

Update from Portfolio Manager
Danton Goei

Davis Global Fund

Fall Review 2021

Update on the Fund's current positioning, long-term performance and more recent results.

For the first seven months of 2021, Davis Global Fund returned 0.40%, underperforming the MSCI ACWI (All Country World Index) return of 13.08% by -12.68%. This performance follows a very strong calendar year 2020 when Davis Global Fund returned 23.06% and the MSCI ACWI returned 16.25%. Longer-term results are also satisfactory, with Davis Global Fund over 10 years returning 10.33% a year, outperforming by 17bps a year.

Driving results in the first seven months of the year were our financial holdings, including Capital One, Wells Fargo, DNB Bank, DBS Group,

Danske Bank, Julius Baer and Bank of Butterfield. The banks proved to be extremely resilient in weathering the recession of 2020. High capital ratios and more conservative credit policies in the aftermath of the financial crisis, coupled with government stimulus programs, combined to diminish the impact of the sharp recession on bank results. Moreover, the economic outlook looks very positive, with expectations for 2021 GDP growth in the U.S. of 6.6%¹, in Europe of 4.2%², in China of 8.3%³ and for the global economy of 6.2%⁴.

Contributing to results were also companies that were strong performers last year. Alphabet, Facebook and Applied Materials all saw strong

The average annual total returns for Davis Global Fund's Class A shares for periods ending June 30, 2021, including a maximum 4.75% sales charge, are: 1 year, 36.70%; 5 years, 14.51%; and 10 years, 10.75%. 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 Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days. The total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.92%. 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 lower or higher 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. All fund performance discussed within this piece refers to Class A shares without a sales charge and are as of 7/31/21 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. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.**

1. <https://www.conference-board.org/research/us-forecast>

2. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/spring-2021-economic-forecast_en

3. <https://www.scmp.com/economy/china-economy/article/3145228/chinas-economic-recovery-falters-delta-outbreak-henan-floods>

4. <https://www.fitchratings.com/research/sovereigns/global-economic-outlook-june-2021-15-06-2021>

growth in 2020, as retail and work moved from in-person and in the office to online and at home. Growth and profitability for these companies continued to be strong in the first half of 2021 as sticky pandemic habits were now taking place in a strengthening economy.

Following a generally strong 2020, our Chinese consumer holdings were detractors to performance in the first seven months of 2021, despite robust operating results. JD.com, Alibaba Group, MissFresh, iQiyi, and both Prosus and Naspers, which own a significant stake in Tencent, underperformed due to heightened regulatory concerns. Of note, the Chinese government recently enacted new regulations that materially impaired the value of companies in the after-school tutoring sector, including New Oriental Education & Technology Group and TAL Education Group, both of which we have since sold.

Starting in earnest in November 2020, the Chinese government embarked on a comprehensive antitrust review of the consumer technology sector. Historically China has followed a more laissez-faire antitrust regulatory approach, tolerating fierce and even aggressive competitive behavior as Big Tech transformed the way people communicated, shopped, played and accessed information. As Big Tech has grown in scale and scope, however, becoming crucial to not only retail and entertainment, but also becoming leaders in enterprise software, chip design, news and media, and especially financial services, the Chinese government has wanted to tighten its regulatory oversight.

The trend of stricter regulatory oversight of Big Tech is one that is global in nature. Europe led this trend by starting to investigate Google in 2010 for antitrust violations and five years later in 2015 serving the search market leader with a formal complaint. Investigations and lawsuits against other Big Tech companies have become commonplace, as governments everywhere seek to establish standardized regulations for the new and evolving consumer technology sector. The big technology companies have had to adapt and

build large regulatory departments, but the scale of their businesses that first invited regulatory scrutiny has, if anything, grown even larger over the past several years.

It is true that the Chinese government operates differently than those in democratically-elected states such as in Europe and the United States, and its decision-making is often opaque. We do, however, have a long government track record to look back on, given the Communist Party of China has been in power for so long. This track record over the past several decades has been one of pragmatism focused on economic growth. At times, the Chinese government has been compelled to make course corrections, such as dealing with the terrible environmental damage that was the consequence of economic growth at breakneck speed or regulating the real estate market to avoid frequent boom-bust cycles. But tightening regulation is nothing new, and the past record indicates that the goal of stricter oversight is to establish a healthier environment for future growth.

The Chinese government has also clearly communicated what its long-term goals are. In 2015, the government proclaimed the Made in China 2025 strategy, which was a policy roadmap to transform the Chinese economy from a powerhouse in labor-intensive industries into a powerhouse of technology-intensive products and services. Industries specifically targeted for leadership positions include information technology, artificial intelligence, robotics, new materials, biotechnology, aerospace and renewable energy. Many of our holdings, including Alibaba Group, JD.com, DiDi Global and Meituan, are leaders in many of these fields and are key to achieving China's goal of becoming a modern 21st century economy. Their entrepreneurial management teams and talented workforce are driven by the profit motives of private enterprise, and these knowledge-intensive industries are key to their companies' success. As such, we believe the ongoing technology industry antitrust review is designed to strengthen the industry, rather than weaken or nationalize it.

Alibaba Group was the first company to undergo the antitrust review and after a three-month investigation, was fined \$2.8 billion to punish it for non-competitive behavior. The government specifically mentioned its exclusive supplier contracts colloquially known as “choose one from two” as behavior harming customers and competitors. It is our expectation that Alibaba Group will be the most heavily fined company, given it had the most aggressive business tactics. While \$2.8 billion, equivalent to 4% of Alibaba Group’s 2019 domestic revenues, is almost three times the previous record \$975 million anti-monopoly fine levied against Qualcomm in 2015, it is also much lower than the legal 10% of revenues that could have been assessed. \$2.8 billion is also an amount that the company can easily weather, given it is also only 4% of the cash on Alibaba Group’s balance sheet. While the government clearly wanted to punish the company for non-competitive behavior, it also seems that its goal was not to permanently damage the company, but rather set clear standardized regulations for the entire industry.

Over the 15+ years we have been investing in China at Davis, we have carefully monitored government and regulatory actions, and should we see a move away from the pragmatic long-term growth strategy of the past, we will take action. Today the Big Tech antitrust review in China seems driven by similar goals and circumstances to the reviews ongoing for many years in other countries. Yet the stock market moves in our Chinese Big Tech names are imputing a very dire scenario that neither the government’s track record, long-term strategic plans or recent review of the Alibaba Group support. We instead see a collection of world-class companies trading at exceptionally attractive valuations.

Discuss some of the businesses Davis Global Fund owns.

Danske Bank is the leading bank in Denmark, with a mature 25–30% market share across most financial products in its home market. It also

acts as a challenger bank in Norway, Sweden and Finland, where it offers banking services to niche customer segments.

We opportunistically invested in Danske Bank in 2018 after it was implicated in a large money laundering scandal. The Estonian branch, accounting for less than 2% of Danske Bank’s profits, saw over 200 billion Euros in suspicious funds flow through it over a number of years. In the aftermath of the scandal, the entire management team has turned over, and there has been substantial investment in updating the bank’s compliance defenses. The core of Danske Bank, including during the COVID-induced recession, has proven very resilient. Uncertainty still exists, given the ongoing litigation and investigations, but with Danske Bank’s strong balance sheet, good ongoing results and substantial improvement in compliance systems, we expect the company to emerge from this scandal as an even stronger bank.

Looking forward to its restructuring in 2023, Danske Bank is trading at an attractive 6x P/E. Approximately 40% of current market cap is excess capital over regulatory requirements, and we conservatively estimate that less than a third of the excess will be eventually paid off in fines. We think Danske Bank can return to earning double-digit return on equity while the current valuation is 0.7x tangible book value, which already includes a conservative estimate for potential fines. Our estimated Internal Rate of Return (IRR) for Danske Bank is in the mid-teens, making it an attractive long-term holding.

We added South Korea’s best-known company, Samsung, to the portfolio in the first quarter of 2021. Samsung’s products are everywhere, and it has recently been ranked as the fifth most valuable brand in the world. Globally, no company makes more TVs, computer screens or mobile handsets. Apart from the company’s branded electronic products, Samsung’s subsidiaries are themselves globally recognized brands: NeuroLogica (medical equipment), Dacor (stoves/ovens, refrigerators, etc.) and Harmon International (consumer/lifestyle

electronics). The Harmon division itself includes other recognizable brands like AKG, Arcam, Cambridge Audio and SmartThings.

While its handset and consumer electronics business are well-known, actually the most valuable part of Samsung is building the components that run a vast array of electronic systems globally. Samsung is the number one manufacturer of memory chips, with a 42% share of the DRAM market and 32% of the flash memory market. In addition, it accounts for 30% of all flat panel displays. Many of its largest customers, including Apple, Sony and Huawei, are also major competitors, which speaks to the trust that Samsung has built over the years. This high level of trust is what enabled Samsung to build the number two semiconductor foundry business in the world after only TSMC. Samsung's manufacturing of semiconductor chips for customers worldwide is a \$15 billion business, growing nearly 40% a year for the past decade.

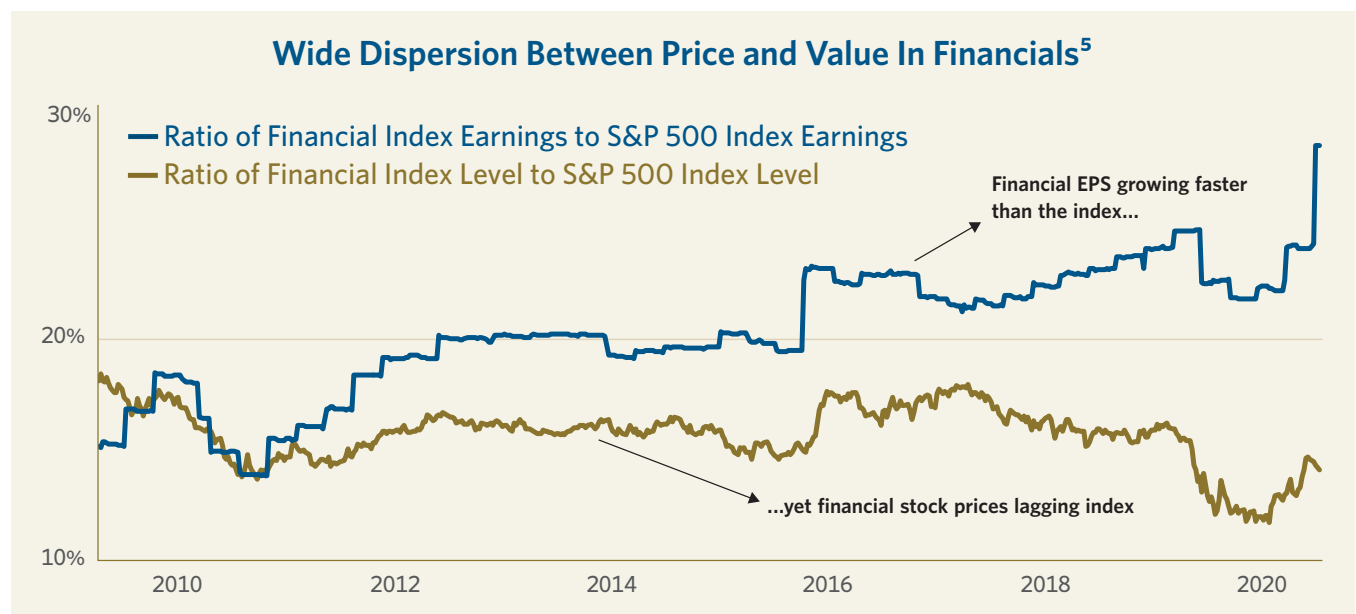
Given the post-pandemic economic resurgence and well-publicized shortages in semiconductor capacity, we anticipate significant growth in Samsung's earnings power over the next few years on the back of the company's semiconductor operation. In fact, the outlook for Samsung's handset, consumer electronics, flat panel display, memory chip and especially semiconductor foundry

businesses are all very positive, yet the company trades at what we estimate is a significant discount to fair value. Samsung is trading at 7-8x our estimate of peak cycle earnings power, with an attractive IRR of 14%.

Looking ahead, what is your outlook for Davis Global Fund?

A common investor question is, given how well financials have performed year-to-date, are they still attractive? As seen in the chart below, the ratio of the financial index earnings as a percent of S&P 500 Index earnings has grown from 15% in 2010 to over 25% today. Financials earnings per share growth has far outpaced that of the average S&P 500 Index company over the last decade. Yet the percent of the S&P 500 Index constituted by financials has languished, falling from approximately 17% in 2010 to below 15% today. The dispersion between the price and the value of financials, built up over many years as financials have fallen out of favor in a momentum-driven market, remains significant.

In the annual review to shareholders for 2020, we discussed that in the midst of very satisfactory overall portfolio results, financials such as Wells Fargo and Bank of Butterfield were detractors to performance. However, we saw financials, and banks in particular, as the most attractive sector, due to a combination of low P/E multiples on



5. Source: Bloomberg and Davis Advisors. As of 4/15/21.

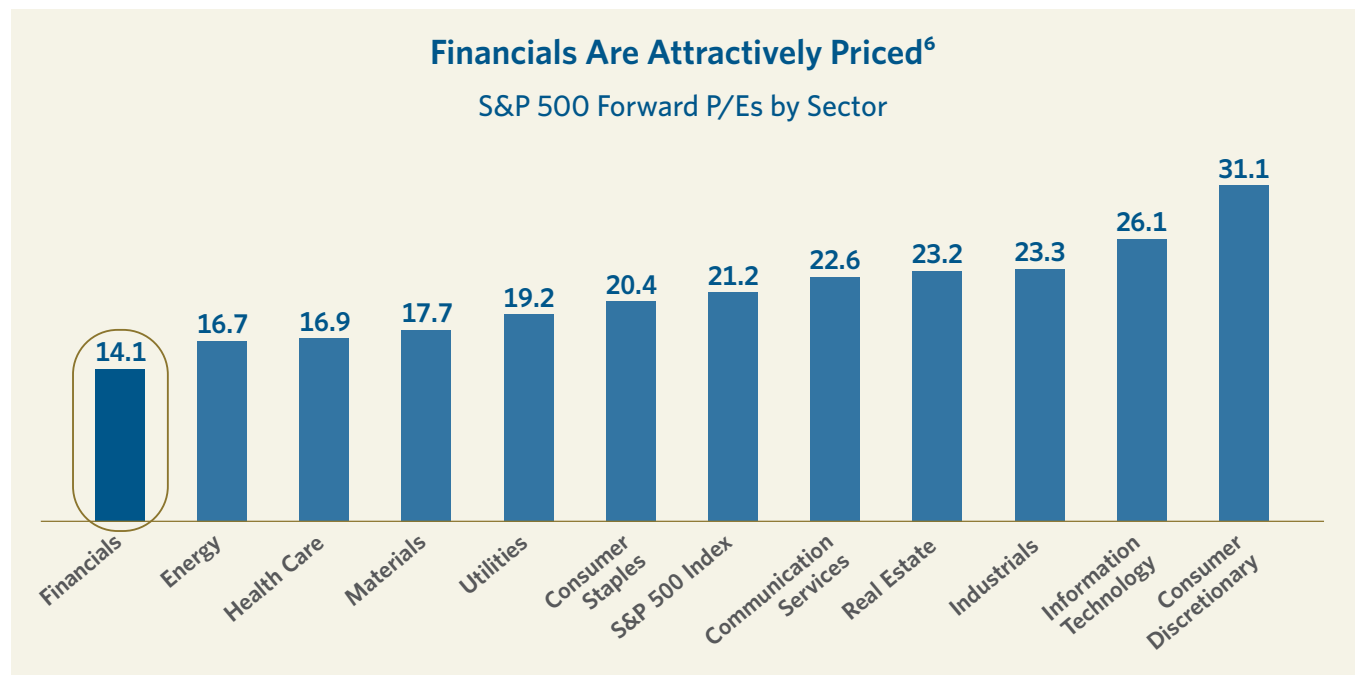
unusually low earnings with a promising economic outlook on the horizon. It is very gratifying to see financials perform so strongly in the first half of 2021 as the market recognizes the value of these bargains in plain sight. Yet the gap to intrinsic value, built up over many years as financials have fallen out of favor in a market driven by momentums, remains significant.

This second chart highlights that financials remain the cheapest part of the market today and continue to be extremely attractive. Strong capital ratios, conservative lending practices, already record-low interest rates and now a strengthening economy, all paired with low valuations, bode well for future returns.

Take our top financials holding in Wells Fargo, for instance. Wells Fargo is trading at 1.3x tangible book value, while we expect return on equity (ROE) to be in the mid-to-high teens over time. Even in this low-rate environment, the current multiple is only 12x 2021 owner earnings, and our IRR estimate is 12-13%. Wells Fargo has performed well this year,

up 51% year-to-date, yet still looks very attractive, which speaks to how undervalued it was and why it is so important to be patient when investing in high-quality companies trading at low valuations. Rather than invest on the basis of unpredictable near-term catalysts, we prefer to be patient as earnings and cash build up, even if the stock price does not immediately reflect the economic reality. We continue to like our positions in financials.

We understand that in uncertain times such as these, it is more important than ever to be able to entrust your savings to an experienced and reliable investment manager with a strong long-term record. Over the 50 years since the firm's founding, the Davis investment discipline has demonstrated an ability to generate above-average returns, based on in-depth fundamental analysis, a long-term investment horizon and a strong value discipline. While the times have changed, these fundamental principles are timeless and proven. We thank you for your continued trust and interest in Davis Global Fund.



6. Source: Credit Suisse. As of 6/30/21.

This report is authorized for use by existing shareholders. A current Davis Global 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 Global 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; **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; **depository receipts risk:** depository receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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:** 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; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets. As of 6/30/21, the Fund had approximately 35.6% of net assets invested in securities from emerging markets; **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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; 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 Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 6/30/21, the top ten holdings of Davis Global Fund were: Wells Fargo, 6.82%; Capital One Financial, 5.25%; Alphabet, 5.15%; Alibaba Group, 5.08%; DBS Group, 4.87%; JD.com, 4.36%; New Oriental Education & Technology, 4.26%; Danske Bank, 3.91%; AIA Group, 3.79%; Meituan, 3.78%.

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.

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

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 **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 10/31/21, 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.