

All-Cap Portfolio

Spring Update 2017

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THE EQUITY SPECIALISTS™

Portfolio Commentary

Market Perspectives

In the first quarter of 2017 the U.S. stock market advanced with the Russell 3000 Index returning 5.74%. The Davis All Cap Portfolio also delivered positive results but trailed the Index in the first three months of the year, largely due to a decline in the energy sector.¹

Among notable developments during the quarter, the U.S. economy showed relatively strong job growth and the Federal Reserve tightened monetary policy slightly by raising the federal funds rate another 25 basis points—only the third interest rate hike since the onset of the 2007–08 financial crisis and a reflection of growing confidence the U.S. economy has improved dramatically in recent years. Business fundamentals in a wide range of industries have also generally improved markedly since the financial crisis.

When evaluating the investment landscape, we do not make investment decisions based on short-term forecasts, which history has shown can be unreliable. Instead, we focus on the important and knowable while maintaining a long-term perspective.

In today's market, our long-range assumptions include:

- Equities should outperform bonds over the next decade given bond yields are at low levels not seen for centuries.²
- Within the equity universe, selectivity is critical. Durable, well-managed businesses whose true value is not recognized by the market in the near term should ultimately outperform.
- Opportunities in today's market include global leaders selling at bargain prices, dominant lesser-known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.
- Risks in today's market include companies with near peak profit margins and overvalued dividend darlings that are riskier than they appear. The 25 most commonly held stocks in the five largest dividend-focused, exchange-traded funds are valued at 25 times earnings, a P/E ratio significantly higher than the market's.³
- Technology and globalization are reconfiguring industries at an unprecedented rate.

Many longstanding brands and business moats that enable companies to maintain competitive advantages are being disrupted in unexpected ways. For example, in recent years, iconic companies in the newspaper, retailing and media industries have become obsolete. At the current rate of change, 75% of the companies in the S&P 500 Index could be replaced in the coming decade. To succeed, investors should avoid conventional thinking and remain flexible.

Portfolio Review

The Davis All Cap Portfolio is built from the bottom up, company by company, with the goal of compounding our investors' capital at a satisfactory rate over a multiyear time horizon. In our experience, this patient, time-tested approach is a reliable method for growing shareholder wealth over the long term.

The Portfolio holds three categories of investments:

- Dominant market leaders
- Lesser-known, “out-of-the-spotlight” businesses
- Contrarian investments⁴

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. Davis Advisors' Multi-Cap Equity Composite, gross of fees. The Multi-Cap Equity Composite is a representation of Davis Advisors' overall results employing this strategy. Individual account performance may vary. Inception was January 1, 1999. **Past performance is not a guarantee of future results.** 2. Common stocks and bonds represent different asset classes subject to different risks and rewards. Unlike bonds, the portfolio does not offer a fixed rate of return if held to maturity, and the portfolio has risks not associated with holding a bond. Bonds are considered to have less risk than equities. Future economic events may favor one asset class over another. 3. While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock may never recover. 4. As of December 31, 2016.

Among our market leaders is SAP, a German-based global software provider for enterprise resource planning, business intelligence, and database management that was founded in 1972 by five former IBM employees.⁵ SAP has a global footprint with approximately 345,000 customers in more than 180 countries using the firm's software products. Companies use enterprise resource planning software solutions for a broad range of applications including human resources, accounting, inventory, and supply chain management. The company is expanding its cloud computing capabilities through a network of 41 data centers around the world. We believe SAP is a top-tier technology company with a favorable outlook for accelerated revenue growth and margin expansion in the years to come.

Aetna, another market leader in the Portfolio, was founded in the 1850s as a life insurance company and diversified over time into other lines of insurance including group medical policies. The company went public in 1968, merged with U.S. Healthcare in 1996 (which was renamed Aetna U.S. Healthcare), purchased Coventry Health Care in 2013, and was pursuing a merger with Humana until a federal court blocked the transaction on antitrust grounds earlier this year. As the fifth largest U.S. insurer, Aetna has a strong negotiating position in most markets

and has successfully branched into Medicare and Medicaid in addition to the company's commercial health insurance lines. Aetna is a valuable addition to the Portfolio given its solid business model, good growth and return on capital coupled with its current fair valuation.

Monsanto, a third example of a market leader in the Portfolio, is the largest agricultural seed company in the world with the dominant market share in corn and soybean seeds. The company has invested heavily over many years in research and development and is now years ahead of the competition. At the same time, the fixed supply of arable land, the migration of population from farms to cities as well as the global growth in the size and wealth of the middle class mean fewer farmers are feeding ever more people. Farming productivity has also improved with the development of crops that are less susceptible to insects, drought and cold. Monsanto is well positioned to benefit from these long-term trends in our view and, because its business is widely misunderstood, trades at an attractive valuation. In September 2016 Monsanto agreed to be purchased by Bayer AG. (As of this writing, the transaction is still pending subject to regulatory approval.)

An out-of-the-spotlight holding and a recent addition to the Portfolio is Michigan-based Diplomat Pharmacy,

the fifth largest pharmacy company in the United States focusing on specialty drugs. In our opinion, the company is well positioned in a niche business that is the fastest growing segment of the overall pharmaceuticals market. Roughly half of the company's revenue comes from oncology-related drugs, an area now experiencing tremendous innovation and growth. We believe the company's stock price is currently depressed due more to negative investor sentiment about the sector than to any company-specific issues, providing us with an attractive entry point for investing in the shares.

Among our current contrarian investments is Wells Fargo, typically considered a market leader but which we currently consider a headline risk investment given last fall's disclosure of misconduct by former employees. Wells Fargo provides banking, insurance, investment, mortgage, and consumer and commercial finance services across North America through its extensive branch network as well as other channels such as loan and wealth management offices, call centers and, increasingly, the Internet. Partially hidden by today's low interest rates is what we consider the bank's key competitive advantage: its sizable, low-cost and stable retail deposit base that has historically enabled Wells Fargo

5. Holdings discussed in this commentary are selected according to objective, nonperformance-based criteria. They are chosen each quarter according to a consistent methodology based on their weight in the Davis Advisors Multi-Cap 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.

to generate one of the highest net interest margins in the industry. With a current valuation of roughly 12 to 13 times earnings, we believe the company remains attractively priced even taking into consideration the negative impact of the recent controversy, which is likely to dissipate over time in our view given the corrective measures put in place by Wells Fargo.

During the quarter, we sold our investment in Wesco International in order to allocate capital to other investment opportunities.

Overall, we believe the durability and growth potential of the individually selected companies that make up the Davis All Cap Portfolio position us strongly for the years and even decades to come.

At Davis Advisors we seek to own durable businesses at attractive prices that can be held for the long term. The Davis family, our firm and our employees have more than \$2 billion invested side by side with clients.⁶ We look forward to continuing our investment journey together.

6. As of December 31, 2016.

All-Cap Portfolio Profile

March 31, 2017

► 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	4.9%
Mid Cap	7.2
Large Cap	87.9

► Top 10 Holdings²

Alphabet	6.5%
Amazon.com	6.0
Apache	6.0
Wells Fargo	6.0
Encana	5.1
Cabot Oil & Gas	4.5
United Technologies	4.3
Delphi Automotive PLC	3.9
Adient PLC	3.4
UnitedHealth Group	3.3

► Portfolio Characteristics

	Portfolio	Russell 3000 Index
Number of Holdings	36	2,954
Turnover Rate (%)	42.1	1.7
Trailing Positive P/E Ratio	25.8	21.8
EPS Growth-Last 5 years (%)	16.3	12.4
Standard Deviation (5 years) ⁴	11.7	8.5

► Industry Groups³

Technology	21.5%
Energy	16.5
Capital Goods	10.5
Pharmaceuticals & Health Care	10.4
Banks	9.3
Retailing	8.7
Automobiles & Components	7.7
Materials	4.0
Diversified Financials	3.4
Transportation	3.2
Insurance	2.5
Media	2.3

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, 2017

Ticker	Security Description	Percent
MULTI	Alphabet (Class A and C)	6.5%
AMZN	Amazon.com	6.0
APA	Apache	6.0
WFC	Wells Fargo	6.0
ECA	Encana	5.1
COG	Cabot Oil & Gas	4.5
UTX	United Technologies	4.3
DLPH	Delphi Automotive PLC	3.9
ADNT	Adient PLC	3.4
UNH	UnitedHealth Group	3.3
BRK/B	Berkshire Hathaway-Class B	3.2
MBLY	Mobileye	3.2
ETN	Eaton Corp. PLC	3.1
AET	Aetna	3.0
JPM	JPMorgan Chase	2.8
JCI	Johnson Controls	2.5
MKL	Markel	2.4
FB	Facebook	2.3
LBTYK	Liberty Global PLC-Series C	2.2
AXTA	Axalta Coating Systems	2.1
AMAT	Applied Materials	1.9
FDX	Fedex	1.7
MON	Monsanto	1.7
JD	JD.com-ADR	1.6
TXN	Texas Instruments	1.6
DPLO	Diplomat Pharmacy	1.3
ZTO	ZTO Express Cayman-ADR	1.3
ESRX	Express Scripts Holding	1.2
MSFT	Microsoft	1.2
ANGI	Angie's List	1.1
DGX	Quest Diagnostics	1.0
SAP	SAP SE-ADR	1.0
QUOT	Quotient Technology	0.9
SFUN	Fang, Class A-ADR	0.7
VIPS	Vipshop Holdings-ADR	0.6
CASH		5.4
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.

John Chen joined Davis Advisors in 2007. He previously was employed at Milbank, Tweed, Hadley & McCloy LLP. Mr. Chen received his B.A. from the University of Chicago and his J.D. from Georgetown 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.

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Contact Regional Directors or Regional Representatives to arrange meetings
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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.

The performance of mutual funds is included in the Composite. The performance of the mutual funds and other Davis managed accounts may be materially different. For example, the Davis Opportunity Fund may be significantly larger than another Davis managed account and may be managed with a view toward different client needs and considerations. The differences that may affect investment performance include, but are not limited to: the timing of cash deposits and withdrawals, the possibility that Davis Advisors may not buy or sell a given security on behalf of all clients pursuing similar strategies, the price and timing differences when buying or selling securities, the size of the account, the differences in expenses and other fees, and the clients pursuing similar investment strategies but imposing different investment restrictions. This is not a solicitation to invest in the Davis Opportunity Fund or any other fund.

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.

The Davis All-Cap Equity is represented by Davis Advisors’ Multi-Cap Equity Composite.

Davis Advisors’ Multi-Cap Equity Composite includes all actual, fee-paying, discretionary Multi-Cap Equity investing style institutional

accounts and mutual funds under management for each investment period from January 1, 1999, through the date of this report, including those accounts no longer managed. Effective January 1, 1998, a minimum account size of \$3,500,000 was established. Accounts below this minimum are deemed not to be representative of the Composite’s intended strategy and as such are not included in the Composite. Prior to January 1, 2011, wrap accounts were included in the Composite. A time-weighted internal rate of return formula is used to calculate performance for the accounts included in the Composite. For the net of advisory fees performance results, custodian fees are treated as cash withdrawals and advisory fees are treated as a reduction in market value. For mutual funds, the Composite uses the rate of return formula used by the open-end mutual funds calculated in accordance with the SEC guidelines adjusted to treat mutual fund expenses other than advisory fees as cash withdrawals; sales charges are not reflected. Wrap account returns are computed net of a 3% maximum wrap fee. For the gross performance results, custodian fees and advisory fees are treated as cash withdrawals. A list of Davis Advisors’ Composites is available upon request.

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 an All Cap Core 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; 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 depository 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, depository 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.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its products and providing continuing

support to clients and shareholders. For example, broker-dealers and other financial intermediaries may charge: sales commissions; distribution and service fees; and record-keeping fees. In addition, payments or reimbursements may be requested for: marketing support concerning Davis Advisors' products; placement on a list of offered products; access to sales meetings, sales representatives and management representatives; and participation in conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events and other dealer-sponsored events. Financial advisors should not consider

Davis Advisors' payment(s) to a financial intermediary as a basis for recommending Davis Advisors.

Trailing Price/Earnings (P/E) Ratio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. Portfolio totals are computed using an inverse harmonic methodology.

The **Russell 3000 Index** measures the performance of the 3,000 largest companies incorporated in the United States and its

territories and listed on the NYSE, AMEX, or NASDAQ. The companies are ranked by decreased total market capitalizations. 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.