Davis Opportunity Fund

Update from Portfolio Managers

50 YEARS DAVIS ADVISORS

Davis FUNDS

THE EQUITY SPECIALISTS

Davis Opportunity Fund

Annual Review 2021

Market Perspectives

The market's resiliency through a year of both heightened economic and political uncertainty has been remarkable. Investors should be selective and employ active management to navigate the current environment.

The year 2020 was defined by the global pandemic, whose effects remain very much still with us and which will remain a challenge in all likelihood well into 2021. While the attention of the world has been appropriately devoted to the various stresses caused by COVID-19, what is remarkable is the market's incredible resiliency through a year of both heightened economic and political uncertainty.

Early in the year, at the onset of the pandemic, the S&P 500 Index fell more than 30% in less than three months. The mood was somber and categorically bearish. By the end of 2020, however, the S&P 500 Index managed to finish up 18.40% for the year, rebounding 70.17% off its low on March 23. To put the 18.40% calendar year return in context, it bests the long-term average return for stocks of 10% by a wide margin, notwithstanding an unprecedented and formidable set of conditions.

There is no alternative in such times but to make every attempt to combat the problem and ultimately to move forward. To that end, trillions of stimulus dollars have been applied with coordination from the U.S. Treasury and the Federal Reserve. At the same time, a race to find vaccines for the virus was ignited worldwide in short order, with treatments and vaccines now in the early stages of distribution—an astounding feat.

We seek to be realists. We understand that the healing process for businesses and the economy will take some time and would go further to point out that certain industries are in a better position to restart than others in the near term. Some areas of the market may even become secularly disadvantaged. But overall, we see plenty of well-priced opportunities today that meet our definition of successful businesses that should by their nature be compounding machines over the long term. Our strong advice is to navigate these market waters using active management with an emphasis on bottom-up stock selection. ■

The average annual total returns for Davis Opportunity Fund's Class A shares for periods ending December 31, 2020, including a maximum 4.75% sales charge, are: 1 year, 7.43%; 5 years, 10.59%; and 10 years, 11.07%. 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 0.93%. 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. The Fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

Portfolio Review

Davis Opportunity Fund generated a positive result for 2020, despite the impact of the virus. The Fund is positioned in what Davis Advisors considers strong, durable companies that can compound shareholder capital over the long term.

Davis Opportunity Fund generated a positive return of 12.79% for the year 2020, a modest result in nominal terms, but reasonable in our view, given the impact of the virus. We are invested across a wide range of businesses and industries as distinct from one another as financial services, technology, industrials, healthcare and consumer-oriented businesses. Some have become legitimately identified as beneficiaries of COVID (e.g., online businesses in particular). Others are stalwarts in areas such as semiconductors and software, which have contributed meaningfully to full-year returns overall. Lastly, we have a number of contrarian laggards in the Portfolio, predominantly in the financial and industrial sectors. Overall, and however stock prices vacillated in 2020, we view our businesses and overall positioning as attractive (a) relative to their full-cycle potential looking ahead and (b) from the standpoint of durability and staying power. Building in a degree of offense and defense in our investment case for each business is one way we seek to balance risk and reward, both at the company and Portfolio levels, in what we believe is a sensible manner.

The Portfolio's positioning today reflects in large part the areas of greatest interest to us within the broader market. Key themes represented in the Portfolio are:

- Durable, high-grade financials—leading U.S. and foreign banks, best-in-class insurers and diversified holding companies with significant financials exposure
- Semiconductor-related businesses serving large, increasingly numerous and fast-expanding end markets such as Artificial Intelligence (AI), cloud computing, e-commerce, electric vehicles and 5G, among other areas of emerging growth
- Dominant giants engaged directly in e-commerce, social media, online search and advertising or software
- Select industrials with scale advantages and sticky customers
- Select healthcare companies

The first group of investments, high-grade financials, are trading at very attractive prices, in our opinion. Our holdings within the financial sector include Berkshire Hathaway, Wells Fargo, Capital One Financial, AIA Group and Markel Corp.

As economic conditions improve gradually, we anticipate certain financial institutions with built-in competitive advantages should generate far stronger operating results than currently, once the worst has passed. If they can maintain strong financial health, then it is our expectation that dividends will be reinstated and rise over time. To illustrate with two of our more contrarian names, Wells Fargo and Capital One Financial should see operating results improve, given an eventual tapering of credit losses over time, yet are priced as though the currently depressed run rates of earnings will persist for the long term. Any improvement in the yield curve would be very favorable for financial lending institutions as well, and that scenario is not really priced in today. In other words, there are multiple ways to win, and the upside potential we see in this group, beginning at near-recessionary valuations, makes financials a particularly high-conviction area of the Portfolio.

Semiconductor-related holdings currently include Applied Materials, Texas Instruments, Qorvo and Intel. As a group, they performed relatively well in the trailing 12-month period, with the first three generating strong returns, offset partially by Intel, whose shares declined. While each of these businesses is unique, what they share in common is that they serve fast-expanding global end markets ranging from e-commerce and AI to cloud computing, mobile technologies and electric vehicles—a set of market opportunities that dwarf this industry's historical legacy markets in more mature sectors, such as PCs and mobile devices. We are excited by these new, long-tailed areas of future growth for this set of well-resourced, innovative high-technology companies.

E-commerce, online search and advertising, social media and software are another component of the Portfolio that have proven, attractive businesses—in a pre-COVID, during-COVID, and post-COVID world. The online portion of the Fund is currently dominated by such market leaders as Amazon.com and Alphabet (the parent company of Google). We are attracted to these names based on the size and rapid expansion of their market opportunities globally, their ability to generate and grow new revenue sources through constant innovation, ample operating leverage as they continue to scale and capable, focused, highly competitive leadership teams. If purchased at sensible prices, these types of businesses in our experience can contribute meaningfully to long-term results.

In the industrial space, we own a select list of well-entrenched market leaders, niche by niche, such as Raytheon Technologies in aerospace and defense and Carrier Global, a global leader in heating, ventilation and air conditioning (HVAC) solutions. These businesses are experiencing a lull. They are out of favor and trading at reasonable multiples of subdued earnings, making this low starting point a potential setup for the double play of recovering multiples on recovering earnings.

Within healthcare, our largest position is Quest Diagnostics, a leader in independent lab testing and diagnostics. Quest offers its lab services at a fraction of the cost of hospital labs, which constitutes a strong cost-savings value proposition to new and existing customers. It is not surprising that by virtue of the value Quest creates, the company is increasingly serving as an outsource partner to hospitals and healthcare networks across the U.S. We believe Quest's market is very sticky and only getting larger. The cost savings accruing to Quest's customers should bode well for the long-term success of the business.

Among recent changes to the Portfolio, we have made modest adjustments at the margin, but have otherwise maintained a fairly consistent positioning:

- In the second quarter, we eliminated the remainder of our energy positions, which accounted for low single-digit percentage exposures. This decision was driven by a reduced outlook for global demand in oil due to COVID's impact on transportation in particular. With the commodity price environment very uncertain, we felt it was appropriate to repurpose capital from energy into other areas.

- In the first half of the year, we added incrementally to financials, based on the reasons outlined earlier, which served us well in the second half of the year.

- At different points throughout the year, we pared select holdings, mainly in online and other technology-related areas, based on position size and opportunities elsewhere in the Portfolio.

Across the Portfolio, we are confident in the earnings power, competitive strengths, balance sheets and management teams for each of our 40 positions over the coming decade. We have consciously built a Portfolio of relatively dominant businesses that are as durable as they are attractive long-term compounding machines, in our estimation. ■

Conclusion

Investors have opportunities to own world-class businesses at value prices today.

Looking ahead and very big picture, we believe the inherent resiliency of the U.S. economy, an expected rollout of vaccines against the virus in the months ahead, and the continued aid of the government in both fiscal and monetary forms are all supportive of a scenario wherein the situation for businesses and consumers should improve. As we wait, we have the opportunity to own a select list of world-class businesses trading at value prices, in our estimation.

In summary, we are operating on what we believe is a set of reasonable assumptions, most notably that the Fund's battle-tested businesses have the wherewithal to grind through near-term recessionary conditions and to prosper over the course of years into the future. Meanwhile, the Portfolio's overall valuation is very reasonable by our estimates.

At Davis Advisors, we seek to own durable businesses at attractive prices that can compound shareholder value over the long term. The Davis family, our company, the Davis family foundation and our employees and directors have more than $2 billion invested alongside clients in similarly managed portfolios.[1]

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

1. As of 12/31/20.

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. 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: **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 12/31/20, the Fund had approximately 19.4% 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 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; 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 12/31/20, the top ten holdings of Davis Opportunity Fund were: Quest Diagnostics, 6.93%; Carrier Global, 5.67%; UnitedHealth Group, 5.15%; Cigna, 5.06%; Qorvo, 4.93%; Wells Fargo, 4.93%; Grab Holdings, 4.73%; Capital One Financial, 4.56%; Owens Corning, 3.98%; Raytheon Technologies, 3.74%.

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, Wilshire, 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. Investments cannot be made directly in an index.

After 4/30/21, 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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