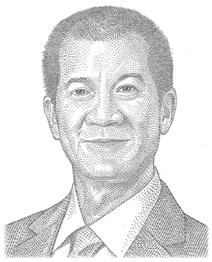


Update from Portfolio Managers

Chris Davis and Danton Goei

Davis Large Cap Value SMA

Annual Review 2025

Key Takeaways

- Davis Large Cap Value SMA portfolio (DLCV SMA) returned +16.91% in 2024. The portfolio has consistently grown wealth for shareholders since its inception in 1969.
- A decade of speculation and momentum fueled by high government spending, artificially low interest rates and speculative capital—the free-money era—is coming to an end.
- The current period of economic transition towards normalization, coupled with technological change and geopolitical uncertainty, creates an environment of unexpected volatility and disruption.
- Our portfolio is made up of companies with resilient growth, durable earnings power, significant free cash flow and some combination of long-lived assets, pricing power, competitive advantage, balance sheet strength, proven management and attractive valuation.
- We focus on businesses with long-term growth and low valuations instead of the high valuations and unprecedented concentration of the equity indices. This positions us to reward long-term shareholders who have resisted chasing the fads and fashions of the last decade.

Net Average Annual Total returns as of December 31, 2024, for Davis Large Cap Value SMA Composite with a 3% maximum wrap fee: 1 year, 13.49%; 3 years, 4.75%; 5 years, 8.36%; 10 years, 7.66%; 20 years, 5.66%; 30 years, 8.53%; 40 years, 10.55%; Inception, 10.73%. 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. Davis Advisors fee schedules are described in Part 2 of its Form ADV. The strategies herein may not be suitable or appropriate for all investors depending on their specific investment objectives and financial situation. Potential investors should consult with their financial professional before determining whether to invest in a strategy.*

This material 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. **Past performance is not a guarantee of future results.** Unless otherwise noted, all performance information is as of 12/31/24. 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 Davis Advisors 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.

Performance:
Building Long-Term Wealth

Davis Large Cap Value SMA portfolio (DLCV SMA) returned +16.91% in the year ended December 31, 2024, and has grown wealth for shareholders in all periods since its inception. The longer a shareholder has been invested in the portfolio, the more their savings have grown (see Figure 2). ■

Outlook:
Transition *and* Market Complacency *equals* Growing Risks *and* Select Opportunities

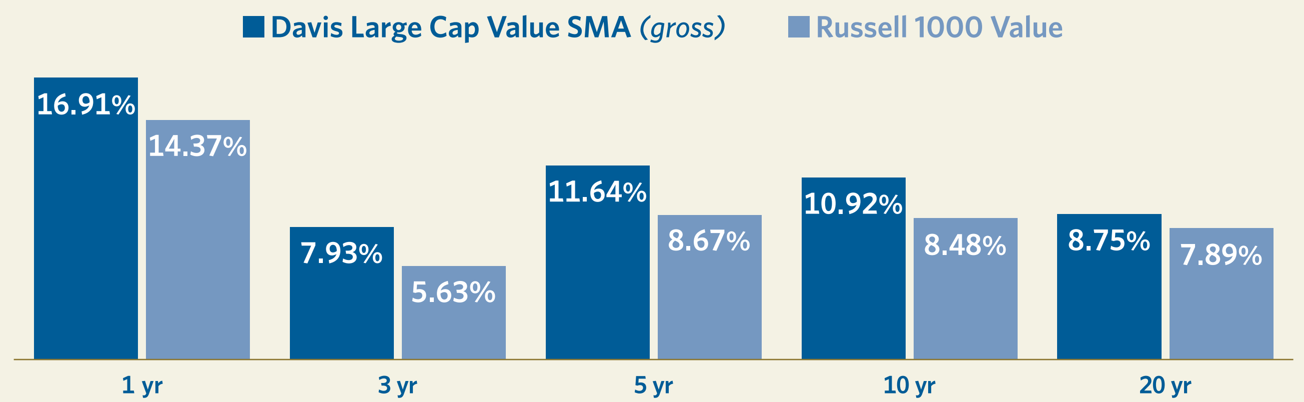
The economic, technological and geopolitical transitions under way paired with a complacent and concentrated market may lead to greater overall risk and a smaller opportunity set in the years ahead. In this changing environment, our investment discipline is laser-focused on identifying those select, durable and undervalued businesses prepared for transition.

As this fast-changing environment unfolds, our fundamental analysis and selectivity are starting to be rewarded while the aggressive risk-taking that rewarded speculators in recent years is becoming more perilous. We are well-positioned for this transition and, after a decade in which our discipline was not rewarded, believe our patience is beginning to pay off.

Economic Transition: The End of Free-Money Era

Beginning with the financial crisis and continuing through March 2022, many of the tenets of sound investing seemed to become irrelevant. In the U.S., interest rate suppression (both directly and indirectly through a bond purchase program known as quantitative easing) accompanied by dramatic increases in government spending and ballooning Federal deficits became a matter of national policy. This was first in response to the Great Financial Crisis of 2008–2009 (GFC) and then to the COVID-19 crisis in 2020–2021.

Fig. 1: **Attractive Average Returns**



Performance (%)	1 Year	3 Year	5 Year	10 Year	20 Year
Large Cap Value SMA *(gross)*	16.91	7.93	11.64	10.92	8.75
Large Cap Value SMA *(net 3%)*	13.49	4.75	8.36	7.66	5.66
Russell 1000 Value	14.37	5.63	8.67	8.48	7.89
S&P 500	25.02	8.93	14.51	13.09	10.35

Fig. 2: **DLCV SMA Builds Long-Term Wealth for Investors**

$100,000 Hypothetical Investment

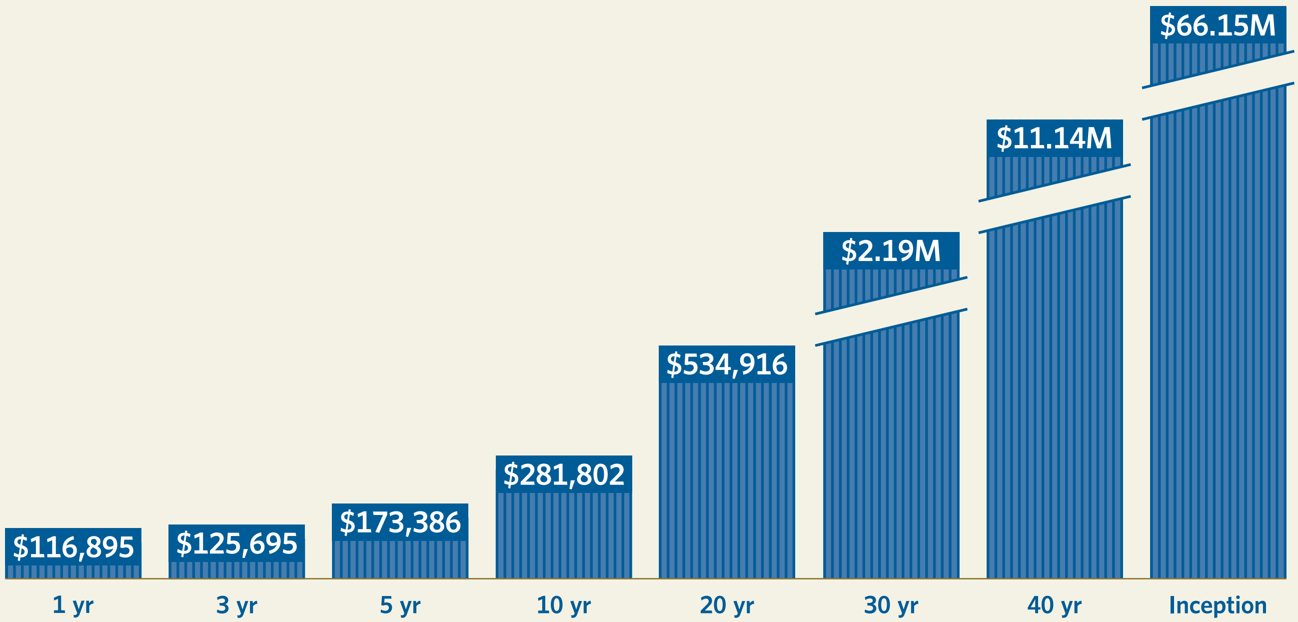
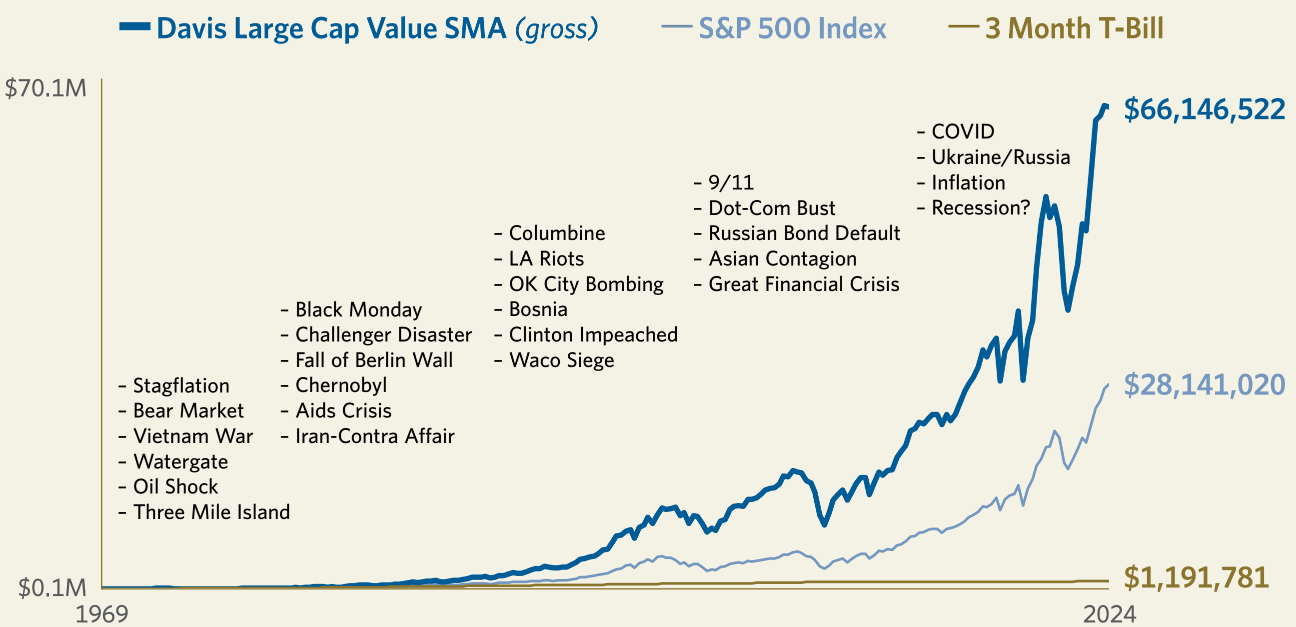


Fig. 3: **DLCV Has Outperformed the Market Since Inception**[1]

Hypothetical $100,000 Investment Since 1969



1. Source: Davis Advisors and Morningstar. Graph represents performance from 4/1/69 to 12/31/24. **Past performance is not a guarantee of future results.**

As the cost of money approached zero despite huge increases in money supply, these policies created significant market distortions. Assets were mispriced, risks ignored, inflation allowed to metastasize, and valuation discipline penalized. After more than a decade of these distortions, the shift to a more normal environment began in March 2022 when the U.S. Federal Reserve recognized the reality of inflation and announced the first of 11 consecutive increases in the Federal funds benchmark rate. This was the steepest rate of change in the Fed's history.

Given the sheer magnitude of the distortions created in the free-money era, the great unwinding that began in 2022 still has a long way to go. Investors should be prepared for unexpected disruptions and heightened volatility. Although the trigger may be unknowable, the high valuations of many of today's market darlings rest on extremely rosy assumptions which could change quickly should the market's current optimism be undercut by the unpleasant appearance of one or more so-called black swans, inevitable but unpredictable shocks to the system. As for the short term, we expect that recent interest rate cuts may prove to have been optimistic and that by far the greatest risks investors face today remain from inflation and speculation.

Technological Transition: AI and Its Implications

Technological disruption is also creating significant changes in the investment landscape as investors grapple with the implications of generative artificial intelligence, or so-called GenAI. While we are naturally skeptical of hype, we must begin by stating unequivocally that GenAI is likely to be one of the most transformational technological developments in modern history, and one that is almost certain to create new risks and drive major advances across numerous industries.

As long-term market observers, we are also equally certain that this revolutionary technology will lead to hyperbole, irrational exuberance[2] and unfulfilled promises. The stock market in particular is susceptible to wishful thinking and the fear of missing out (FOMO). FOMO leads investors to pile into companies making the most headline-grabbing claims about the future while turning their backs on those with proven businesses with demonstrated competitive advantages. In particular, we believe many companies are being viewed as, and rewarded as, early beneficiaries of AI demand with the expectation that their revenues and earnings will continue to grow rapidly in the future.

The market for AI products and services, however, is still in its early days and competition is fierce. We believe it is very risky to project who the long-term winners and losers will be based on their past one or two years of performance. For example, the substantial technological and societal transformations that the internet heralded in the 1990s culminated in the dot-com bubble and subsequent crash. As our friend Bill Nygren, portfolio manager at Oakmark Funds, recently reminded investors, "in 2000, amidst 'dot-com' hysteria, the largest cap Internet companies were Cisco, America Online and Yahoo!. AOL and Yahoo! ended up nearly worthless, and Cisco … has lost 80% relative to the S&P 500 Index. We think these results should give pause to anyone believing the AI winners have already been determined."[3]

AI is also likely to prove disruptive to once stable industries in ways that are difficult to anticipate. As one observer recently noted, "when the iPhone was invented, flashlight makers were not worried." Many companies that have long been considered reliable safe havens or growth darlings are vulnerable to disruption as technology changes business models and consumer behavior. This type of disruption is likely to penalize momentum investors and trend followers who, by definition, assume past trends will continue, as well as risk-averse value investors who may wrongly flock to former safe havens in the service and consumer sectors before realizing that they are as prone to AI disruption as manufacturers

2. Phrase coined by then Federal Reserve Board chair Alan Greenspan in 1996 during the dot-com era, and interpreted as a warning that the stock market might be overvalued. **3.** Oakmark Fund, "U.S. equity market commentary 2Q 2024," 6/30/24.

once were to globalization. Meanwhile, this disruptive environment may create real opportunities for research-driven investors like us who are willing to be highly selective.

Geopolitical Transition: Economic Nationalism and Global Uncertainty

Geopolitical disruption is the third transition shaping the investment environment as economic nationalism and protectionism replace free trade and globalization. The prospect of higher labor costs, trade wars and increasing global conflict makes characteristics like durability, resiliency and adaptability more important than ever. Our focus on selecting companies that embody these characteristics may well be a tailwind in the decade ahead as investors come to recognize increasing fragility in a period of economic, technological and geopolitical transition. ■

Complacency, Risk and Select Opportunities

Typically, in an investment environment characterized by transition and uncertainty, markets trade at low valuations. Today, however, this uncertainty has been met with a complacency bordering on denial. Fortunately, in the face of an extremely richly valued and concentrated market, we have put together a very selective portfolio of companies that combine attractive growth with low valuations, a combination we call a value investor's dream. As shown in Figure 4, our dramatic differentiation from the market allows us to be simultaneously wary of the S&P 500 Index, which is trading at multiples significantly above the historic average, and optimistic for our selective portfolio of companies which trades at almost a 40% discount to the S&P 500 Index while actually growing earnings slightly faster.

Fig. 4: **Selective, Attractive Growth, Undervalued**[4]

	Portfolio	Index
Holdings	26	503
EPS Growth (5 Year)	21.4%	17.7%
P/E (Forward)	14.1x	24.9x

Before turning to the details of our portfolio, however, it is worth unpacking the complacency and risk we see in the high valuation and concentration of the indices at today's levels. Several metrics give a good picture of the risks we see in the averages and the opportunity these risks create for our portfolio.

Record High Valuations

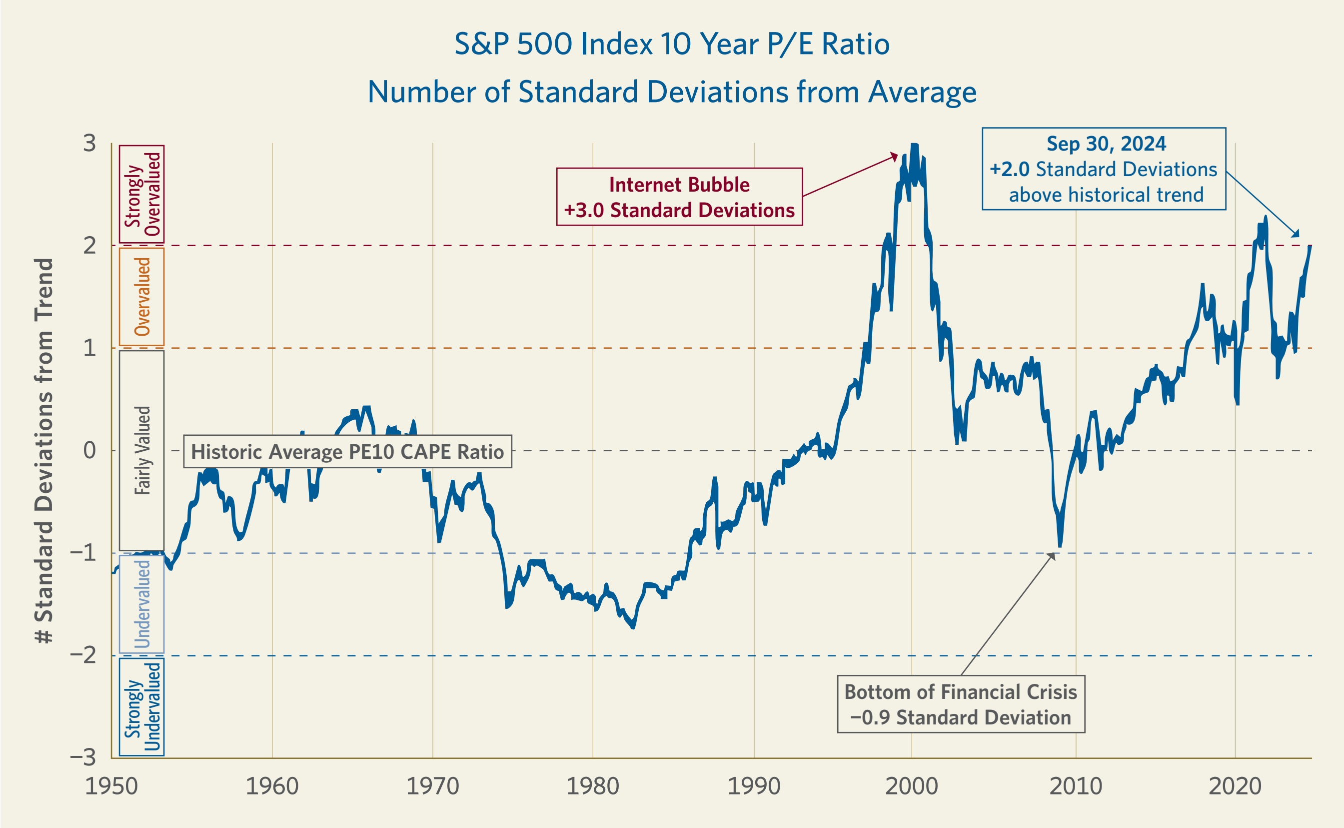
In terms of valuation, as can be seen in Figure 5, the P/E ratio of the S&P 500 Index is currently around two standard deviations above its historic average, and U.S. stock market value as a percentage of total U.S. GDP—the so-called Buffett Indicator—is near its highest level in history.

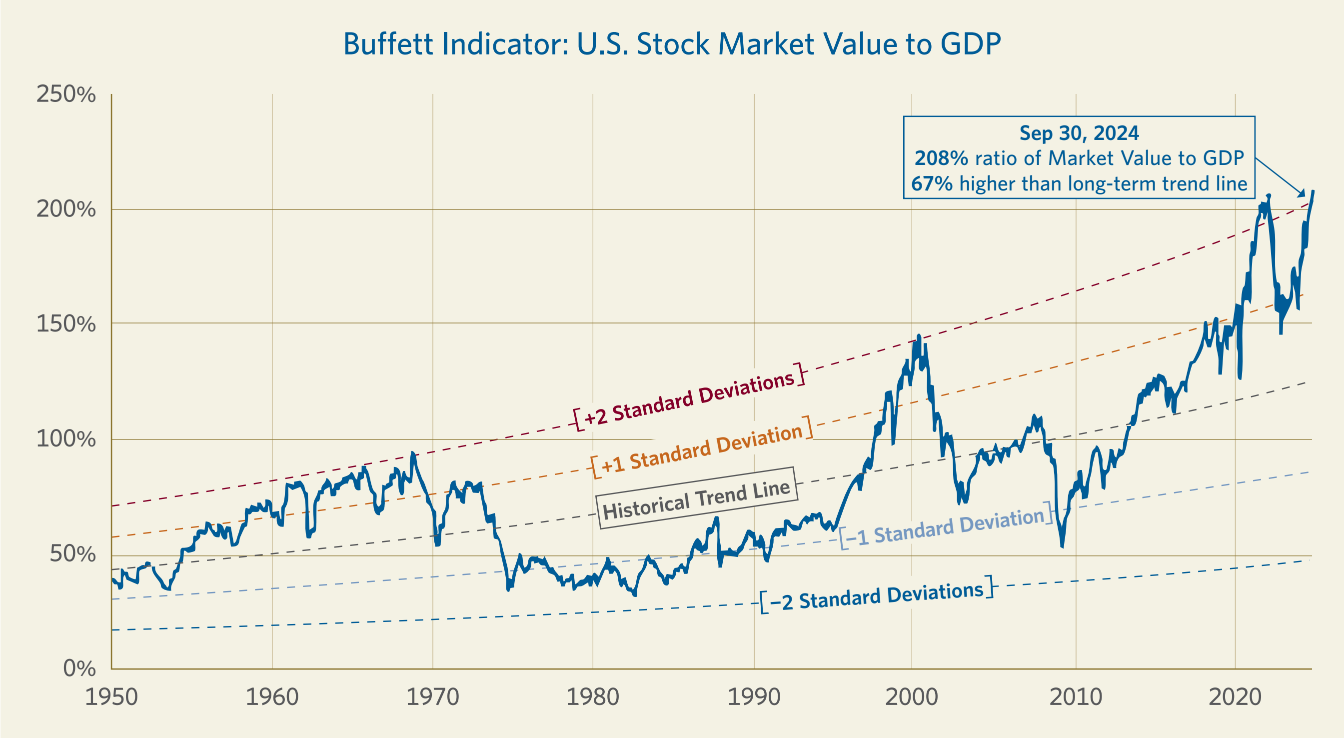
Unprecedented Concentration

In terms of concentration, a handful of the largest companies represent an unprecedented concentration risk within the richly valued market averages. As shown in Figure 6, such concentration has tended to be a warning sign of a stock market bubble. ■

4. 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 2.20% 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 Portfolio's 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 Portfolio's data provider. These values for both the Portfolio and the Index are the weighted average of the stocks in the portfolio or Index.

Fig. 5: **Overpriced by Any Measure**[5]





5. Source: www.currentmarketvaluation.com. The "P/E Ratio" chart uses the cyclically adjusted P/E (CAPE) ratio which takes the average earnings over the last 10 years compared to the current stock market price. The CAPE ratio avoids the problem of a major recession year when earnings decline rapidly, such as by 90% in 2008, when, despite a dramatic decline in the stock market, the P/E ratio using current earnings jumped up to 120x.) The Buffett Indicator is named in honor of Warren Buffett who described it as one of the best long-term indicators of the relative attractiveness of stocks.

Fig. 6: **Bubble Warnings: Periods of Extreme Market Concentration During the Past Century[6]**

Market Cap of the Largest Stock Relative to the 75th Percentile Stock

Portfolio Positioning:
Selective, Attractive Growth and Undervalued

Because we have steadfastly adhered to our long-term valuation discipline, the unwinding of the free-money bubble is an overdue but unsettling return to normalcy after more than a decade of delusion. As we return to reality and prepare for more volatile times, we are encouraged that the companies we own (including our carefully selected banks) are well-positioned for this changing environment as investors once again seek durability, profitability, cash production, reasonable valuation and balance sheet strength. These characteristics are becoming increasingly desirable because they allow companies to better navigate a period of transition and uncertainty. While this transition may create headwinds for many of the market darlings that led for so long, it may simultaneously create tailwinds for the type of durable, attractively valued businesses that lie at the heart of our investment discipline, rewarding the patience of our long-term clients.

Our conviction includes the recognition that short-term corrections and surprises are an unpleasant but inevitable part of the investment landscape. History shows that investors should expect a 10% correction on average once per year and a 20% correction every 3.5 years (see Figure 7). Given the excesses of the last decade, we see no reason to imagine that the future will be immune from shocks, crises, volatility and corrections. Our job is not to predict the unpredictable but rather to prepare for the inevitable. ■

Fig. 7: **Corrections are Painful, but Inevitable[7]**

5% Dip	≈ 3 per year
10% Correction	≈ 1 per year
20% Bear Market	≈ every 3.5 years

6. Source: Compustat, CRSP, Kenneth R. French, Goldman Sachs Global Investment Research. **7.** Source: Ned Davis Research.

Portfolio Themes and Holdings

While we build our portfolios from the bottom up based on company-by-company research rather than top-down trends, most of the attractively valued and durable businesses we own reflect four overarching, long-term themes (see Figure 8).

Technology: Resilient, Reasonably-Priced Growth

Technology, broadly defined, makes up the portfolio's largest theme. Technology covers a broad range of companies with diverse types of business models. Within the tech universe, we focus on a select few companies that combine proven long-term growth with reasonable valuations. This valuation discipline has led us to avoid many of the market darlings that have driven the indices in recent years, including the majority of the so-called Magnificent Seven tech darlings that today represent a concentration of over 30% of the S&P 500 Index.[8]

The strong business models and proven managements of some of the leading tech companies have still earned them a place in our portfolio. In addition, our remaining technology investments have been focused in durable, proven but less glamorous parts of the technology sector such as semiconductor manufacturing and capital equipment.

As we discussed earlier, all investments (not just those in the technology sector) are likely to be affected by the much heralded breakthroughs in artificial intelligence. In preparing for this impact, investors should bear in mind Roy Amara's famous law that we "overestimate the effect of a technology in the short run and underestimate the effect in the long run."[9] As with the internet, our approach is to avoid the "story stocks" and instead ask which companies can use this powerful new tool most effectively to build the value of their businesses and, just as importantly, which companies are most threatened by the new technology. While AI stocks

Fig. 8: **Four Investment Themes with Long Tailwinds**

Tech *Resilient, Reasonably-Priced Growth*	**Financials** *Misunderstood Durability*	**Healthcare** *Durability vs. Speculation*	**Industrials** *Resilient, Non-Linear Growth*
▪ Focus on valuation ▪ Stalwarts vs. darlings ▪ Global reach can help offset inflation ▪ Industries include: – E-commerce – Cloud – Online search – Social media – Semiconductors	▪ Enhanced level of capital ▪ Cheap, underestimated ▪ Industries include: – Non-financial financials – Mega banks – Consumer finance	▪ Driven by demographics ▪ Services and generics ▪ Pharma and biotech have big single drug risk	▪ Electrification ▪ Energy efficiency

8. Seven companies commonly recognized for their market dominance, technological impact, and influence on changes in consumer behavior and economic trends: Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. **9.** Roy Amara (1925–2007) was an American scientist and president of the Institute for the Future.

will likely go through booms and busts, the underlying technology is transformative and seems certain to be a permanent part of the economic landscape going forward. As such, questions about its impact are already a standard part of our research process.

Financials: Misunderstood Durability

Financial companies in DLCV SMA portfolio reflect a theme we describe as "Misunderstood Durability." Since the GFC, investor sentiment has tended to view financial companies in general and banks in particular as fragile, volatile and prone to disaster. That two large banks (neither of which we ever owned), collapsed less than two years ago due to company-specific mismanagement reinforced a perception of fragility for all banks. This perception is understandable but inaccurate with regards to the select banks we own, among which is Capital One. They actually grew their customer bases through both the GFC and the regional banking crisis of 2023. What's more, throughout the last decade, a combination of higher capital ratios, larger market shares and tighter regulation have reduced the riskiness of these well-run institutions while increasing their durability and competitive advantages. Their quarterly and even annual earnings can be volatile. However, such "lumpiness" does not diminish the fact that these companies generate capital throughout the business cycle at an attractive rate and use the capital they generate to increase shareholder value by steadily increasing dividends and buying in shares at discounted prices. The same combination of durability and competitive advantage applies as well to the diversified financial companies we own, including specialty insurer Markel Group.

Healthcare: Durability vs. Speculation

For decades, healthcare spending relentlessly rose from 5% of U.S. GDP in 1960 to roughly 17% in 2010. However, reflecting the wisdom of Herb Stein's famous observation that "if something cannot go on forever, it will stop," the rollout of the Affordable Care Act in 2010, along with a range of other public and private initiatives, has led to a flattening of this growth since then. Today, while healthcare spending remains a political hot button, it is somewhat encouraging that 15 years later, its percentage of GDP still stands at 17% despite the invention of many expensive new therapies in the interim. To offset the rising costs of novel treatments and innovative (and patented) pharmaceutical therapies, the healthcare system has needed to constantly find savings elsewhere. As a result, our investments in this important sector have focused on those companies that play a part in moderating or reducing the natural rate of increase in healthcare spending. These include companies that offer programs like Medicare Advantage which deliver patients a higher quality of care at a lower cost—for example, CVS Health Corp, which we acquired in the fourth quarter of 2024. Given the inefficiencies and incentives of government agencies versus the private sector, we are not surprised that such companies have long records of success. We also favor companies that continue to reduce costs in other parts of the healthcare system, like Viatris, a producer of branded generic pharmaceuticals. On the other side of the ledger, while we marvel at the enormous profits created by novel pharmaceutical and biotech breakthroughs, we find it difficult and risky to try to predict the next winners while also quantifying the duration of those profits given the development of me-too competitors and evolving drug reimbursement policies.

Industrials: Resilient, Non-Linear Growth

In an age of digitization, software, AI, content creation, advertising and hot consumer brands, companies that operate railroads, generate electricity, extract copper, manufacture building supplies, supply food or produce oil and gas may sound dull, but our civilization cannot function without their products. We have a number of these stalwarts in our portfolio. The necessity of their products and, in many cases, the environmental risks of producing them, create regulatory and legal complexity. Their production often requires large upfront capital investment. In any short-term period, their demand and supply may be subject to cyclical swings, resulting in earnings volatility for producers. Further, as such products are not especially differentiated, price and availability are often the only drivers of customer preference, making it difficult for any one company to maintain high returns without attracting new competition.

So how do we find attractive opportunities in such a difficult category? First, because many such dull businesses are overlooked and out of favor in today's growth-driven market, carefully selected industrials currently sell at extremely low valuations. This is despite their having long-term records of growth, durable earnings power, and competitive advantages driven by low-cost assets or economies of scale, and some inflation protection due to long-lived assets. What's more, certain long-term trends may be accelerating the growth rates of a number of these companies. For example, in a world of massively expanding computing power, the need for electricity is markedly accelerating. Also, trends like electrification of automobiles and expansion of the electricity grid increase copper demand at a rate that is likely to continue to outstrip growth in supply (a byproduct of the enormous regulatory challenges of permitting and building new mines).

Finally, in ways that are hard to anticipate, the advent of AI discussed earlier is almost certain to create enormous disruptions in many white-collar service industries in much the same way that automation and globalization impacted U.S. manufacturing industries and blue collar workers in the 1980s and 1990s. As the services sector faces significant uncertainty in the years ahead, people may be more enthusiastic about our industrial holdings with their low valuations, dull business models and resistance to obsolescence. ■

Looking Ahead: A Turning Tide

After a long stretch in which our investment discipline was out of favor, we see many indications that the tide is turning. The current combination of economic, technological and geopolitical transitions bodes poorly for momentum/trend-following investors, while high market valuations and extreme concentration bode poorly for the major stock indices and passive investors. In contrast, our highly selective approach and proven long-term investment discipline is becoming more important than ever.

While we expect periods of volatility and disruption as we move out of the era of free-money and cheap capital, the combination of above-average growth and below-average valuations that characterizes our portfolio today is rare. It positions us well to reward investors who resisted the bandwagon's siren song and held fast to our patient, long-term approach to building generational wealth. The key pillars of success in this tumultuous environment are the cornerstones of our investment discipline, based on what we look for in our portfolio companies: cash generation, conservative capital structure, durable business model, low valuation and proven management.

For more than 50 years we have navigated a constantly changing investment landscape guided by one North Star: to grow the value of the funds entrusted to us. We are pleased to have achieved strong results thus far and look forward to the decades ahead. With more than $2 billion of our own money invested in our portfolios, we stand shoulder to shoulder with our clients on this long journey.[10] We are grateful for your trust and are well-positioned for the future. ■

10. As of 12/31/24, Davis Advisors, the Davis family and Foundation, and our employees had more than $2 billion invested alongside clients in similarly managed accounts and strategies.

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 New York Venture 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 New York Venture 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.

Returns from inception (4/1/69) through 12/31/01, were calculated from the Davis Large Cap Value Composite (see description below). Returns from 1/1/02, through the date of this material were calculated from the Large Cap Value (SMA) Composite.

Davis Advisors' Large Cap Value Composite includes all actual, fee-paying, discretionary Large Cap Value 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.

Davis Advisors' Large Cap Value (SMA) Composite excludes institutional accounts and mutual funds. Performance shown from 1/1/02, through 12/31/10, 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' Large Cap Value 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. The net of fees rate of return formula used by the wrap-fee style accounts is calculated based on a hypothetical 3% maximum wrap fee charged by the wrap account sponsor for all account service, including advisory fees for the period 1/1/06, and thereafter. 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 Large-Cap Value 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. As this is primarily a domestic equity strategy, no more than one foreign holding will be discussed in any material. If more than one foreign holding would be discussed based on the criteria above, the holding with the largest percent of assets in the model portfolio would be chosen. However, if the model portfolio has an aggregate foreign holding percentage that is greater than 15% the commentary would include a discussion of the largest foreign holding in the model portfolio that has not been discussed in the previous three quarters. 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 Large Cap Value 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 assets principally in common stocks (including indirect holdings of common stock through depositary receipts) issued by large companies with market capitalizations of at least $10 billion. Historically, the Large-Cap Value strategy has invested a significant portion of its assets in financial services companies and in foreign companies, and may also invest in mid- and small-capitalization companies. The principal risks are: China risk, common stock risk, depositary receipts risk, emerging market risk, fees and expenses risk, financial services risk, focused portfolio 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 attractive growth reference in this material 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.

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

The **S&P 500 Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years). The **Russell 1000 Value Index** is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. Investments cannot be made directly in an index.

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