Davis All-Cap SMA Portfolio

Summer Update 2024

Davis Advisors

The Equity Specialists

Portfolio Commentary

Key Takeaways

- Despite slowing momentum, the U.S. economy can be seen as a glass that is half full rather than half empty, with strong employment powering personal consumption, the main driver of gross domestic product (GDP).
- The extreme size disparities between the largest companies in the S&P 1500 Index and the rest have produced valuation and concentration risk not seen since the 1990s. Active management offers ways to plot a different course from the benchmark.
- Demonstrating our investment discipline, Davis All-Cap SMA portfolio is focused on a small number of positions with an overall earnings growth rate comparable to the S&P 1500 but at a valuation substantially below that of the index.

Market Perspectives:
Structural Distortions

This year the U.S. economy has expanded at a slow pace with GDP increasing by an annual rate of 1.4% in the first quarter. U.S. stocks meanwhile continued their advance and the S&P 1500 Index returned 14.35% in the first half of 2024.

Despite the slowdown in economic momentum, we would still characterize today's economy as a glass that is half full rather than half empty. The jobs market is all-important in this regard because it underpins and powers roughly 70% of our GDP in the form of consumption. We have come a long way since the post-crisis high in unemployment which touched 10% in 2010 and is now 4%, a level that is indicative of a relatively tight jobs market. Inflation remains stubborn but has eased considerably in each of the last two years, falling from a high of 9.8% in 2021 to 3.3% as of May this year.

We believe that the S&P 500 today at its current level is vulnerable to bad news, whether it comes in the form of disappointing earnings from certain market darlings at some point or from other factors that could subject the index to multiple contraction.

One path forward in our opinion is to use truly active management. With the freedom and flexibility to own companies at more reasonable valuations and to weight them in a different manner than unmanaged indexes, we believe an actively managed portfolio may hold an advantage over the S&P 1500 portfolio as it is currently structured.

The S&P 1500's valuation today is 22.3 times earnings, which may not be excessive per se, but nor is it cheap. Hence despite the fact that the S&P 1500 is often viewed as a broad proxy for U.S. stocks, it is narrower than usual given the size disparities between the largest companies and the rest of the index. The very largest companies now surpass $3 trillion in total market capitalization, and dwarf the average or median market cap of the index as a whole. In short, the size-based rules of the index's constitution have created vast distortions which introduces a degree of valuation and concentration risk that we have not witnessed since the height of the technology and telecom bubble of the late 1990s.

There is no need to own a market index exclusively. Active management, if approached truly independently from index constitution and structure, may offer ways to plot a different course from the benchmark. In our view, investors should exercise thoughtfulness and prudence in terms of what holdings they select and how an overall portfolio is shaped and structured. ■

Portfolio Review: Investing on the Merits

Davis All-Cap SMA portfolio reflects a very deliberate, research-driven and selective investment process that we have practiced since our founding in 1969.

The following statistics highlight the differences between our actively managed portfolio and the S&P 1500:

Selective, Attractive Growth, Undervalued[1]

	Portfolio	Index
Holdings	31	1,506
EPS Growth (5 Year)	15.7%	17.1%
P/E (Forward)	13.0x	22.3x

Presently, Davis All-Cap SMA portfolio is allocated such that its largest sectors (in descending order) are healthcare, financials, technology-related businesses, and industrials.

Healthcare: Underpriced Potential

Healthcare is a meaningful allocation in the portfolio. In this sector, we hold an independent laboratory and diagnostics service provider, managed care insurers, and a manufacturer of generic pharmaceuticals. Recently, we also purchased Solventum, a spin-off from 3M that specializes in healthcare supplies primarily.

The opportunity to own such businesses at what we deem attractive prices is based on our expectation that near-term headwinds suppressing growth in their top- and bottom-line results may abate in the foreseeable future. Meanwhile, market pricing seems to suggest a permanence to what have been tepid earnings and compressed margins in recent periods. We are taking the long view and believe the market is underpricing their multiyear potential.

Financials: Diversified Earnings Power

Within financials, our largest position is a conglomerate—what we refer to as a "non-financial financial." It is effectively a hybrid between financial services business lines and other, non-financial businesses. The company's economic interests include railroads, utilities, retail, chartered jets and others, in addition to property casualty insurance and reinsurance. All of those business activities reside under the same corporate umbrella and produce combined annual net income of more than $96 billion today on a $1 trillion market cap. It is fairly rare to see a business model that effectively combines under one roof the cash flows produced from so many different industry sources. One could make the argument that this company's earnings may be "internally diversified" to a larger extent than a pure-play, monoline business.

Among more traditional financials, we hold one of the largest lenders in the U.S., Wells Fargo, which has more than $1 trillion in total assets. We have been extremely discerning and selective within this sector and, as such, avoided the banks that failed in the recent regional bank crisis. Our decision to steer clear of those institutions stemmed from their apparent mismatches in assets and liabilities which we regard as a risk for any lender beyond certain reasonable limits.

1. Five-year EPS Growth Rate (5-year EPS) is the average annualized earnings per share growth for a company over the past 5 years. The values shown are the weighted average of the 5-year EPS of the stocks in the Portfolio or Index. Approximately 4.20% of the assets of the Portfolio are not accounted for in the calculation of 5-year EPS as relevant information on certain companies is not available to the Advisors' data provider. Forward Price/Earnings (Forward P/E) Ratio is a stock's price at the date indicated divided by the company's forecasted earnings for the following 12 months based on estimates provided by the Fund's data provider. These values for both the Fund and the Index are the weighted average of the stocks in the portfolio or Index. As of 6/30/24, Davis Advisors, the Davis family and Foundation, and our employees have more than $2 billion invested alongside clients in similarly managed accounts and strategies.

Lastly, we hold a consumer finance leader with a strong market position in credit cards, in particular.

Overall, the financials we hold today are among our best and highest-conviction ideas in a sector that for a long time has offered appealing business choices trading at very attractive prices in general.

Technology: Growing Ecosystems

Our technology-related investments rather surgically target companies in very large, still fast-growing ecosystems, including e-commerce, cloud computing, social media, online search and the semiconductor complex. To the extent possible, given our valuation parameters and constraints, we have sought to own leaders in their respective fields but at what we believe represent justifiable valuations. In instances where we cannot justify the valuations of certain market darlings, those have been omitted from our portfolio. Amazon.com, a dominant leader in e-commerce both at home and abroad, is the type of business we favor. In our estimation, the company has strong, clear-minded management, rather unique competitive advantages and powerful financial features. It is one of the more expensive holdings in the portfolio but on an adjusted basis still trades at a reasonable multiple of owner earnings, according to our models.

Industrials: Compounding Machines

Within the industrials segment of the portfolio we hold businesses that specialize in industrial automation, agricultural machinery and soil testing, and biofuel products, among others. Darling Ingredients, which essentially repurposes bio waste into fuel, is representative of the industrial businesses we favor.

These are mundane but highly durable businesses, in our estimation, that may be unexciting to describe but are nonetheless very exciting investment ideas for our team given their wide moats and collective earnings power.

Recently, we sold our position in Ferguson plc to allocate more capital to other investment opportunities we have identified.

Other investments in the portfolio include businesses engaged primarily in copper production (Teck Resources), gaming and energy, among other industries. ■

Outlook: Valuation Discipline

The stock market is in fact a large market of many individual stocks. Our goal is to build wealth for our investors and ideally to add value above and beyond market indexes over the long term. As such, we are utilizing our in-house research insights and flexibility to construct a portfolio that in our minds has a more favorable profile than the S&P 1500 based on selectivity, valuation discipline and demonstrated earnings growth.

In conclusion, as stewards of our clients' savings our most important job is growing the value of the funds entrusted to us. With more than $2 billion of our own money invested alongside that of our clients, we are on this journey together.[2] This alignment with our clients is uncommon in our industry; our conviction in our portfolio of carefully selected companies is more than just words. ■

2. As of 6/30/24, Davis Advisors, the Davis family and Foundation, and our employees have more than $2 billion invested alongside clients in similarly managed accounts and strategies.

Davis All-Cap SMA Portfolio

Selective. Attractive Growth. Undervalued.

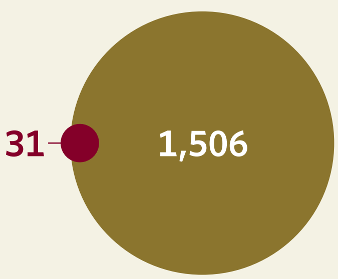
“What gives us confidence that Davis All-Cap SMA may build wealth for our shareholders in the years and decades to come? The compelling attributes of our businesses.

By being highly selective and rejecting the vast majority of companies in the index, the companies of Davis All-Cap SMA Portfolio have solid earnings, yet are 42% less expensive. In fact, this gap between price and value is among the widest we have ever seen. We believe this sets the stage for attractive returns in the years ahead.”

Selective

All-Cap SMA invests in only a select group of well-researched companies

Holdings

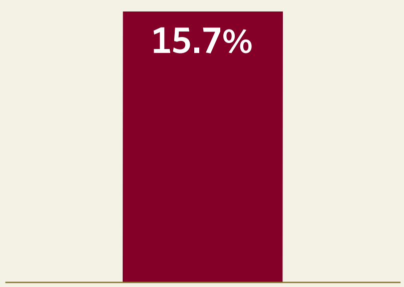


■ All-Cap SMA ■ S&P 1500 Index

Attractive Growth

All-Cap SMA portfolio companies have solid earnings

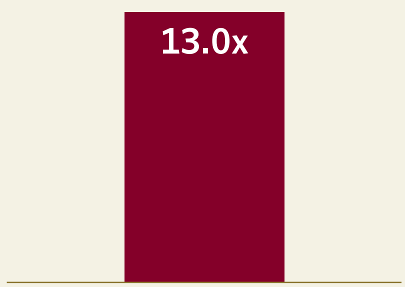
EPS Growth (5 Year)[1]



Undervalued

All-Cap SMA portfolio companies are 42% less expensive than the index

P/E (Forward)[2]



As of 6/30/24. The Attractive Growth and Undervalued reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the Portfolio’s performance will be positive as equity markets are volatile and an investor may lose money. **Past performance is not a guarantee of future returns.** Performance may vary. **1.** Five-year EPS Growth Rate (5-year EPS) is the average annualized earnings per share growth for a company over the past 5 years. The values shown are the weighted average of the 5-year EPS of the stocks in the Portfolio or Index. The 5-year EPS of the S&P 1500 Index is 17.1%. Approximately 4.20% of the assets of the Portfolio are not accounted for in the calculation of 5-year EPS as relevant information on certain companies is not available to the Advisor’s data provider. **2.** Forward Price/Earnings (Forward P/E) Ratio is a stock’s current price divided by the company’s forecasted earnings for the following 12 months. The values for the portfolio and index are the weighted average of the P/E ratios of the stocks in the portfolio or index. The Forward P/E of the index is 22.3x.

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Davis All-Cap SMA Portfolio Holdings

June 30, 2024

High Conviction. Different from the Index.

Holding	Portfolio (%)	S&P 1500 Index (%)
Quest Diagnostics	6.4%	0.0%
Capital One Financial	6.3	0.1
Teck Resources	5.7	0.0
Viatris	5.6	0.0
Wells Fargo	5.6	0.4
Applied Materials	5.2	0.4
Cigna Group	5.2	0.2
Meta Platforms	5.1	2.2
Humana	5.0	0.1
Owens Corning	4.7	0.0
Markel Group	3.9	—
UnitedHealth Group	3.8	0.9
U.S. Bancorp	3.6	0.1
Berkshire Hathaway	3.3	1.5
Amazon.com	3.0	3.6
Wesco International	3.0	0.0
Solventum	2.8	0.0
Johnson Controls International	2.5	0.1
Darling Ingredients	1.9	0.0
CVS Health	1.8	0.2
Intel	1.8	0.3
Texas Instruments	1.8	0.4
Alphabet	1.7	4.0
SAP	1.3	0.0
AGCO	1.2	0.0
Microsoft	1.2	6.7
Masterbrand	1.1	0.0
Oracle	1.1	0.5
Tyson Foods	1.1	0.0
IAC	0.8	0.0
Clear Secure	0.3	—
CASH	2.2	—
	100.0%	

The securities listed on the left 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 securities listed for the S&P 1500 Index are not representative of the entire portfolio, which consists of 1,506 securities. 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.

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Davis All-Cap SMA Portfolio

June 30, 2024

Davis All-Cap SMA is a portfolio of small, medium and large companies 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.[1]

Unique Attributes of Davis All-Cap SMA Portfolio

- **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.
- **Portfolio of Best of Breed Businesses:** 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:** The portfolio can opportunistically invest across all market caps, sectors and industries. We believe in a bottom-up stock selection process and in not mirroring the benchmark index. Active Share = 87%.
- **We Are One of the Largest Investors:** We have a unique commitment to stewardship, generating attractive long-term results and managing risks.

Undervalued. Attractive Growth. Selective.[2]		Portfolio
Undervalued	P/E (Forward)	13.0x
Attractive Growth	EPS Growth (5 Year)	15.7%
Selective	Holdings	31

Experienced Management

The research team has an average of 25 years investment experience.

Top 10 Holdings[3]	Portfolio	Index
Quest Diagnostics	6.4%	0.0%
Capital One Financial	6.3	0.1
Teck Resources	5.7	0.0
Viatris	5.6	0.0
Wells Fargo	5.6	0.4
Applied Materials	5.2	0.4
Cigna Group	5.2	0.2
Meta Platforms	5.1	2.2
Humana	5.0	0.1
Owens Corning	4.7	0.0

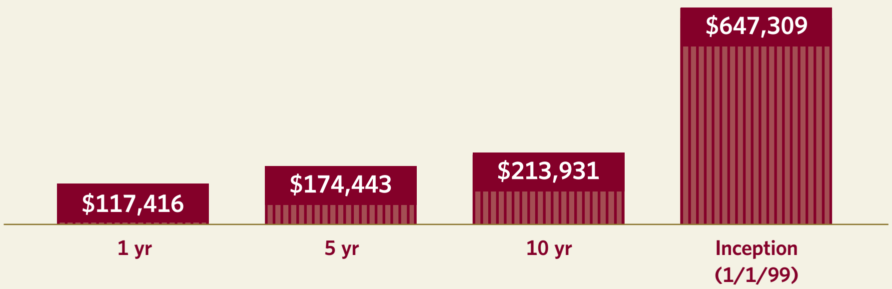
Market Capitalization

Large Cap	70.4%
Mid Cap	25.4
Small Cap	4.2

Sectors[4]	Portfolio	Index
Health Care	31.2%	11.6%
Financials	23.2	12.8
Information Technology	13.0	30.6
Industrials	12.8	9.1
Communication Services	7.8	8.8
Materials	5.8	2.5
Consumer Discretionary	3.1	10.3
Consumer Staples	3.1	5.7
Energy	—	3.8
Real Estate	—	2.5
Utilities	—	2.3

Wealth Over the Long Term[5]

$100,000 Hypothetical Investment



Net average annual total returns as of June 30, 2024 for Davis Multi-Cap Equity SMA Composite with a 3% maximum wrap fee: 1 year, 17.42%; 5 years, 11.77%; 10 years, 7.9%. The performance presented represents past performance and is not a guarantee of future results. *Total return assumes reinvestment of dividends. Investment return and principal value will vary so that an investor may lose money. For current, quarterly returns, please ask your financial advisor to contact Davis Advisors. Current performance may be higher or lower.* The investment strategies described herein are those of Davis Advisors. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor. **1.** As of 6/30/24. This includes Davis Advisors, the Davis family and Foundation, and our employees. **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. **Past performance is not a guarantee of future returns.** Five-year EPS Growth Rate (5-year EPS) is the average annualized earnings per share growth for a company over the past 5 years. The values shown are the weighted average of the 5-year EPS of the stocks in the portfolio or index. Approximately 4.20% of the assets of the Portfolio are not accounted for in the calculation of 5-year EPS as relevant information on certain companies is not available to the data provider. Forward Price/Earnings (Forward P/E) Ratio is a stock's price at the date indicated divided by the company's forecasted earnings for the following 12 months based on estimates provided by the data provider. These values for both the portfolio and the index are the weighted average of the stocks in the portfolio or index. **3.** For information purposes only. Not a recommendation to buy or sell any security. **4.** Sources: Davis Advisors and Wilshire Atlas. **5.** Net of fees. As of 6/30/24.

Investment Professionals

Christopher C. Davis joined Davis Advisors in 1989. He has 36 years experience in investment management and securities research. Mr. Davis received his M.A. from the University of St. Andrews in Scotland.

Danton G. Goei joined Davis Advisors in 1998. 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, CFA joined Davis Advisors in 2008. Previously, he worked as a research analyst at Davidson Kempner Capital Management and in mergers and acquisitions at RBC Capital Markets. Mr. Crosbie received his B.A. from McGill University, 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.

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.

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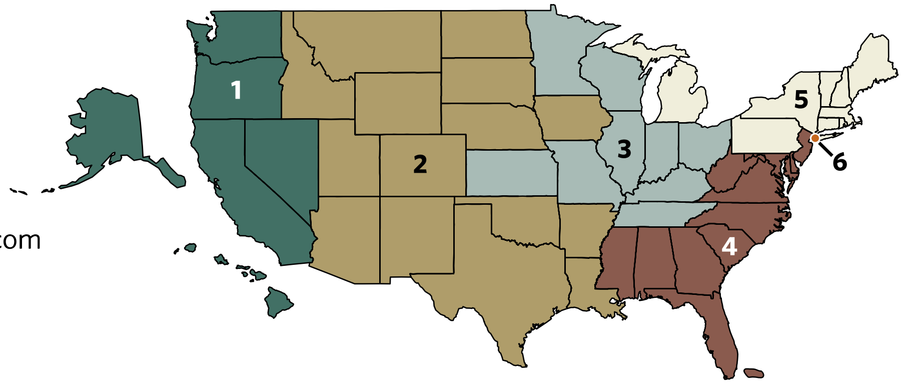

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This material may be shared with existing and potential clients to provide information concerning market conditions and the investment strategies and techniques used by Davis Advisors to manage its client accounts. Please refer to Davis Advisors Form 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 investment strategies described herein are those of Davis Advisors. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.

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 material. 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 material, 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 material discusses companies in conformance with Rule 206(4)-1 of the Investment Advisers Act of 1940 and guidance published thereunder. Six companies are discussed and are chosen as follows: (1-4) current holdings based on December 31 holdings; (5) the first new position; and (6) the first position that is completely closed out. Starting at the beginning of the year, the holdings from a Multi-Cap Equity 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, 6, 11, and 16 are selected and discussed. For the second quarter, holdings numbered 2, 7, 12, and 17 are selected and discussed. This pattern then repeats itself for the following quarters. If a holding is no longer in the portfolio then the next holding listed is discussed. No more than two of these holdings can come from the same sector per piece. None of these holdings can be discussed if they were discussed in the previous three quarters. If there were no purchases or sales, the purchases and sales are omitted from the material. If there were multiple purchases and/or sales, the purchase and sale discussed shall be the earliest to occur. Other than the recent buy and sell, any company discussed must constitute at least 1% of the portfolio as of December 31.

The information provided in this material 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 material 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 from $1 billion to $6.7 billion. Mid cap companies have market capitalizations from $6.7 billion to $18 billion. Large cap companies have market capitalizations greater than $18 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 ranges reflected for large, mid, and small cap in this document reflect the current ranges utilized by the S&P Composite 1500 Market Cap Guidelines, as may be amended from time to time. The current ranges are reflected here: https://press.spglobal.com/2024-04-01-S-P-Dow-Jones-Indices-Announces-Update-to-S-P-Composite-1500-Market-Cap-Guidelines.

We gather our index data from a combination of reputable sources, including, but not limited to, Lipper, Wilshire, and index websites.

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. Investments cannot be made directly in an index.

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Item #3838 6/24