All-Cap Portfolio

Winter Update 2019

Davis Advisors

The Equity Specialists

Davis ADVISORS

Portfolio Commentary

Market Perspectives

In 2018, the S&P 500 Index returned –4.38% and the S&P 1500 Index returned –4.96%.[1] The Davis All-Cap Portfolio trailed the broader market. Certain positions in energy, consumer discretionary and industrials were detractors during the period.

U.S. economic fundamentals remain strong with historically low unemployment, robust gross domestic product (GDP) growth and modest inflation. The Federal Reserve has continued to normalize interest rates but is doing so at a measured pace thus far. In brief, the U.S. economic backdrop and fundamentals appear favorable overall.

Still, starting in mid-2018, investors have turned more cautious due to a confluence of factors including the U.S.–China trade dispute, rising interest rates and the economic outlook.

In the second half of the year, when volatility increased, it became a tale of two markets. A number of stocks and sectors that had contributed meaningfully to our strong results over the previous three to four years underperformed, as investors sought sectors with historically lower share price volatility. In our minds, the trade-off is clear: we can continue to own and purchase more shares of companies that in our estimation have a high probability of delivering competitive results over the *long term* but that are somewhat out of favor or more volatile than other groups in the near term. Or we could theoretically follow nervous investors into areas of the market that we regard as marginal long-term investment choices given their extremely low to negative topline growth, risky balance sheets where debt has increased considerably, and margins and dividend payout ratios that may be unsustainable over time. Therefore, while 2018 was a period in which we underperformed, we believe many of those companies that were detractors in the year will ultimately be among the long-term wealth builders in the Portfolio in the years ahead.

In our experience, the capital markets eventually tend to direct capital to those businesses that deliver evidence of strong long-term earnings power, and we recognize being selective about owning the right businesses is ultimately more important than trying to avoid short-term price fluctuations. As Peter Lynch famously said, “Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.” We absolutely agree having navigated markets for the last 50 years.

In brief, we believe investment success over the long term requires building a Portfolio that is superior to the broader market. We believe we hold above-average businesses trading at below-average prices that can reliably compound capital over the long term, which should allow the power of compounding to drive total returns for our clients. We remain steadfastly focused on ensuring our businesses continue to demonstrate the potential to deliver superior long-term results for shareholders, regardless of short-term price volatility, which is a normal part of the investment equation.

While we have seen only one side of the "valley" in terms of the market correction of the last six months, we encourage investors to keep in mind that the market is incredibly resilient and tends to march upward with corporate profit growth over time, that the backdrop and underpinnings of the overall economy are strong, and that this environment of uncertainty and low prices, in our opinion, makes this an especially attractive time to increase ownership in great long-term businesses, disconcerting as short-term price fluctuations can be.

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. Past performance is not a guarantee of future results.**

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 Portfolio holds three categories of businesses including in order of proportion:

- Dominant market leaders
- Lesser-known, "out-of-the-spotlight" businesses
- Contrarian investments[2]

A representative market leader is UnitedHealth Group, the largest health care insurance company in the United States.[3] The company focuses solely on its core health care business through a diversified product line including underwriting health insurance plans for large employers, administering employer-funded plans on a non-risk basis, and offering Medicare Advantage plans to senior citizens as a competitive alternative to traditional Medicare. In addition, the company has successfully built an array of less regulated health care related noninsurance businesses, including the third largest pharmacy benefit management company, and also offers consulting and other services in the area of health care information technology. We view UnitedHealth Group as a well-managed and durable franchise with ample opportunity for continued growth.

Intel, a second example of a market leader, is a U.S.-based leader in microprocessors with a market capitalization of $170 billion. Intel is the second largest semiconductor chipmaker globally based on revenue and dominates the PC, Mac, and server markets with a vast installed user base of platforms that run on the company's design. We believe the company will continue to expand margins as its unit costs gradually decline while at the same time growing revenue in the high single digit range for years to come.

Facebook, which has quickly emerged as a market leader, is the largest social network in the world with 2.2 billion active monthly users and an array of offerings including Instagram, Messenger, WhatsApp, and Oculus. Given Facebook's enormous scale and expanding user base the company is in a unique position to offer advertisers extensive targeted data and analytics on consumer preferences as well as to interact with consumers directly in a large-scale, highly efficient manner. We expect Facebook's earnings power to increase dramatically as advertisers continue to devote more of their advertising budgets to online platforms, especially the burgeoning market for mobile devices.

Out-of-the-spotlight businesses include a wide range of mundane or niche businesses that span a wide range of industries from independent laboratory services to building heating, ventilation and air conditioning systems (HVAC), to fire protection and security companies.

In the contrarian or headline risk category is Apache Corporation, a shale oil company with the reserve base and operating expertise to increase production at double-digit rates into the future, especially as the Alpine High discovery in the Permian basin begins to contribute to cash flow. The price of oil has fallen recently as have the shares of energy companies. We believe the future for Apache could well be much better in terms of production and returns on capital spending than in many past years when the former leaders of the company focused on a much larger but low-return asset base. In our view the market has been slow to recognize this change in the company's prospects.

In addition to contrarian investments in energy, we have also invested in a number of headline risk companies on a case-by-case basis, such as a leading seat system manufacturer and services company that has experienced a number of operational challenges that the company's new management can correct, in our view. We also hold shares of a large industrial conglomerate that is trading at an attractive price even

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.

given near-term financial challenges. We understand owning shares in headline risk companies can be unsettling for investors. Our rationale for owning headline risk investments is based on both facts and assumptions. Should the facts change significantly our views of course would change, but we currently believe these contrarian investments are trading at steeply discounted valuations that can compensate us for the risks involved.

During the quarter, we added Owens Corning and sold Blackberry Limited.

Since our firm's inception 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 in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.[4]

4. As of December 31, 2018.

All-Cap SMA Portfolio Profile

December 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 SMA 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	5.9%
Mid Cap	17.2
Large Cap	76.9

Top 10 Holdings[2]

Alphabet	7.0%
United Technologies	7.0
Apache	6.5
Wells Fargo	6.2
Quest Diagnostics	6.0
Amazon.com	5.0
Johnson Controls	4.6
Encana	4.0
Berkshire Hathaway	3.5
Eaton PLC	3.3

Industry Groups[3]

Capital Goods	21.5%
Energy	13.1
Information Technology	13.1
Media & Entertainment	11.0
Health Care	10.8
Retailing	10.3
Banks	6.5
Diversified Financials	6.3
Automobiles & Components	5.3
Insurance	2.1

Portfolio Characteristics

	Portfolio	S&P 1500 Index
Number of Holdings	33	1,506
Turnover Rate (%)	34.0	4.5
Trailing Positive P/E Ratio	17.5	17.8
EPS Growth–Last 5 years (%)	15.0	14.6
Standard Deviation (5 years)[4]	13.1	11.0

Portfolio characteristics, holdings and industry groups are subject to change. Davis Advisors classifies its All-Cap SMA Portfolio 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. 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.

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All-Cap SMA Portfolio Holdings

December 31, 2018

Ticker	Security Description	Percent
MULTI	Alphabet (Class A and C)	7.0%
UTX	United Technologies	7.0
APA	Apache	6.5
WFC	Wells Fargo	6.2
DGX	Quest Diagnostics	6.0
AMZN	Amazon.com	5.0
JCI	Johnson Controls	4.6
ECA	Encana	4.0
BRK/B	Berkshire Hathaway	3.5
ETN	Eaton PLC	3.3
ADNT	Adient PLC	2.9
GE	General Electric	2.9
QUOT	Quotient Technology	2.7
QRVO	Qorvo	2.6
FB	Facebook	2.5
COF	Capital One Financial	2.5
INTC	Intel	2.3
APTV	Aptiv PLC	2.2
JD	JD.com–ADR	2.1
MKL	Markel	2.0
COG	Cabot Oil & Gas	2.0
ORCL	Oracle	1.9
CI	Cigna	1.7
TXN	Texas Instruments	1.6
MSFT	Microsoft	1.5
FERGY	Ferguson PLC–ADR	1.5
AMAT	Applied Materials	1.4
UNH	UnitedHealth Group	1.3
CVS	CVS Health	1.3
OC	Owens Corning	1.3
SAP	SAP SE–ADR	1.2
IQ	IQIYI–ADR	1.0
CASH		4.5
TOTAL		**100.0%**

The above listed securities are representative of the 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.

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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.

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.

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.

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.

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