Davis All-Cap SMA Portfolio

Fall Update 2023

Commentary

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50 YEARS DAVIS ADVISORS

Davis Advisors

The Equity Specialists

Portfolio Commentary

Key Takeaways

- The S&P 1500 Index gained 12.24% in the first nine months of the year despite the many challenges facing investors, including war, inflation and high interest rates.
- Elevated interest rates make bonds look attractive, superficially, but we note that many stocks have earnings yields in the 7–10% range. This compelling combination of value and growth characteristics is where we are now focusing our attention.
- We believe the current equity market favors active investing. Through bottom-up selection, we can today buy companies at value prices without having to sacrifice future growth, or paying too much for it.

Market Perspectives:
Separating Wheat from Chaff

The S&P 1500 Index returned 12.24% year-to-date through September 30, 2023, a level about halfway between the performances of value and growth equities. This progress occurred in spite of a regional banking crisis, two major wars, persistent inflation and relatively high interest rates, among other concerns making up this year's "wall of worry."

At these levels, the market's price-to-earnings (P/E) multiple is close to 20 times forward estimates. It is not excessive per se, but leaves less margin of safety for those investing in the benchmark today. It is worth pointing out that most of the securities in the stock market are not trading at such elevated levels. Rather, the index's high multiple reflects a distortion that is happening in the narrowly led market average. A small group of extraordinarily large companies with very high valuations have grown to outsized positions in the index, and their excessive multiples are being amplified.

This should not be interpreted as a call to abandon or avoid equities. In our view, it is an impetus to disaggregate the market into pockets of compelling value and focus on those areas rather than on the group of very high multiple stocks. In order to access individual situations, we believe it is better to utilize *active management* over passive management. We favor bottom-up stock selection as a method for separating the wheat from the chaff in the current environment.

The risk-free rate is now slightly above 5%. With interest rates at current levels, some investors see bonds as the better option. It is a false choice, in our mind. Many stocks have earnings yields—the inversion of the P/E multiple—on the order of 7–10% (i.e., 10 to 14 times earnings, roughly), well above the risk-free rate. We consider this combination of attractive value and growth characteristics to be more compelling than the S&P 1500 Index as a whole, and it is where we are focusing most of our research and investing. ■

Portfolio Review:
Key Themes and Exceptional Businesses

The appeal of our All-Cap SMA portfolio is visible in the following table. It shows the number of holdings, five-year trailing earnings per share (EPS) growth rate, and forward P/E multiple for the portfolio as a whole. The numbers illustrate that by selectively investing in growing but undervalued securities, investors can indeed strike a more rational and attractive alternative to the unmanaged indexes.

Selective, Attractive Growth, Undervalued[1]

	Portfolio	Index
Holdings	31	1,508
EPS Growth (5 Year)	14.4%	13.6%
P/E (Forward)	11.6x	19.7x

Our portfolio is built bottom-up, company by company. There are also thematic elements at work in our overall positioning.

Currently, our primary portfolio themes are: 1) healthcare segments now out of favor but attractive on a longer term basis, 2) leaders across multiple global areas of technology, and 3) high-grade financials.

Healthcare Services and Generics

We have been investors in the healthcare sector for decades. Currently, our interest lies in the manufacturing of generic pharmaceuticals and in healthcare services. Among our pharmaceuticals holdings, we own shares in the largest player in generics worldwide. This position reflects our long-term view insofar as generics' market penetration—as a percentage of total pharmaceuticals' value—now exceeds 80%. In healthcare services, we own managed care insurers, such as UnitedHealth, and independent lab and diagnostics businesses. After 2022, during which our healthcare holdings contributed to performance in relative terms, this year they have been out of favor. We are very comfortable with our healthcare companies' business models and competitive positions. Their current valuations do not properly reflect their attractive margins, raw earnings power and strong growth potential.

These businesses have in common the potential to succeed by delivering value to the U.S. healthcare system by driving efficiencies and cost savings, which is sorely needed. Healthcare spend in the U.S. is roughly 20% of gross domestic product, about double that of other developed countries. The aging of our population and healthcare price inflation create enormous fiscal pressure. It could make companies with very outsized margins, such as branded pharmaceuticals, vulnerable to explicit or de facto price controls by the U.S. government.

Technology Leaders

The second largest theme in the portfolio is technology. Most notably, we hold technology businesses that dominate multi-decade growth industries such as e-commerce, social media, online search, cloud computing and semiconductors.

These holdings tend to be businesses with very high returns on capital along with operating leverage, brand strength, and scale advantages over their competitors. There are some that have very high operating margins (e.g., social media, online search, cloud computing) and others that have seemingly low margins (e.g., e-commerce) but very high reinvestment rates, which is a key driver of earnings growth.

Semiconductor companies used to be very cyclical, but we believe they are evolving towards becoming growth cyclicals, expanding over time albeit along with the ebbs and flows in industry trends. Today, we are seeing massive growth as a result of the electrification of vehicles, a technology-driven transformation of industrial processes in the form of the internet of things (IoT), and ever-increasing processing and memory demands for everything

1. The Attractive Growth and Undervalued reference in this material 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.** 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 5.50% 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 Advisor's data provider. These values for both the Portfolio and the Index are the weighted average of the stocks in the Portfolio or Index.

from personal computers to data centers, consumer electronics and communications. Companies like Applied Materials, a leading global manufacturer of semiconductor manufacturing equipment, appear well-positioned, in our view, to capitalize on several of these burgeoning areas. This is in contrast to the mid-1990s when the semiconductor industry benefited predominantly from personal computers, servers and cell phones. In total, these would constitute a small fraction of the global revenue opportunity facing the semiconductor industry today.

It is worth noting that our technology holdings include some of the Magnificent Seven (seven of the largest companies by market capitalization). The distinction between those we own and those we do not comes down to valuation. We believe the P/E multiples of certain stocks in the Magnificent Seven this year may exceed 40x or 50x. Our holdings have valuations of roughly half that level or less (with reasonable adjustments in our models). It is our opinion that our technology businesses are trading at reasonable valuations for such attractive, unique and dominant businesses.

Financials

On the whole, our financial holdings lagged the broader market during the third quarter but held up remarkably well against many other financial businesses that one could theoretically own. This is consistent with our view that selectivity is key in this vast sector.

Among our positions are those from a universe of financial/industrial conglomerates that index providers classify as financials based on a portion of their products and services being property casualty insurance and reinsurance, but which are in fact multi-industry conglomerates. They are earnings machines with insurance and reinsurance being just two areas among many other wide-ranging and unrelated business lines. We are pleased that these diversified entities are among our core holdings.

The multi-industry conglomerates we own can by their nature be economically sensitive and therefore somewhat cyclical in the short run, but over meaningful cycles they have proven records of growing shareholder value at very competitive rates. In addition to their productivity and profitability, our conglomerates also have durability, competitive strengths, world-class in-house investors responsible for reinvesting capital, and managements that are among the most seasoned in the world.

The next group of financials we own is a handful of strategically important mega banks. Year-to-date these investments have performed in a range from modestly negative to modestly positive in percentage terms. While these banks lagged the rest of the portfolio, they held up relatively well compared to alternatives such as regional banks, which were down more than −25% in the same period. We believe our bank holdings have strong capital positions and massive earnings power which puts them in a good position to manage through a wide range of economic scenarios. In our view, they represent excellent value at their current low multiples of book value.

The last noteworthy area of our financials exposure is a select, best-in-class consumer finance company (primarily credit cards as well as banking services). Capital One Financial is among the most profitable yet cheapest securities we currently own. This reflects a common perception that it is too risky to contemplate in a slowing economy. However, in our view, the company has proven time and again its ability to price effectively through cycles in a rational, disciplined way while tightly managing underwriting risk. It is widely known that the credit card business can be one of the most profitable during growth periods. What is less well understood is that it can be a very attractive and profitable business even in tougher economic times. In our experience, the factors that separate best-in-class consumer finance companies from their peers include veteran management, full-cycle discipline, robust systems and controls, and strong underwriting cultures.

Other Investments

In addition to these themes we have a number of holdings that are nearly one-of-a-kind investments.

They include a copper miner based in Canada with a strong production asset in Chile, a company that specializes in roofing and insulation systems as well as glass composites for industrial markets, and a company that effectively converts waste to biofuel among other repurposing processes.

During the third quarter we did not make any purchases of note but we sold our position in Vimeo to free up capital for other near-term opportunities.

We apply the same financial lens to all of our businesses but, as illustrated throughout this discussion, we also recognize the nuances and subtle particularities that each business type requires in any thorough analysis. There have been many market challenges this year, but one silver lining is that good businesses have been discounted alongside other companies due to what we believe are surmountable short-term headwinds. This creates bargains. Through bottom-up investing, we can today purchase a meaningful number of companies trading at value prices without having to sacrifice, or pay much for, the growth that we expect to be robust in the years to come. ■

Outlook:
The Key to Differentiated Results

The stock market has proven this year that it is indeed a market of individual stocks. The enormously wide performance distribution among averages, styles and investment strategies illustrates this fact. The year has also tested the resilience of both the markets and the economy. Thus far, both are managing to defy the worst-case scenarios that have been circulating for several years.

It is not a given that we will head into a near-term recession. Even if a contraction occurs, there are current opportunities to deploy capital in value-rich, fairly low-multiple businesses that may create value for shareholders over the coming decade. This is an attractive setup for long-term stock investors.

Lastly, we believe that active managers who have the flexibility and mindset to depart from index composition and weightings will be the key to producing differentiated results over the coming years.

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. While we do not welcome the pessimism that has characterized markets recently, we are prepared for it, and importantly, we are well-positioned for the future. ■

2. As of 6/30/23, 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.

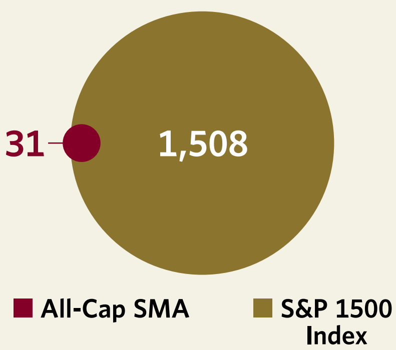
What gives us confidence that Davis All-Cap SMA may build wealth for our shareholders in the years and decades to come? The compelling attributes of our businesses.

By being highly selective and rejecting the vast majority of companies in the index, the companies of Davis All-Cap SMA Portfolio have grown more than the companies in the index, yet are 41% 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

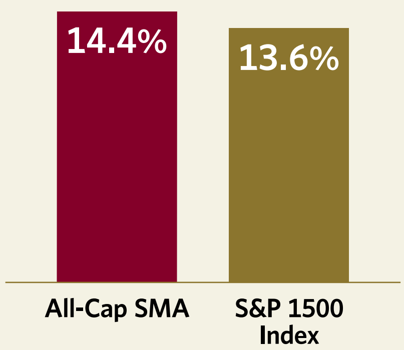
Holdings



Attractive Growth

All-Cap SMA portfolio companies have grown more than the index

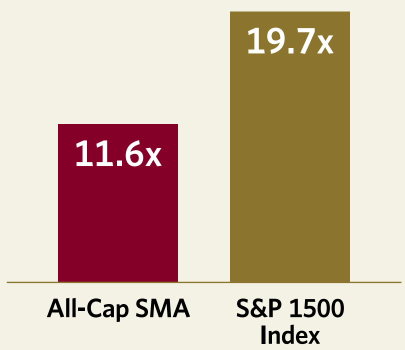
EPS Growth (5 Year)[1]



Undervalued

All-Cap SMA portfolio companies are 41% less expensive than the index

P/E (Forward)[2]



As of 9/30/23. 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. Approximately 5.50% 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.

Davis ADVISORS

Davis All-Cap SMA Portfolio Holdings

September 30, 2023

High Conviction. Different from the Index.

Holding	Portfolio (%)	S&P 1500 Index (%)
Capital One Financial	6.5%	0.1%
Wells Fargo	6.2	0.4
Quest Diagnostics	5.8	0.0
Viatris	5.8	0.0
Owens Corning	5.1	0.0
Teck Resources	4.8	—
Cigna Group	4.7	0.2
Meta Platforms	4.7	1.7
UnitedHealth Group	4.2	1.2
Markel Group	3.9	—
Amazon.com	3.8	2.9
Applied Materials	3.8	0.3
U.S. Bancorp	3.6	0.1
Berkshire Hathaway	3.2	1.6
Ferguson	2.7	—
Eaton	2.4	0.2
Carrier Global	2.3	0.1
Darling Ingredients	2.3	0.0
Masterbrand	2.3	0.0
Intel	2.2	0.4
Johnson Controls International	2.2	0.1
Texas Instruments	1.7	0.4
Wesco International	1.7	0.0
Alphabet	1.6	3.7
Humana	1.6	0.2
Oracle	1.4	0.4
SAP	1.3	—
Microsoft	1.2	6.0
CVS Health	1.1	0.2
IAC	0.9	—
Clear Secure	0.5	—
CASH	4.5	—
	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 1,508 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.

Davis All-Cap SMA Portfolio

September 30, 2023

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	Index
Undervalued	P/E (Forward)	11.6x	19.7x
Attractive Growth	EPS Growth (5 Year)	14.4%	13.6%
Selective	Holdings	31	1,508

Experienced Management

The research team has an average of 24 years investment experience.

Top 10 Holdings[3]	Portfolio	Index
Capital One Financial	6.5%	0.1%
Wells Fargo	6.2	0.4
Quest Diagnostics	5.8	0.0
Viatris	5.8	0.0
Owens Corning	5.1	0.0
Teck Resources	4.8	—
Cigna Group	4.7	0.2
Meta Platforms	4.7	1.7
UnitedHealth Group	4.2	1.2
Markel Group	3.9	—

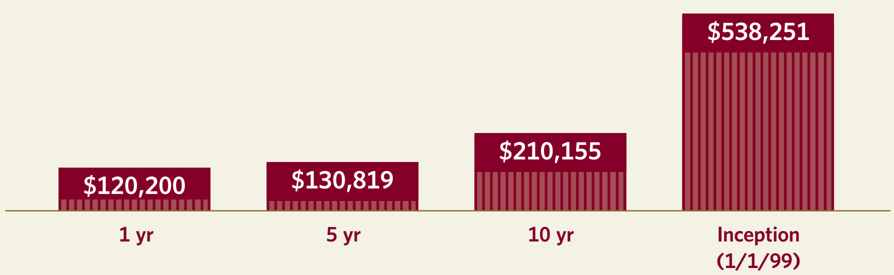
Market Capitalization

Large Cap	92.0%
Mid Cap	5.1
Small Cap	2.9

Sectors[4]	Portfolio	Index
Financials	24.5%	13.1%
Health Care	24.3	13.0
Industrials	19.6	9.4
Information Technology	12.7	25.9
Communication Services	7.5	8.3
Materials	5.0	2.8
Consumer Discretionary	4.0	11.0
Consumer Staples	2.4	6.4
Energy	—	4.8
Real Estate	—	2.8
Utilities	—	2.5

Wealth Over the Long Term[5]

$100,000 Hypothetical Investment



Net average annual total returns as of September 30, 2023 for Davis Multi-Cap Equity SMA Composite with a 3% maximum wrap fee: 1 year, 20.20%; 5 years, 5.52%; 10 years, 7.71%. 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 6/30/23. 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 5.50% 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 9/30/23.

Investment Professionals

Christopher C. Davis joined Davis Advisors in 1989. He has 35 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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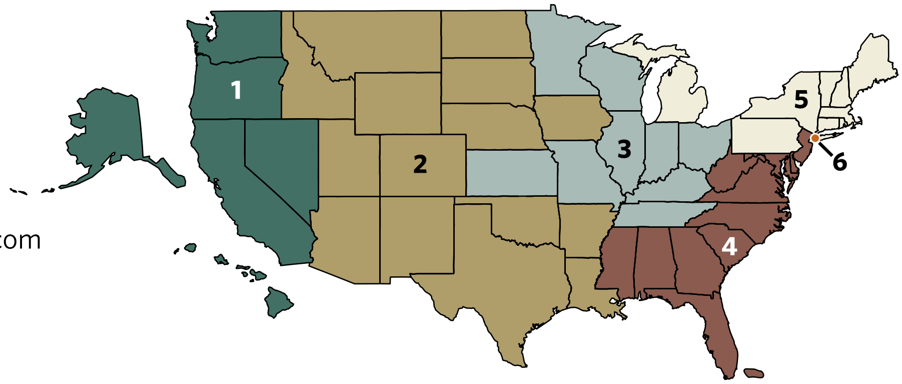

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This material may be shared with existing and potential clients to provide information concerning market conditions and the investment strategies and techniques used by Davis Advisors to manage its client accounts. Please refer to Davis Advisors Form 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.

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.

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 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.

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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