

# Davis International ADR SMA Portfolio

Spring Update 2019

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THE EQUITY SPECIALISTS



## Portfolio Commentary

### Market Perspectives

During the first quarter of 2019, the MSCI ACWI (All Country World Index) ex US returned 10.31%, offsetting 2018's performance of -14.20% to a meaningful degree. The Davis International SMA strategy outperformed the MSCI ACWI ex US in the period, led by consumer discretionary and communications services holdings while our energy holdings lagged modestly on a relative basis.<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 selective, attractive growth 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 International 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>

Naspers of South Africa is a media holding company that is more than a century old but one that has reinvented itself for the modern digital age.<sup>3</sup> With a market capitalization that exceeds \$100 billion, Naspers owns interests in a wide array of e-commerce and classified ad businesses (some private, some public) around the world whose value together exceeds Naspers' market capitalization by a material amount. As a result, we believe Naspers is trading at an attractive discount to the sum of its parts yet should benefit from the many fast-growing businesses in the company's portfolio over the long term.

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' International SMA Equity Composite, net of fees. Inception was 9/23/14. **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 International 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.

Among our out-of-the-spotlight holdings is Noah Holdings, a financial services company in Singapore that is well-positioned for long-term growth in our opinion as wealth and economic activity across the Asia-Pacific region continue to grow.

Azul S.A., another out-of-the-spotlight business in the strategy, is among the top three airlines in Brazil. Established in 2008 by the founder of JetBlue, Azul's market share has grown over time not only on major routes, both domestically and internationally, but also in underserved areas of the country where Azul is in some cases the only airline serving the area giving the company superior economic fundamentals in our view relative to other airlines.

Among our contrarian investments are select energy holdings. As an example, we hold shares in Seven Generations Energy, which is based in Alberta, Canada. In contrast to many of the large, integrated major companies in the broader energy sector that maintain highly expensive wells around the globe, some of

which require high oil prices just to break even, Seven Generations Energy focuses on high-productivity shale oil opportunities with long life reserves and lower production costs. We believe Seven Generations' value will become more apparent as the company demonstrates its ability to increase production and generate free cash flow at highly attractive rates for years to come.

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.

# Davis International ADR SMA Portfolio Profile

March 31, 2019

Davis International consists of portfolios of attractive businesses from outside of the U.S. selected using the time-tested Davis Investment Discipline. As one of the largest investors in the strategy, we have a unique commitment to client stewardship.

## ► Why Invest in the Davis International Strategy

- Equity-Focused Research Firm:**  
 Established in 1969, Davis is a leading specialist in equity investing.<sup>1</sup> Our primary focus on research and unique investment discipline has built wealth for our clients over the long term.
- Portfolios of Best of Breed Businesses:**  
 The strategy invests in businesses outside the U.S. from both developed and developing markets. Utilizing rigorous independent research, we invest in durable, well-managed businesses with sustainable competitive advantages and attractive long-term growth prospects selling at a discount to their true value.
- Flexible, Opportunistic Approach:**  
 We believe a bottom-up stock selection process and not mirroring the benchmark index are keys to long-term outperformance.
- We Are Among the Largest Investors:**  
 We have a unique commitment to stewardship, generating attractive long-term results, managing risks and minimizing fees.

## ► Portfolio Characteristics

	Portfolio	MSCI ACWI ex US
Number of Holdings	25	2,147
Median Market Cap (\$bn)	14.4	7.7
Weighted Average Market Cap (\$bn)	64.5	64.7
Dividend Yield (%)	1.5	3.2

## ► Performance

	1Q19 <sup>3</sup>	1 Year	3 Year	Inception 10/1/14
International Equity SMA Composite (gross)	19.07%	-6.37%	12.01%	6.21%
International Equity SMA Composite (with a 3% max. wrap fee)	18.23	-9.16	8.73	3.08
MSCI ACWI ex US Index	10.31	-4.22	8.09	4.82

## ► Experienced Management

Danton Goei, 20 years with Davis Advisors

## ► Geographically Diverse Portfolio

Asia	48.5%
Europe	34.0
North & Central America	9.8
Africa	7.7

## ► Top Countries

China	Canada
France	U.K.
South Africa	Norway
Switzerland	Denmark
Singapore	Bermuda

## ► Selective, Attractive Growth, Undervalued Portfolio<sup>2</sup>

	Portfolio	MSCI ACWI ex US
Holdings	25	2,147
EPS Growth (5 Year)	24.4%	11.4%
P/E (Forward)	7.9x	13.2x

## ► Sector Breakdown

	Portfolio	MSCI ACWI ex US
Consumer Discretionary	32.9%	11.1%
Financials	27.1	21.6
Industrials	19.7	11.7
Energy	6.5	7.4
Information Technology	6.4	8.4
Communication Services	4.7	7.1
Materials	2.7	7.6
Consumer Staples	0.0	9.9
Health Care	0.0	8.4
Real Estate	0.0	3.5
Utilities	0.0	3.3

Market Cap Breakdown	Portfolio	MSCI ACWI ex US
Less than \$3 Billion	19.7%	1.8%
\$3-10 Billion	16.0	17.2
Greater than \$10 Billion	64.3	81.0

## ► Attractive Businesses from Around the World (Top 10 Holdings)

**Alibaba Group-ADR (China):** The world's largest and most valuable retailer, with operations in over 200 countries, and a dominant position in the e-commerce market

**JD.com-ADR (China):** One of the largest e-commerce businesses in mainland China offering a range of goods such as consumer electronics and appliances

**Naspers, N-ADR (South Africa):** A media conglomerate based in South Africa that operates a leading pay television business in South and Sub-Saharan Africa and holds interests in a range of e-commerce businesses around the world

**New Oriental Education & Technology-ADR (China):** Largest provider of private education services in China

**Schneider Electric SE-ADR (France):** A global specialist in energy management

**DBS Group Holdings-ADR (Singapore):** Largest bank in Singapore and among the largest in developed Asia. DBS has a strong moat enabled by its relatively inexpensive cost of funds, technology leadership, and high market share of retail deposits in Singapore

**Ferguson PLC-ADR (U.K.):** The world's largest distributor of heating and plumbing supplies for professionals, predominantly in the United States

**Hollysys Automation Technology (China):** Leading industrial automation company in China

**DNB ASA-ADR (Norway):** Largest financial institution and oldest private bank in Norway. Its digital leadership and economies of scale are the leading drivers of its strong and durable moat

**Seven Generations Energy-A (Canada):** An oil and gas company operating as a low cost supplier and benefits from improved well productivity in the Montney Shale in recent years, supporting its aggressive growth

*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. Current performance may be higher or lower. Total return updates are available quarterly. Please contact your Davis Advisors representative for most recent month-end returns.*

**1. Past performance is not a guarantee of future results. 2.** The Attractive Growth and Undervalued reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the portfolio performance will be positive as equity markets are volatile and an investor may lose money. **3.** Returns for periods less than one year are not annualized.

## Davis International ADR SMA Portfolio Holdings

March 31, 2019

Ticker	Security Description	Percent
BABA	Alibaba Group Holding-ADR	7.0%
JD	JD.com-ADR	7.0
NPSNY	Naspers-ADR	7.0
EDU	New Oriental Education-ADR	7.0
SBGSY	Schneider Elect SE-ADR	6.4
DBSDY	DBS Group Holdings-ADR	6.2
FERGY	Ferguson PLC-ADR	6.1
HOLI	Hollysys Automation Technology	6.1
DNHBY	DNB ASA-ADR	5.0
SVRGF	Seven Generations Energy	4.5
JBAXY	Julius Baer Group	4.3
DNKEY	Danske Bank-ADR	3.3
NTB	Bank of N.T. Butterfield & Son	3.1
SAFRY	Safran-ADR	3.1
IQ	IQIYI INC-ADR	2.8
HCMLY	LafargeHolcim-ADR	2.6
NOAH	Noah Holdings-ADR	2.4
CTRP	Ctrip.com International-ADR	2.1
ECA	Encana	1.7
ZTO	ZTO Express Cayman-ADR	1.6
BNTGY	Brenntag AG-ADR	1.5
YRD	Yirendai-ADR	1.5
BIDU	Baidu Inc-ADR	1.4
TEDU	Tarena International-ADR	1.1
MCHOY	MultiChoice Group	0.3
CASH		4.9
<b>TOTAL</b>		<b>100.0%</b>

The above listed securities are representative of a model Davis International ADR 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.

**Sobby Arora, CFA** joined Davis Advisors in 2017. Previously, he worked as a research analyst at Federated Global Investment Management and ING Investment Management. Mr. Arora received his B.A. from Colgate University, his M.B.A. from The Stern School of Business and is a CFA charter holder.

**Benjamin Betcher, CFA** joined Davis Advisors in 2017. Previously, he worked as a research analyst at Sanford Bernstein and as head of finance at Ampush Media. Mr. Betcher received his B.S. from Tufts University and is a CFA charter holder.

**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.

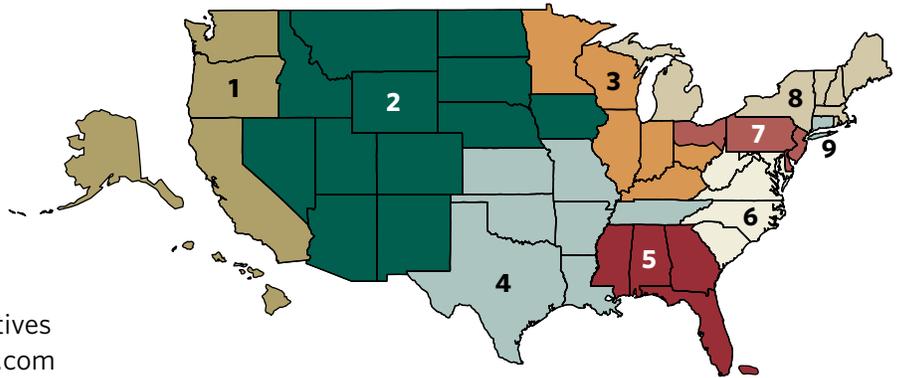
**Edward Yen** joined Davis Advisors in 2013. Previously, he worked at Dodge & Cox and Lehman Brothers. Mr. Yen received his B.S. from the University of California, Berkeley and his M.B.A. from Stanford University.

# Contacts

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

1	<b>West Coast</b> Alaska, California, Hawaii, Oregon, Washington	Joe Emhof Jon Franke	Regional Director Senior Regional Representative	800-279-2279 Ext. 3786 800-717-3477 Ext. 2663	jemhof@dsaco.com jfranke@dsaco.com
2	<b>Central</b> Arizona, Colorado, Idaho, Iowa, Montana, Nebraska, Nevada, New Mexico, North Dakota, South Dakota, Utah, Wyoming	Dan Steichen Sean Lynch	Regional Director Senior Regional Representative	800-279-2279 Ext. 2262 800-717-3477 Ext. 2675	dsteichen@dsaco.com slynch@dsaco.com
3	<b>Great Lakes</b> Illinois, Indiana, Kentucky, Minnesota, Southern Ohio, Wisconsin	Bill Coughlin Nancy Brennan	Regional Director Senior Regional Representative	800-279-2279 Ext. 3783 800-717-3477 Ext. 2679	bcoughlin@dsaco.com nbrennan@dsaco.com
4	<b>South Central</b> Arkansas, Kansas, Louisiana, Missouri, Oklahoma, Tennessee, Texas	Mark Giles Marty Smith	Regional Director Regional Representative	800-279-2279 Ext. 6908 800-717-3477 Ext. 2674	mgiles@dsaco.com martysmith@dsaco.com
5	<b>Southeast</b> Alabama, Florida, Georgia, Mississippi, Puerto Rico	Peter Yensel Mike Longoni	Regional Director Senior Regional Representative	800-279-2279 Ext. 3785 800-717-3477 Ext. 2261	pyensel@dsaco.com mlongoni@dsaco.com
6	<b>Mid-Atlantic</b> Maryland, North Carolina, South Carolina, Virginia, Washington DC, West Virginia	Mari Downey	Senior Regional Representative	800-717-3477 Ext. 2665	mdowney@dsaco.com
7	<b>North Atlantic</b> Delaware, New Jersey, Northern Ohio, Pennsylvania	Reed Finley Ilia Geronov	Regional Director Senior Regional Representative	800-279-2279 Ext. 6906 800-717-3477 Ext. 2677	rfinley@dsaco.com igeronov@dsaco.com
8	<b>Northeast</b> Maine, Massachusetts, Michigan, New Hampshire, Northern New York, Rhode Island, Vermont	Steve Coyle Danielle Irwin	Regional Director Senior Regional Representative	800-279-2279 Ext. 3790 800-717-3477 Ext. 2682	coyle@dsaco.com dirwin@dsaco.com
9	<b>New York City</b> Connecticut, Southern New York	Jim Ambrosio Laurel Hardy	Regional Director Senior Regional Representative	800-279-2279 Ext. 3787 800-717-3477 Ext. 2683	jambrosio@dsaco.com lhardy@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.*

Data provided herein is representative of a model account. Data provided is as of the date indicated and is subject to change. This material should not be considered a recommendation to buy, sell or hold any of the securities mentioned. We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Wilshire Atlas, Lipper, and index websites.

Effective 9/23/14, Davis Advisors created an International Equity SMA Composite which excludes the institutional accounts and mutual funds. Performance shown from 10/1/14, through the date of this report, the Davis Advisors' International Equity 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.

A time-weighted internal rate of return formula is used to calculate performance for the accounts included in the Composite. The net of fees rate of return formula is calculated based on a hypothetical 3% maximum wrap fee charged by the wrap account sponsor for all account services. For the gross performance results, custodian fees and advisory fees are treated as cash withdrawals.

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.

Davis Advisors' International Equity Composite includes all actual, fee-paying, discretionary International investing style institutional accounts, mutual funds and

wrap accounts under management for each investment period from 1/1/05, through the date of this report, 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. 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.

The investment objective of a Davis International 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) issued by foreign companies, including countries with developed or emerging markets. The international companies strategy may invest in large, medium, or small companies without regard to market capitalization. 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.

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 International 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. Each of these holdings must come from a different country.); 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. If a holding to be discussed (excluding the buys/sells) is no longer in the model portfolio as of quarter end, the next listed holding is selected and discussed.

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 MSCI ACWI (All Country World Index) ex US is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The index includes reinvestment of dividends, net of foreign withholding taxes. Investments cannot be made directly in an index.

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.

The Forward P/E ratio is the aggregate of the Forward P/E ratios of the holdings. The ratio is not a forecast of performance and is calculated for each security by dividing the current ending price of the stock by a forecast of its projected Earnings Per Share (EPS).

After 7/31/19, this material must be accompanied by a supplement containing performance data for the most recent quarter end.