

# All-Cap SMA Portfolio

Spring Update 2019

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THE EQUITY SPECIALISTS



## Portfolio Commentary

### Market Perspectives

During the first quarter of 2019, the S&P 500 Index returned 13.65%, offsetting 2018's performance of -4.38%. The S&P 1500 Index, a broader all-cap index, returned 13.64%, rebounding from a decline of -4.96%, in 2018. The Davis All-Cap Equity SMA strategy delivered strong returns in the period led by energy, communication services and industrials holdings while financials holdings lagged.<sup>1</sup>

With respect to last year's correction, we believe the pullback was long overdue based on historical experience. That said, we saw little indication the short-term volatility in stock prices reflected weakness in the underlying economy. In our view, while stocks entered correction territory in the second half of last year, the bear market in share prices was not driven by otherwise healthy business and economic fundamentals but rather by investor sentiment and macroeconomic concerns we believed would likely prove temporary. As a result, our conviction in the stocks we owned and the stocks we purchased during the period generally increased as prices declined given the strength of our strategy's companies' balance sheets, competitive moats, earnings drivers, and proven management teams, coupled with more attractive valuations. We believe our focus on select growing and undervalued businesses should yield attractive results over the long term.

### Portfolio Review

In keeping with our philosophy of buying durable businesses at value prices and holding them for the long term, we are investing selectively in businesses with attractive valuations that meet our investment criteria of strong balance sheets, durable competitive moats and the potential for earnings to expand over time.

The Davis All-Cap Equity SMA strategy holds three categories of businesses including in order of proportion:

- Dominant market leaders
- Lesser-known, "out-of-the-spotlight" businesses
- Contrarian investments<sup>2</sup>

Alphabet, known for its core search engine Google, is a diversified technology company with a dominant search and advertising business and a strong position in cloud computing.<sup>3</sup> The company is also the foremost innovator of self-driving vehicles in the U.S. as well as both a pioneer and leader in artificial intelligence, among other business activities. Alphabet is representative of what we look for in market leaders—a strong balance sheet with currently more than \$100 billion of cash and liquid securities representing more than 10% of the company's market capitalization, strong competitive positions in growing markets and a proven management team and culture. While the company's revenues continue to grow at a rate of more than 22%, the company trades at a reasonable multiple of owner earnings after adjustments.

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. **1.** Davis Advisors' Multi-Cap (SMA) Composite. **Past performance is not a guarantee of future results.** **2.** While we research companies subject to such contingencies, we cannot be correct every time, and a company's stock may never recover. **3.** 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 All-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.

SAP is another core holding in the dominant market leader category. Approximately 450,000 companies in 180 countries and spanning all major industries use SAP's enterprise solutions for business operations and customer relations' management. We believe the company's dominant, entrenched position in a rapidly growing global market, coupled with its reasonable valuation, make SAP an attractive long-term investment for the strategy.

The core of the strategy consists not only of dominant market leaders but also includes a number of out-of-the-spotlight businesses in areas ranging from aerospace to conservatively-managed financial companies to health care. What these businesses have in common is they represent well-priced, growing businesses that are often overlooked by the market despite their ability to compound earnings over the long term.

Our current headline risk positions include Adient, a global manufacturer of automotive seating now in the process of correcting plant operational issues that came to light in 2018. We believe these issues are fixable given time. Meanwhile, the company's shares trade at less than five times owner earnings.

A second company in the strategy that is both out of favor and mispriced, in our opinion, is Cabot Oil & Gas, a U.S.-focused energy exploration and production company with significant operations in attractive North American basins for shale oil and gas. We believe the company's shares are overly discounted relative to expected future cash flows.

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

Since our firm's inception more than 50 years ago, Davis Advisors has employed a time-tested investment discipline 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 in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.<sup>4</sup>

4. As of 12/31/18.

# All-Cap SMA Portfolio Profile

March 31, 2019

## ► Investment Discipline

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

- The Davis All-Cap strategy is team managed. The managers collaborate, sharing ideas and responsibilities for selecting the strategy's investments.
- The investment management team of the Davis All-Cap strategy has significant co-investments alongside clients in similarly managed strategies and funds. 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 strategy 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;<sup>1</sup> 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	4.7%
Mid Cap	4.2
Large Cap	91.1

## ► Top 10 Holdings<sup>2</sup>

Alphabet	7.0%
United Technologies	7.0
Apache	6.6
Wells Fargo	6.2
Quest Diagnostics	6.0
Amazon.com	5.0
Johnson Controls	4.9
Encana	4.0
Capital One Financial	3.1
Berkshire Hathaway	2.9

## ► Portfolio Characteristics

	Portfolio	S&P 1500 Index
Number of Holdings	34	1,506
Turnover Rate (%)	26.5	5.4
Trailing Positive P/E Ratio <sup>4</sup>	18.1	19.6
EPS Growth-Last 5 years (%) <sup>5</sup>	16.0	15.5
Standard Deviation (5 years) <sup>6</sup>	13.7	11.3

## ► Industry Groups<sup>3</sup>

Capital Goods	20.9%
Information Technology	13.7
Energy	13.1
Media & Entertainment	11.7
Health Care	10.7
Retailing	10.1
Banks	6.5
Diversified Financials	6.3
Automobiles & Components	5.1
Insurance	1.9

Portfolio characteristics, holdings and industry groups are subject to change. Davis Advisors classifies its All-Cap strategy as such based on its overall investment strategy. At the time of this report, this classification may or may not agree with classifications by other third party information services. **1.** An investor must be willing to accept the increased volatility which accompanies the potential for attractive long-term results. **2.** For information purposes only. Not a recommendation to buy or sell any security. **3.** Sources: Davis Advisors and Wilshire Atlas. **4.** Trailing Positive P/E Ratio is the ratio of the closing stock price and trailing 12 months' earnings per share. Portfolio totals are computed using an Inverse Harmonic methodology (stocks with negative P/E ratios are excluded from the portfolio totals). **5.** Historical 5 Year EPS Growth represents the annualized rate of net-income-per-share growth over the trailing five-year period for the stocks held by the Fund. **6.** Source: Morningstar Direct.

## All-Cap SMA Portfolio Holdings

March 31, 2019

Ticker	Security Description	Percent
MULTI	Alphabet (Class A and C)	7.0%
UTX	United Technologies	7.0
APA	Apache	6.6
WFC	Wells Fargo	6.2
DGX	Quest Diagnostics	6.0
AMZN	Amazon.com	5.0
JCI	Johnson Controls	4.9
ECA	Encana	4.0
COF	Capital One Financial	3.1
BRK/B	Berkshire Hathaway	2.9
ETN	Eaton PLC	2.9
FB	Facebook	2.8
QRVO	Qorvo	2.7
APTV	Aptiv PLC	2.6
GE	General Electric	2.5
INTC	Intel	2.5
JD	JD.com-ADR	2.5
ADNT	Adient PLC	2.3
QUOT	Quotient Technology	2.2
ORCL	Oracle	2.1
COG	Cabot Oil & Gas	2.0
UNH	UnitedHealth Group	2.0
MKL	Markel	1.8
TXN	Texas Instruments	1.7
AMAT	Applied Materials	1.5
FERGY	Ferguson PLC-ADR	1.5
CI	Cigna	1.4
IQ	IQIYI-ADR	1.4
MSFT	Microsoft	1.4
OC	Owens Corning	1.3
SAP	SAP SE-ADR	1.2
CVS	CVS Health	0.9
WAB	Wabtec	0.1
CASH		4.0
<b>TOTAL</b>		<b>100.0%</b>

The above listed securities are representative of a model Davis All-Cap SMA 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 30 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. He is a portfolio manager for the Financial Portfolios and is a member of the research team for other portfolios. 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. Mr. Whitaker holds a B.A. from Dartmouth College, a M.S. from Miami University and a M.B.A. from the Amos Tuck Business School.

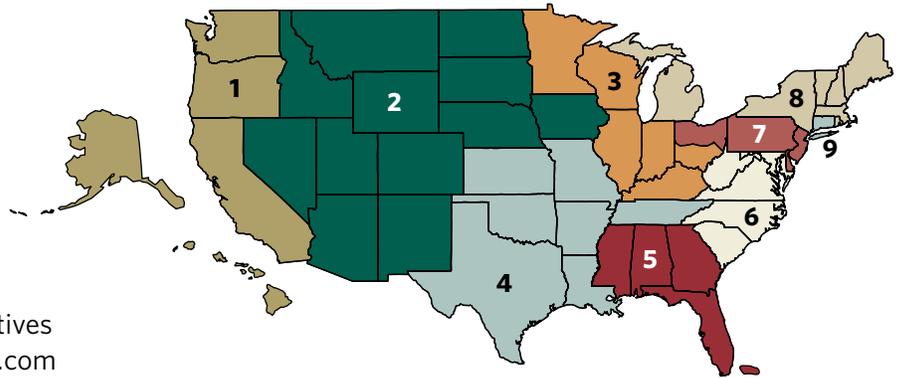
**Edward Yen** joined Davis Advisors in 2013. Previously, he worked at Dodge & Cox and Lehman Brothers. Mr. Yen received his B.S. from the University of California, Berkeley and his M.B.A. from Stanford University.

# Contacts

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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.

Performance shown from 1/1/99, through 12/31/05, is the Davis Advisors' Multi-Cap Composite which includes all actual, fee-paying, discretionary Multi-Cap investing style institutional accounts, mutual funds, and wrap accounts under management including those accounts no longer managed. Effective 1/1/98, 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. 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.

Effective 1/1/11, Davis Advisors created a Multi-Cap (SMA) Composite which excludes institutional accounts and mutual funds. Performance shown from 1/1/06, through 12/31/10, the Davis Advisors' Multi-Cap SMA Composite includes all eligible wrap accounts with a minimum account size of \$3,500,000 from inception date for the first full month of account management and includes closed accounts through the last day of the month prior to the account's closing. For the performance shown from 1/1/11, through the date of this report, the Davis Advisors' Multi-Cap SMA Composite includes all eligible wrap accounts with no account minimum from inception date for the first full month of account management and includes closed accounts through the last day of the month prior to the account's closing. 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 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 assets 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.

The **S&P 1500 Index** is comprised of the S&P 500, MidCap 400, and SmallCap 600, which together represent approximately 90% of the U.S. equity market. 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.