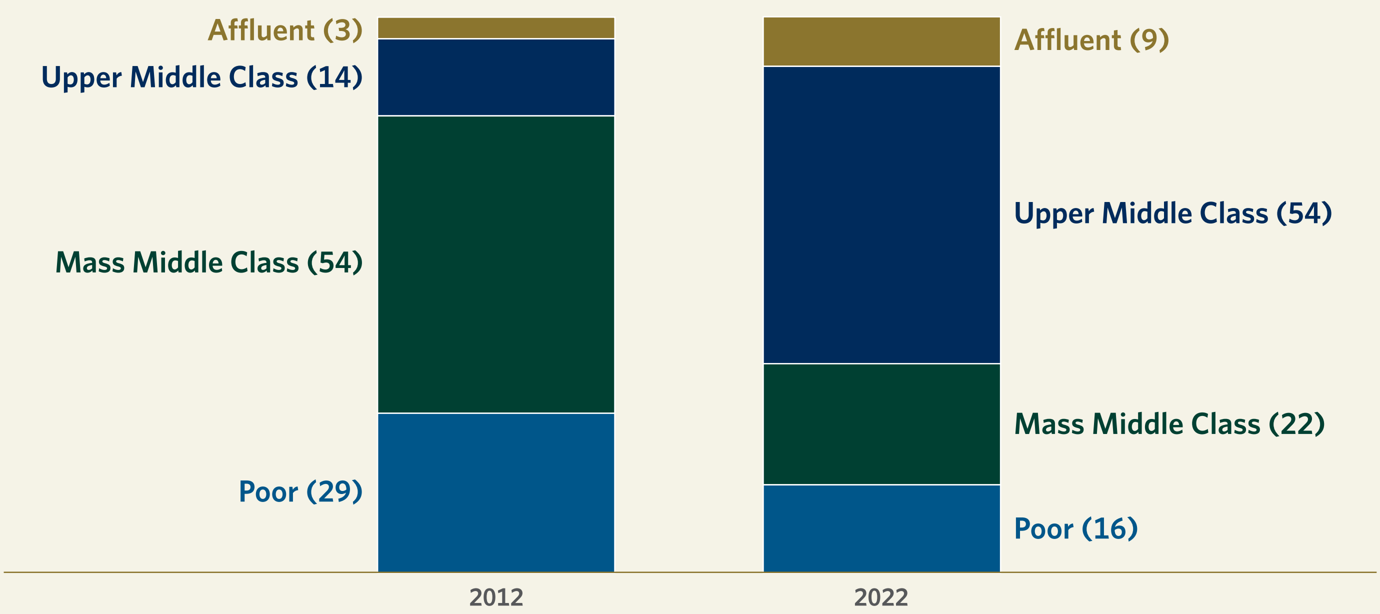
There are good reasons to believe that the next decade will be a continuation of the trend of above-average growth in China seen over the past four decades. While the urbanization rate has tripled since economic reforms began in 1978, China is still only at 61%, compared to the U.S. at 82% and Japan at 91%.

Rising urbanization not only drives a growing middle class, but a burgeoning affluent class is also moving up the income scale. Over the decade from 2012 to a forecast of 2022, China's upper middle class is expected to grow from 14% to 54% of urban households, and the affluent class is expected to triple from 3% to 9%.

E-commerce, food delivery, gaming, for-profit education, cloud computing and artificial intelligence are well-positioned, and we expect these industries to continue to be long-term beneficiaries of the current trends we have observed.

China's Middle-Class Growth Is Transforming the Nation[2]

Share of Urban Households (%)



2. Source: https://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class. Figures may not sum to 100%, because of rounding; data for 2022 are projected. Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,00 renminbi (equivalent to >$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to $16,000 to $34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to $9,000 to $16,000); poor, <60,000 renminbi (equivalent to $9,000).

There are a lot of great businesses abroad. How does China stack up?

Today many of the world's best companies and management teams are in China. An allocation to these select businesses has the potential to add significant value and serve as an important diversifier in client portfolios.

In 2020, China joined the U.S. in having a leading number of companies in the Fortune Global 500 with 124 companies, up from 46 in 2010 and only 10 in 2000 as shown in the chart below.

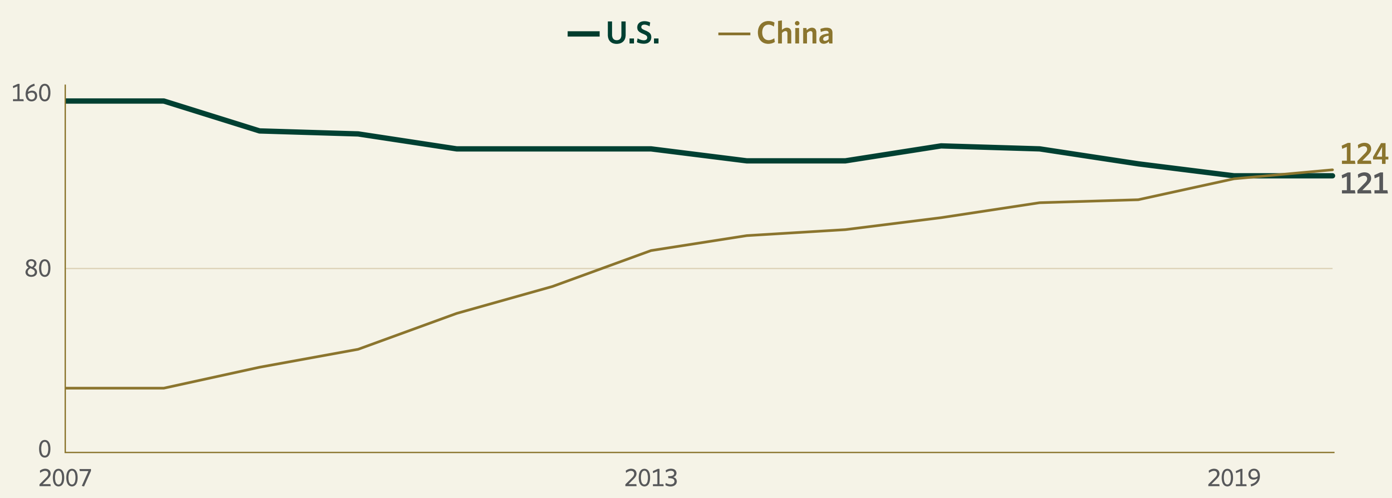
Not only are there an increasing number of large companies in China, the opportunity for investors to access world-class businesses at reasonable valuations is unmatched. In e-commerce for instance, the two leading companies, Alibaba and JD.com, delivered annual growth rates of 38% and 29% respectively over the past five years, but still account for a relatively small portion of a $5.7 trillion addressable retail market in China. The expansion of China's middle class and an increased capacity to spend drives growth in online consumption, a trend we have seen accelerate during the COVID-19 pandemic.

Chinese E-Commerce Champions[3]

	Alibaba	JD.com
Revenue 2015 (USD billion)	$10	$28
Revenue 2020 (USD billion)	$50	$102
5-Year Annual Growth Rate	38%	29%
% Share of $5.7 Trillion Market	16.8%	6.7%

China Is Home to Many of the World's Top Companies[4]

Number of Global Fortune 500 Companies in China and U.S.



3. Source: China Retail Sales of Consumer Goods. Revenue figures are for fiscal year 2015 and 2020. Alibaba FY year end is in March (so FY20 is the year ended 3/31/20). Alibaba ecommerce figures represent China Commerce portion of business only and JD.com represents JD Mall only. **4.** Source: Fortune as of August 2020.

New Oriental Education & Technology and TAL Education are the premier for-profit education brands in China yet each has just a single-digit market share in the highly fragmented industry. Growth in college prep and after-school tutoring in China remain robust as students flock to online and in-person centers, spending much of their childhood readying themselves for college entrance exams that help to determine acceptance into China's elite universities. Higher education is an advantage in obtaining higher-paying jobs and achieving higher standards of living in virtually any country, and China remains meaningfully behind its Asian peers such as Japan and South Korea in penetrating the $73 billion dollar K–12 market.

China's For-Profit Education Leaders[5]

	New Oriental Education	TAL Education
Revenue 2015 (USD billion)	$549	$434
Revenue 2020 (USD billion)	$2,476	$3,273
5-Year Annual Growth Rate	35%	50%
% Share of $73 Billion Market	3.4%	4.5%

Innovation, government support of private sector entrepreneurs and a large, underdeveloped domestic economy continue to point to a secular, long-term trend favoring growth among consumer-oriented market leaders in China.

2019 and 2020 were great years for Chinese equities. Is there still opportunity left and what are the risks?

China is home to many businesses with compelling growth rates at reasonable valuations, a rare combination for investors in today's market. The pace of the recovery since the start of the pandemic in early 2020 has varied by sector and geography. Valuations, on balance, remain attractive with the MSCI China Index trading at a 23% discount to the S&P 500 Index and the Hang Seng Index at a 41% discount. We believe that lingering geopolitical and regulatory concerns are creating a valuation discount, despite many Chinese businesses' proven and profitable models and promising long-term outlooks.

	MSCI China Index	MSCI ACWI	S&P 500 Index
Holdings	709	2,978	505
Valuation	17x	19x	22x
EPS Growth	28%	17%	19%

China's rapid growth and size as the world's second-largest economy has created friction with its trading partners in the U.S., Europe and Asia. Relations with the U.S. in particular have become strained over the past several years resulting in a number of import tariffs, technology trade restrictions and heated rhetoric, all of which has kept valuations of Chinese companies subdued.

The tough-sounding political rhetoric between the U.S. and China has caused negative news headlines but also created an opportunity. We expect the Chinese

5. Source: National Bureau of Statistics, Ministry of Education, Frost & Sullivan, and individual company filings. Revenue figures are for fiscal year 2015 and 2020. All figures represent K–12 business only.

government to continue to act in a way that promotes capitalism and its long-term goal of becoming a major global player, which includes obeying the rule of law and taking a common-sense approach to regulating industries. We do not anticipate industry regulation will be taken to an extreme, but rather work in a way to protect consumers similar to other developed countries.

While political news and rhetoric has led to heightened share price volatility and a perceived increase in risk investing in China, both the news and rhetoric has had little real-world effect. We consider a number of key risks in China today including fierce competition, particularly among new entrants in the industries in which we're invested, government regulation and its potential impact on business fundamentals, geopolitical considerations that go beyond the news and rhetoric, and the stability and strength of consumers and the economy. At Davis we monitor and continually evaluate these risks.

The incentives to the Chinese government to promote economic growth remain strong. Both economic growth and rising employment are crucial in China where per-capita incomes are one-sixth of U.S. levels. We expect sentiment will evolve and the weighting of Chinese companies will rise in the MSCI ACWI from approximately 5% today to a value closer to economic reality. As this occurs we expect the valuation gap to narrow; however, at today's level there is a meaningful period of time before this occurs. We expect there will continue to be tremendous opportunity in China for years to come.

Before investing in the Davis Funds, you should carefully consider the investment objectives, risks, charges, and expenses of the Funds. The prospectus and summary prospectus contains this and other information about the Funds. You can obtain performance information and a current prospectus and summary prospectus by visiting davisfunds.com or calling 800-279-0279. Please read the prospectus or summary prospectus carefully before investing or sending money. Investing involves risks including possible loss of principal.

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Objectives and Risks. The investment objective of Davis New York Venture Fund, Davis Global Fund, and Davis International Fund is long-term growth of capital. There can be no assurance that a Fund will achieve its objective. **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; **financial services risk (DNYVF):** investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to problems affecting financial companies; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified. As of 3/31/21, the Fund had approximately 23.3% 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; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **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. As of 3/31/21, DGF had approximately 33.8% and DIF had approximately 53.8% of net 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 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; **exposure to industry or sector risk (DGF and DIF):** significant exposure to a particular industry or sector may cause the Fund to be more impacted by risks relating to and developments affecting the industry or sector; and **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. 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 3/31/21, the top ten holdings of Davis New York Venture Fund were: Capital One, 8.41%; Alphabet, 7.20%; Wells Fargo, 6.47%; Applied Materials, 5.56%; Berkshire Hathaway, 5.48%; U.S. Bancorp, 4.47%; New Oriental Education, 4.31%; JPMorgan Chase, 4.27%; Facebook, 4.20%; and Alibaba Group, 4.18%.

As of 3/31/21, the top ten holdings of Davis Global Fund were: Capital One, 6.77%; Alphabet, 6.07%; Wells Fargo, 6.05%; New Oriental Education, 4.98%; Alibaba Group, 4.78%; JD.com, 4.74%; DNB ASA, 4.46%; DBS Group, 4.10%; Missfresh, 3.98%; and Naspers, 3.98%.

As of 3/31/21, the top ten holdings of Davis International Fund were: JD.com, 7.79%; New Oriental Education, 7.49%; Alibaba Group, 5.41%; DBS Group, 5.27%; DNB ASA, 5.03%; Danske Bank, 4.69%; Naspers, 4.68%; Samsung Electronics, 4.67%; AIA Group, 4.17%; and Schneider Electric, 4.11%.

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, Lipper, Wilshire, and index websites.

The **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 698 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization. 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 **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets throughout the world. The index includes reinvestment of dividends, net foreign withholding taxes. The **Hang Seng Index** includes the largest and most liquid stocks listed on the Main Board of the Stock Exchange of Hong Kong. Investments cannot be made directly in an index.

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