

All-Cap Portfolio

Spring Update 2018

[Commentary](#)

[Profile](#)

[Holdings](#)

[Investment Management Team](#)

[Contacts](#)



THE EQUITY SPECIALISTS

Portfolio Commentary

Market Perspectives

In first quarter of 2018 the U.S. stock market was volatile but ended the period relatively flat returning -0.76%. Making a distinction between stock prices and business values, the businesses we own continue to generate relatively robust earnings, a sign our companies are making progress in building intrinsic value even if share prices fluctuate. As Ben Graham noted, in the long run the stock market is a weighing machine for corporate earnings despite acting as a voting machine measuring changes in investor psychology in the short run. At Davis Advisors we remain focused on long-term earnings power and are confident the businesses we own have the potential to compound capital for shareholders at a competitive rate over the long term.

Looking ahead, we believe selective stock picking is the best way to navigate the current market environment. As a result, at Davis Advisors we focus on the durability, sustainable growth, competitive moats, and management of every company in the Portfolio and continue to exercise discipline regarding the share price of each company we own.

Portfolio Review

The Davis All-Cap Portfolio holds three categories of businesses including in order of proportion:

- Dominant market leaders
- Lesser-known, “out-of-the-spotlight” businesses
- Contrarian investments¹

Alphabet Inc., a representative example of a market leader in the Portfolio, is an innovative global technology holding company that dominates the business of online search.² By establishing a first mover advantage, the company has positioned itself as a prime beneficiary of the shift in advertising spending from traditional media channels to search-based, online advertising, a secular shift that is happening worldwide. In addition to its global core search business, the company owns YouTube, is quickly building a high operating margin cloud computing business and is a leader in artificial intelligence, which has implications not only for advertising and market research but also for other industries such as autonomous or self-driving cars. Financially strong, Alphabet is a cash flow machine with 15% to 20% annual revenue and earnings growth, no net debt, and enormous global markets for the company’s current and prospective business lines.

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. While we research companies subject to such contingencies, we cannot be correct every time, and a company’s stock may never recover. 2. Holdings discussed in this commentary are selected according to objective, non-performance-based criteria. They are chosen each quarter according to a consistent methodology based on their weight in the Davis Advisors Multi-Cap Equity model portfolio as well as recent purchases and recent sales and are intended only as illustrations of the Davis Investment Discipline. They are not recommendations to buy, sell or hold any security. Individual account holdings may vary.

Markel Corporation, a specialty provider of nonstandard property and casualty (P&C) and life insurance products, is an example of an out-of-the-spotlight holding in the Portfolio. Markel generally underwrites policies in certain less competitive niche markets where the company has developed significant expertise over many years, including P&C coverage for museums and private libraries, child care centers and camps, historic homes, private schools, and horse farms and riding clubs, among other niche markets. The company's underwriting margins remain stable, and Markel continues to benefit from positive momentum in property and casualty reinsurance. Markel has also been successful in reinvesting the "float" (cost-free funds generated from premiums held on behalf of policyholders) provided by its insurance operations not only in stocks but also through the purchase of entire companies. By operating unobtrusively and shrewdly in its underwriting niches while earning good investment returns, Markel has created significant wealth for long-term shareholders.

ANGI Homeservices, another example of an out-of-the-spotlight holding, is the world's largest online marketplace for home services, a \$400 billion market connecting homeowners with home service professionals around the globe. The company was created by the 2017 merger between Angie's List and IAC's HomeAdvisor. We believe the business provides real value to customers and vendors and has attractive growth prospects.

A final example of a lesser known but highly durable business is Quest Diagnostics, a leading independent provider of clinical laboratory services. Quest offers its services at a fraction of the cost hospital labs normally charge patients, giving the company an enduring competitive advantage and the opportunity to grow market share over time.

A new position in the out-of-the-spotlight category is Qorvo, a leader in the creation of filters, power amplifiers and switches for wireless devices. Qorvo maintains a strong competitive moat operating in a duopoly in the high frequency handset market in addition to serving other end markets. We believe the company is well-positioned to capitalize on the expansion of connected wireless devices across industries and has returned significant capital to shareholders historically via share repurchases.

Our contrarian investments include a number of North American shale companies that meet our investment criteria but are under-earning relative to their long-term potential in our estimation.

Among recent Portfolio changes, we sold Concho Resources in the first quarter to allocate capital to other investment opportunities.

Overall, we believe our Portfolio is positioned to provide a diversified balance of durable, well-managed businesses with attractive growth prospects.

Since our firm's inception nearly 50 years ago, we have adhered to the same, time-tested investment philosophy and rigorous research process of buying durable businesses at attractive prices and holding them for the long term. The more than \$2 billion the Davis family and Foundation, Davis Advisors, and our employees have invested side by side with our clients' savings in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.³

All-Cap Portfolio Profile

March 31, 2018

► Investment Discipline

The Davis All-Cap Portfolio applies the firm's signature research process to a portfolio of small, medium and large size companies.

- The Davis All-Cap Portfolio is team managed. The managers collaborate, sharing ideas and responsibilities for selecting the Portfolio's investments.
- The investment management team of the Davis All-Cap Portfolio has significant co-investments alongside clients in the same strategy. In addition, the team's compensation is tied to long-term investment results. These facts help to ensure an appropriate alignment of interests with clients.
- The Davis All-Cap Portfolio is appropriate for: 1) Investors who understand opportunistic strategies that are not bound by market cap, sector or industry constraints may offer the potential for attractive long-term results;¹ 2) Investors who need a diversified equity solution that offers access to small, medium and large companies; 3) Investors who already have an appreciation for Davis Advisors' signature investment approach, firm history and culture of stewardship.

► Market Capitalization

Small Cap	3.6%
Mid Cap	9.8
Large Cap	86.6

► Top 10 Holdings²

Alphabet	7.0%
Amazon.com	7.0
Apache	5.8
Wells Fargo	5.6
United Technologies	5.1
Aetna	5.0
Encana	5.0
Adient PLC	4.5
Berkshire Hathaway	3.4
Johnson Controls	3.4

► Portfolio Characteristics

	Portfolio	Russell 3000 Index
Number of Holdings	36	2,956
Turnover Rate (%)	25.7	3.0
Trailing Positive P/E Ratio	20.9	22.2
EPS Growth-Last 5 years (%)	13.2	13.2
Standard Deviation (5 years) ⁴	11.5	10.0

► Industry Groups³

Technology	26.5%
Energy	15.0
Capital Goods	12.6
Pharmaceuticals & Health Care	10.8
Retailing	9.6
Banks	7.7
Automobiles & Components	7.1
Diversified Financials	6.6
Transportation	2.2
Insurance	1.9

1. An investor must be willing to accept the increased volatility which accompanies the potential for attractive long-term results. See endnotes for a description of the principal risks. 2. For information purposes only. Not a recommendation to buy or sell any security. 3. Sources: Davis Advisors and Wilshire Atlas. 4. Source: Morningstar Direct.

All-Cap Portfolio Holdings

March 31, 2018

Ticker	Security Description	Percent
MULTI	Alphabet (Class A and C)	7.0%
AMZN	Amazon.com	7.0
APA	Apache	5.8
WFC	Wells Fargo	5.6
UTX	United Technologies	5.1
AET	Aetna	5.0
ECA	Encana	5.0
ADNT	Adient PLC	4.5
BRK/B	Berkshire Hathaway-Class B	3.4
JCI	Johnson Controls	3.4
FB	Facebook	2.8
COF	Capital One Financial	2.7
COG	Cabot Oil & Gas	2.2
QRVO	Qorvo	2.2
APTV	Aptiv PLC	2.1
FDX	FedEx	2.0
ETN	Eaton PLC	1.9
ESRX	Express Scripts Holding	1.9
JD	JD.com-ADR	1.9
INTC	Intel	1.8
MKL	Markel	1.8
SFUN	Fang, Class A-ADR	1.7
QUOT	Quotient Technology	1.7
JPM	JPMorgan Chase	1.6
SHPG	Shire PLC-ADR	1.5
TXN	Texas Instruments	1.5
ANGI	ANGI Homeservices	1.4
AMAT	Applied Materials	1.3
FERGY	Ferguson PLC-ADR	1.3
MSFT	Microsoft	1.2
ORCL	Oracle	1.2
EQM	EQT Midstream Partners	1.0
SAP	SAP SE-ADR	1.0
DGX	Quest Diagnostics	0.9
UNH	UnitedHealth Group	0.8
CASH		6.8
TOTAL		100.0%

The above listed securities are representative of the Davis All-Cap Portfolio as of the indicated date. Portfolio holdings may change over time. Individual accounts may contain different securities. There is no assurance that any securities listed herein will remain in an individual account at the time you receive this report. The information provided should not be considered a recommendation to buy or sell any particular security. There can be no assurance that an investor will earn a profit and not lose money.

Investment Management Team

Christopher C. Davis joined Davis Advisors in 1989. He has more than 29 years experience in investment management and securities research. He is a portfolio manager for the Davis Large Cap Value Portfolios and a member of the research team for other portfolios. Mr. Davis received his M.A. from the University of St. Andrews in Scotland.

Danton G. Goei joined Davis Advisors in 1998. He is a portfolio manager for the Davis Large Cap Value Portfolios and a member of the research team for other portfolios. Mr. Goei received his B.A. from Georgetown University and his M.B.A. from The Wharton School. He was previously employed at Bain & Company, Morgan Stanley Asia Ltd. and Citicorp. Mr. Goei speaks multiple languages and has lived in Europe, Asia and currently resides in New York City.

Dwight C. Blazin joined Davis Advisors in 1995. He was previously a consultant for IT Consulting and Systems Design. His research analysis has been shaped by working with Shelby M.C. Davis for more than five years. Mr. Blazin received his B.A. from Brigham Young University and his M.A. and Ph.D. from New York University.

Darin Prozes joined Davis Advisors in 2004. He previously worked for the Parthenon Group, a strategy consulting firm. Mr. Prozes received his B.A. from Princeton University and his M.B.A. from Stanford University.

Pierce B.T. Crosbie joined Davis Advisors in 2008. Previously, he worked as a research analyst at Davidson Kempner Capital Management in the distressed debt group, and in the mergers and acquisitions group at RBC Capital Markets. Mr. Crosbie received his B.A. from McGill University and his M.B.A. from the Harvard Business School and is a CFA charter holder.

Kent Y. Whitaker joined Davis Advisors in 2014. Previously, he worked at Amoco Corporation, British Petroleum, Hunt Energy Corporation, and Asarco. Kent holds a B.A. from Dartmouth College, a M.S. from Miami University and a M.B.A. from the Amos Tuck Business School.

Edward Yen joined Davis Advisors in 2013. Previously, he worked at Dodge & Cox and Lehman Brothers. Mr. Yen received his B.S. from the University of California, Berkeley and his M.B.A. from Stanford University.

Contacts

Cynthia Chamberlayne, National Director
212-891-5569, cchamberlayne@dsaco.com

Ed Snowden, Manager, Regional Representatives
800-717-3477 Ext. 8267, esnowden@dsaco.com

Contact Regional Directors or Regional Representatives to arrange meetings
or for information on our investment process, philosophy and performance.

Central Arizona, Arkansas, Idaho, Iowa, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah, Wyoming

Dan Steichen	Regional Director	800-279-2279 Ext. 2262	dsteichen@dsaco.com
Sean Lynch	Senior Regional Representative	800-717-3477 Ext. 2675	slynch@dsaco.com

Pacific Northwest Alaska, Colorado, Hawaii, Northern California, Oregon, Washington

Joe Emhof	Regional Director	800-279-2279 Ext. 3786	jemhof@dsaco.com
Jon Franke	Senior Regional Representative	800-717-3477 Ext. 2663	jfranke@dsaco.com

South Central Louisiana, Oklahoma, Southern California, Texas

Mark Giles	Regional Director/Portfolio Specialist	800-279-2279 Ext. 6908	mgiles@dsaco.com
Marty Smith	Regional Representative	800-717-3477 Ext. 2674	marty-smith@dsaco.com

Great Lakes Illinois, Indiana, Kentucky, Minnesota, Southern Ohio, Wisconsin

Bill Coughlin	Regional Director	800-279-2279 Ext. 3783	bcoughlin@dsaco.com
Nancy Brennan	Senior Regional Representative	800-717-3477 Ext. 2679	nbrennan@dsaco.com

Southeast Alabama, Florida, Georgia, Mississippi, Puerto Rico

Peter Yensel	Regional Director	800-279-2279 Ext. 3785	pyensel@dsaco.com
Mike Longoni	Senior Regional Representative	800-717-3477 Ext. 2261	mlongoni@dsaco.com

Northeast Maine, Massachusetts, Michigan, New Hampshire, Northern New York, Rhode Island, Vermont

Steve Coyle	Regional Director	800-279-2279 Ext. 3790	coyle@dsaco.com
Danielle Irwin	Senior Regional Representative	800-717-3477 Ext. 2682	dirwin@dsaco.com

New York City Connecticut, Southern New York

Jim Ambrosio	Regional Director	800-279-2279 Ext. 3787	jambrosio@dsaco.com
Laurel Hardy	Regional Representative	800-717-3477 Ext. 2683	lhardy@dsaco.com

North Atlantic Delaware, New Jersey, Northern Ohio, Pennsylvania

Reed Finley	Regional Director	800-279-2279 Ext. 6906	rfinley@dsaco.com
Iliia Geronov	Senior Regional Representative	800-717-3477 Ext. 2677	igeronov@dsaco.com

Mid-Atlantic Kansas, Maryland, Missouri, North Carolina, South Carolina, Tennessee, Virginia, Washington DC, West Virginia

Randy Payne	Regional Director	800-279-2279 Ext. 6905	rpayne@dsaco.com
Mari Downey	Senior Regional Representative	800-717-3477 Ext. 2665	mdowney@dsaco.com

This material may be shared with existing and potential clients to provide information concerning market conditions and the investment strategies and techniques used by Davis Advisors to manage its client accounts. Please refer to Davis Advisors Form ADV Part 2 for more information regarding investment strategies, risks, fees, and expenses. Clients should also review other relevant material, including a schedule of investments listing securities held in their account.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our clients 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.

This report discusses companies in conformance with Rule 206(4)-1 of the Investment Advisers Act of 1940 and guidance published thereunder. The companies we discuss are chosen in the following manner: starting at the beginning of the year, the holdings from a Multi-Cap model portfolio are listed in descending order based on percentage owned. Companies that reflect different weights are then selected. (For the first quarter, holdings numbered 1, 11, 21, and 31 are selected and discussed. For the

second quarter, holdings numbered 2, 12, 22, and 32 are selected and discussed. This pattern then repeats itself for the following quarters. No more than two of these holdings can come from the same sector per piece.); one recent purchase and one recent sale are also discussed. A sale is defined as a position that is completely eliminated from the portfolio before the end of the quarter in question. If there were no purchases or sales, the purchases and sales are omitted from the report. If there were multiple purchases and/or sales, the purchase and sale discussed shall be the earliest to occur. If there are multiple purchases and/or sales on the same day, the one that is the largest percentage of assets will be discussed. No holding can be discussed if it was discussed in the previous three quarters.

The information provided in this report does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to buy or sell any particular security. There is no assurance that any of the securities discussed herein will remain in an account at the time this report is received or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of any account's portfolio holdings. It should not be assumed that any of the securities discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. It is possible that a security was profitable over the previous five year period of time but was not profitable over the last year. In order to determine if a certain security added

value to a specific portfolio, it is important to take into consideration at what time that security was added to that specific portfolio. A complete listing of all securities purchased or sold in an account, including the date and execution prices, is available upon request.

The investment objective of a Davis Multi-Cap Equity account is long-term growth of capital. There can be no assurance that Davis will achieve its objective. Davis Advisors uses the Davis Investment Discipline to invest a client's portfolio principally in common stocks (including indirect holdings of common stock through depositary receipts). The Multi-Cap Equity strategy may invest in large, medium, or small companies without regard to market capitalization and may invest in issuers in foreign countries, including countries with developed or emerging markets. The principal risks are: common stock risk, depositary receipts risk, emerging markets risk, fees and expenses risk, foreign country risk, foreign currency risk, headline risk, large-capitalization companies risk, manager risk, mid- and small-capitalization companies risk, and stock market risk. See the ADV Part 2 for a description of these principal risks.

Small cap companies have market capitalizations less than \$3 billion. Mid cap companies have market capitalizations from \$3 billion to \$10 billion. Large cap companies have market capitalizations greater than \$10 billion. Under normal circumstances, the Multi-Cap Equity Composite invests the majority of its assets in equity securities issued by companies with market capitalizations of less than \$20 billion.