Davis International ADR SMA Portfolio

Summer Update 2019

Davis ADVISORS

The Equity Specialists

50 YEARS DAVIS ADVISORS

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Portfolio Commentary

Market Perspectives

In the year-to-date period, the Davis International ADR SMA Portfolio delivered double-digit returns, outperforming the MSCI ACWI (All Country World Index) ex US and building further on our long-term record of growing wealth for our clients. In the year-to-date period, the MSCI ACWI ex US returned 13.6%. Our investment approach seeks to add value over multi-year holding periods.

Portfolio Review

Our performance relative to the MSCI ACWI ex US this year has been strongly influenced by our conscious positioning, which reflects our assessment of where true value resides in the broader market, and by where we feel risks have increased and should be avoided.

On the first question of where we are positioned, we currently hold 24 high-conviction equity positions in what we believe are durable businesses from multiple geographies that have delivered above-average earnings-per-share growth of more than 21.4% per year over the last five years. They are trading at only 7.1 times forward earnings, despite this compelling and attractive growth rate.

	Portfolio	Index
P/E (Forward)	7.1x	13.2x
EPS Growth (5 Year)	21.4%	11.2%
Holdings	24	2,205

The MSCI ACWI ex US, by comparison, holds 2,205 securities with an approximate average position size of 0.05%, which we believe is overly-diversified and not focused enough on a set of best ideas. The index has grown earnings per share at a rate of 11.2% over the trailing five years, approximately 10% below the Davis International ADR SMA Portfolio companies' record. Despite this earnings growth difference, the index's underlying holdings actually trade at a much higher valuation of 13.2 times forward earnings than those of our Portfolio, whose average valuation is only a multiple of 7.1.

In addition, we are being extremely selective on a country by country basis. Out of 26 emerging market countries in the index, our Portfolio holds investments in only three where we have found both compelling businesses and feel comfortable with the local markets and economies. In total, we own securities in only 12 out of 48 countries in the index. We believe selectivity has been a key to our success over the long term.

It is worth noting that many of the market's leading performers today have relatively high valuations and should be avoided at this time, in our opinion. The corollary to this is that elsewhere in the market, stocks have lagged the broader average. It has come to the point where we believe the market is now presenting stock pickers with a rare opportunity to buy extremely robust earnings growth at discounted prices. Furthermore, most of our holdings have what we feel are fortress balance sheets, and we always seek discernible competitive advantages—both of which are important buffers against many different types of risks.

We believe this market setup is ideally suited for our approach of buying durable, growing businesses at value prices and holding them for the long term; we believe this may provide a powerful springboard from which to generate attractive future returns.

Given the opportunity today to purchase durable growth at discounted prices, we are finding the most value, broadly speaking, in:

- **International financials—**In certain foreign markets, in our opinion, many financial businesses today produce substantial cash earnings, have strong balance sheets, and have generated attractive returns on equity. Despite these facts, financials as a group are trading at very cheap valuations, with many of them trading at 9–11 times owner earnings. Much of our thesis for competitively well-positioned banks is predicated on the belief that return of capital through rapidly rising dividends and large share buybacks will constitute a large portion, and in some instances the majority, of our expected total return. Financials tied to growing regions such as Asia-Pacific can produce growth as well. One stand-out holding is AIA Group, the second-largest life insurer in the world, operating in China, where demand for life insurance should grow substantially over the long term based on market demographic trends. Life insurance is under-penetrated in China, but that is changing, and we believe the industry leaders such as AIA Group have a long runway for growth.[1]

- **Consumer businesses—**These are generally companies that are well-positioned to benefit from strong consumption trends internationally. The growth of the online dominant players is explained in no small part by the growing penetration of online versus offline businesses around the world. Taking retail as an example, within the U.S., only 10% of retail volume is online today, and this secular trend is still in its infancy. Globally, that share is even smaller but is growing at double-digit rates. In other words, the online theme has a long runway for stockpickers searching for selective companies that are natural beneficiaries of Internet-enabled business models; these opportunities touch multiple geographies and are creating disruption (and opportunities) in consumer-related industries ranging from retail to media to video gaming. Alibaba Group, the largest e-commerce business in the world based in China, is a representative example of the type of dominant companies we seek for the Portfolio. Recently, we sold our position in Chinese education company Tarena International to redeploy that capital into other, more compelling opportunities.

- **Technology—**With the Adviser having more than 50 years of history investing in technology, we are very comfortable owning many different segments of the sector and have found ample opportunity for capital in innovative business models. Alibaba, for instance, not only serves hundreds of millions of online consumers through its e-commerce marketplace, but it is also a leader in technology in areas such as cloud computing and artificial intelligence.

- **Industrials—**Our interest in this sector lies primarily in the aerospace industry. Our thesis is based on the fact that the world supply of passenger and cargo jets is woefully behind demand. This is because global expansion of air travel linkages is running into a bottleneck on the assembly lines of the two largest airplane manufacturers. The backlog of orders for both is measured in years, not months. This supply shortage is especially acute in markets such as India, where there are fewer than 600 passenger jets serving a population of more than 1.2 billion people. InterGlobe Aviation is the market leader among airlines in India and is in a position to expand the size of its plane fleet dramatically to meet the growing demand for air travel.

- **Energy—**Our interest lies primarily in North American shale players today. There is a select list of companies with excellent, high-productivity acreage that should, within the very near future, begin producing oil and natural gas at increasing rates. Our observation is that the performance of this group has reflected widespread capitulation among investors in this sector, driving down valuations to bargain prices. We understand the contrarian posture this represents. We are invested in this sector because we do not believe the market's price accurately reflects the growth potential of our names, on the one hand; on the other hand, we believe the market under-appreciates the companies' staying power—as expressed in balance sheet liquidity. In addition, we own relatively mid-size companies; hence, we believe there are two ways to win—organically or by acquisition. Either way, we see real value in this extremely beaten-down sector. Encana, a Canadian shale-focused exploration and production company, is a representative holding in this sector.

1. 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 ADR SMA 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.

However markets behave for a time, we must at all times remain singularly focused on pursuing investments that, at the business and industry level, represent acceptable and attractive long-term opportunities to us and our clients. We believe that an ability to look through the current market gyrations and recognize the confidence we have in businesses we own is critical to staying the course. For suitable clients, this may also be an attractive time to add further capital, given the opportunity set.

Conclusion

The following summarizes our views relative to today's markets and the Portfolio:

- Selectivity, earnings growth and value are a powerful combination that is possible to achieve in a single portfolio, based on today's excellent market opportunities.

	Portfolio	Index
P/E (Forward)	7.1x	13.2x
EPS Growth (5 Year)	21.4%	11.2%
Holdings	24	2,205

- Equities remain the most attractive asset class long-term versus bonds and cash.
- Current events such as the U.S.-China trade dispute, while a headwind to the market's advance, should eventually de-escalate, which we believe would be bullish for equities—and the market has successfully proven its resilience during much more serious tensions over the course of history.
- Internationally, economic and business fundamentals vary from company to company and market to market. It is very important therefore to be selective both at the company level and at the country level. We own only 24 high-conviction positions representing 12 countries out of a total of 48 in the index. We have investments in only three out of 26 countries in the emerging markets, further demonstrating our selectivity.
- The current market conditions are favorable to active stockpickers.

At Davis Advisors, we seek to purchase durable, growing businesses at value prices and hold them for the long term. Since our firm's inception more than 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 Davis Advisors, the Davis family and Foundation, our employees, and Fund directors have invested in similarly managed accounts and strategies remains a true sign of our commitment to and conviction in this enduring philosophy.[2] ■

2. As of 6/30/19.

Davis ADVISORS

Davis International ADR SMA Portfolio

June 30, 2019

Davis International is a portfolio 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.

Unique Attributes of Davis International SMA

- **Equity-Focused Research Firm:** Established in 1969, Davis is a leading specialist in equity investing. 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 Portfolio 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 One of the Largest Investors:** We have a unique commitment to stewardship, generating attractive long-term results and managing risks.
- **Experienced Management:** Danton Goei, 21 years with Davis Advisors

Undervalued, Attractive Growth, Selective[1]

		Portfolio	Index
Undervalued	P/E (Forward)	7.1x	13.2x
Attractive Growth	EPS Growth (5 Year)	21.4%	11.2%
Selective	Holdings	24	2,205
	Total Countries	12	48

Geographically Diverse Portfolio

Asia	48.1%
Europe	33.3
North & Central America	10.8
Africa	7.8

Top 10 Countries

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

Sectors

Sectors	Portfolio	Index
Consumer Discretionary	31.7%	11.3%
Financials	30.6	21.8
Industrials	21.3	12.0
Energy	6.7	7.1
Information Technology	5.9	8.5
Communication Services	3.8	6.9
Consumer Staples	0.0	9.8
Health Care	0.0	8.3
Materials	0.0	7.6
Real Estate	0.0	3.3
Utilities	0.0	3.4

Attractive International Businesses (Top 10 Holdings)

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

JD.com (China): One of the largest e-commerce businesses in mainland China offering consumer electronics and appliances

Naspers (South Africa): Media conglomerate that holds interests in a range of e-commerce businesses around the world, including Tencent

New Oriental Education & Technology (China): Largest provider of private education services

Schneider Electric SE (France): Global specialist in energy management

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

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

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

DNB ASA (Norway): Largest financial institution and oldest private bank in Norway. Digital leadership and economies of scale are leading drivers of strong and durable moat.

Julius Baer Group Ltd. (Switzerland): A premier private bank serving ultrahigh net worth clients

Performance

Performance	YTD[3]	1 Year	3 Year	Inception 10/1/14
International Equity SMA Composite (gross)	16.80%	−12.11%	11.51%	5.45%
International Equity SMA Composite (with a 3% max. wrap fee)	15.09	−14.74	8.24	2.34
MSCI ACWI ex US Index	13.60	1.29	9.39	3.45

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. 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. **2.** As of 6/30/19. **Past performance is not a guarantee of future results. 3.** Returns for periods less than one year are not annualized.

Davis International ADR SMA Portfolio Holdings

June 30, 2019

Ticker	Security Description	Percent
BABA	Alibaba Group Holding	7.0%
JD	JD.com	7.0
NPSNY	Naspers	7.0
EDU	New Oriental Education & Technology	7.0
SBGSY	Schneider Electric SE	7.0
FERGY	Ferguson PLC	6.6
DBSDY	DBS Group Holdings	6.4
HOLI	Hollysys Automation Technology	5.6
DNHBY	DNB	5.0
JBAXY	Julius Baer Group	4.4
NTB	Bank of N.T. Butterfield & Son	3.9
DNKEY	Danske Bank A/S	3.5
SAFRY	Safran SA	3.5
SVRGF	Seven Generations Energy	3.2
ECA	Encana	3.1
IQ	IQIYI	2.1
AAGIY	AIA Group	2.0
CTRP	Ctrip.com International	2.0
NOAH	Noah Holdings	2.0
YRD	Yirendai	1.7
BNTGY	Brenntag AG	1.5
CIH	China Index HDS	1.5
BIDU	Baidu	1.1
MCHOY	MultiChoice Group	0.4
TOTAL		**100.0%**

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.

Dwight C. Blazin joined Davis Advisors in 1995. He was previously a consultant for IT Consulting and Systems Design. 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.

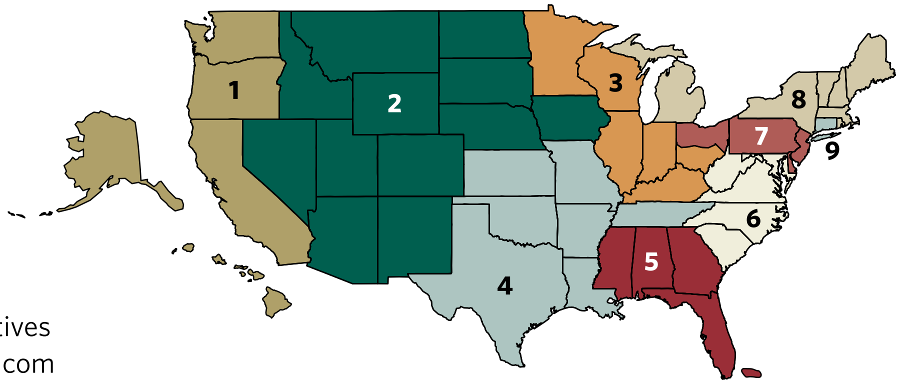
Edward Yen joined Davis Advisors in 2013. Previously, he worked at Dodge & Cox and Lehman Brothers. Mr. Yen received his B.S. from the University of California, Berkeley and his M.B.A. from Stanford University.

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.

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.

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.

Contacts



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

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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," "feel," 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 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 depositary 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, 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.

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). **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 Portfolio.

The attractive growth reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.

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.

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