

# Davis Global ADR SMA Portfolio

Summer Update 2024

Commentary

Selective. Attractive Growth. Undervalued.

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THE EQUITY SPECIALISTS

## Portfolio Commentary

### Key Takeaways

- In the U.S., we believe the economy can be seen as a glass that is half full rather than half empty, with strong employment supporting personal consumption, the main driver of gross domestic product (GDP).
- In Europe, economic growth is proving challenging, but inflation rates and interest rates are declining. Asia-Pacific economies have been mixed this year overall—while India's growth continues, China's recovery out of COVID lockdowns has been slow, with implications for the greater region's growth prospects.
- The extreme size disparities between the largest companies in the MSCI ACWI (All Country World Index) and the rest of the index have produced valuation and concentration risks that we have not seen since the 1990s. Active management offers ways to plot a different course from the benchmark.
- Demonstrating our investment discipline, Davis Global ADR SMA portfolio is focused on a relatively small number of individually selected positions with an overall earnings growth rate above the MSCI ACWI (All Country World Index) but at a valuation substantially below that of the index.

### Market Perspectives: Structural Distortions

This year the economies of the U.S. and the EU expanded at a slow pace with very little growth year over year. U.S. GDP growth was 1.4% as of first quarter 2024 while the EU countries delivered GDP growth of only 0.5%<sup>1</sup> on balance. Asia-Pacific is expanding with GDP touching 5% but expected to slow.

Across regions, high prices continue to act as a headwind to consumer spending and confidence. That said, the inflation rate has been moderating in both the U.S. and Europe. This has led the central banks to revise their former tightening policy stance to adopt either a more neutral posture, as with the Federal Reserve in the U.S., or even lower interest rates, as has begun to happen in Europe.

Asia-Pacific presents a much more varied picture, with economic growth rates in different countries ranging from essentially flat, as in Japan and South Korea, to China, which is the region's largest economy, growing at 4.7%, and India with a growth rate above 8% currently.

In regards to the markets, the MSCI ACWI returned 11.30% in the first half of 2024, with most major regions rising on average.

We believe that the MSCI ACWI 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

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them in a different manner than unmanaged indexes, we believe an actively managed portfolio may hold an advantage over the MSCI ACWI portfolio as it is currently structured.

The MSCI ACWI's valuation today is close to 19.0x earnings, which may not be excessive per se, but nor is it cheap. Hence despite the fact that this index is generally viewed as a broad proxy for stocks globally, 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 Global ADR 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 global equity portfolio and the MSCI ACWI:

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

	Portfolio	Index
Holdings	36	2,759
EPS Growth (5 Year)	17.9%	16.0%
P/E (Forward)	9.5x	19.0x

Presently, Davis Global ADR SMA portfolio is allocated such that its largest sector weightings include healthcare, technology-related businesses, and financials (both U.S. and non-U.S.), among others.

### Healthcare: Underpriced Potential

Healthcare is a meaningful allocation in the portfolio. In this sector, we hold Solventum, a new purchase, which is primarily a healthcare supplies business spun out of 3M this year, in addition to other companies specializing in generic pharmaceuticals or healthcare insurance.

Given lackluster expectations for near-term growth from our healthcare names, by and large, market pricing seems to suggest a permanence to what are admittedly tepid earnings and compressed margins over recent periods. We are taking the long view however and believe the market is underpricing our healthcare investments' multiyear potential, most notably insofar as operating margins are concerned.

### 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. Meta Platforms is an example of a core technology position

<sup>2</sup> 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 11.80% 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.

in the portfolio. The company has delivered outsized performance over the last 18 months but still trades at a reasonable valuation. This is thanks to growth in the business as well as a rebound in the margin structure from two years ago when metaverse spending and the company's cost burdens generally were much more considerable. Another technology-driven company in the portfolio in more of a niche market is Delivery Hero, an app-based food delivery network based in Germany.

### **Financials: Diversified Earnings Power**

Within financials, two of our core positions are Ping An Insurance and AIA Group, both of which are multi-line insurers facing China first and foremost but having business operations in a host of Asian countries. These businesses are juggernauts in scale, brand and expertise across insurance products and distribution channels.

Life insurance, as well as other types of insurance that are often bundled with life in Asian markets (e.g., accident and health), are in their nascent stages of market development in China, among other developing Asian countries. China in particular has an urgent need for households to put in place a safety net through private sector insurers. This is simply because the people of China today have far more in the way of assets and income to protect than 20 years ago. The former one-child policy, which has led to a one-wage earner household in many cases, has only exacerbated this demographic and economic challenge.

Among more traditional financials, Wells Fargo was a representative investment in the portfolio for a number of years. We recently sold the position on strength to reallocate the proceeds to other, more compelling opportunities. Our foreign banks, led by those in Switzerland and Denmark, have been contributors to our results overall in the year-to-date period. It is

worth noting that we have been extremely discerning and selective within this sector and, as such, avoided the U.S. 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.

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.

Other investments in the portfolio include businesses engaged primarily in copper production, 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 MSCI ACWI 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.<sup>3</sup> This alignment with our clients is uncommon in our industry; our conviction in our portfolio of carefully selected companies is more than just words. ■

<sup>3</sup> 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 Global ADR SMA Portfolio

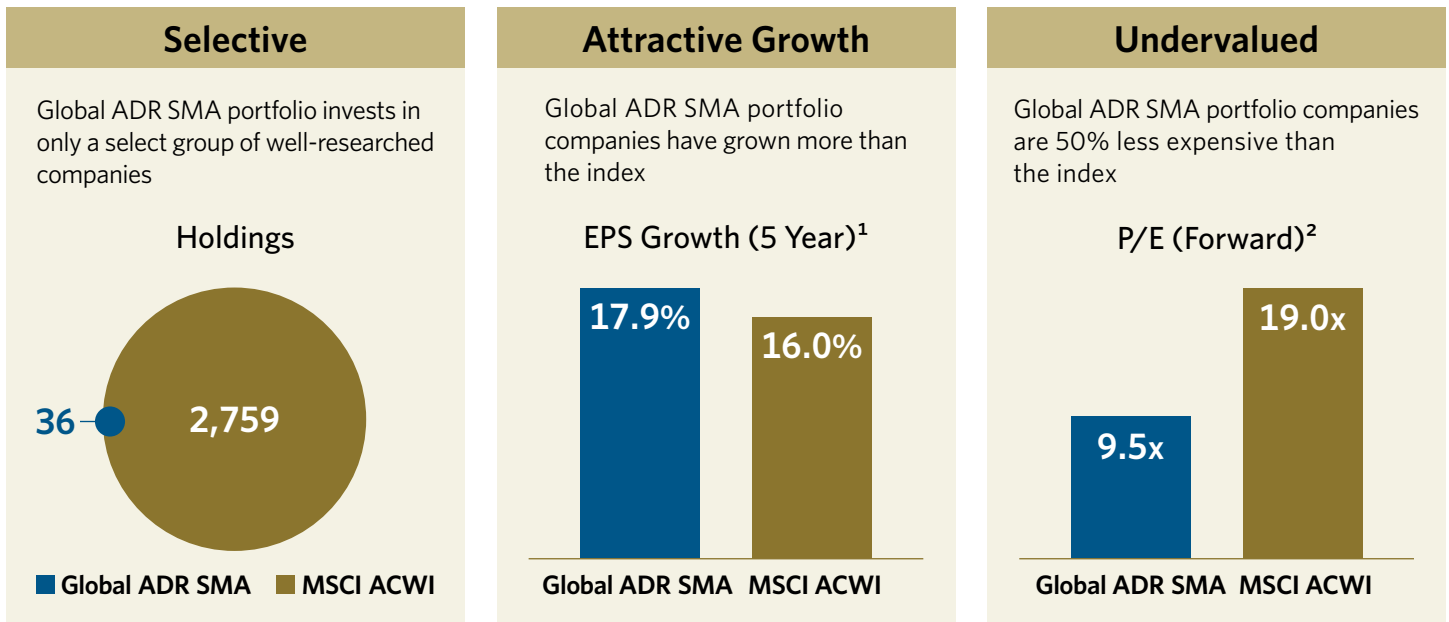
## Selective. Attractive Growth. Undervalued.

“What gives us confidence that Davis Global ADR SMA will 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 Global ADR SMA Portfolio have grown more than the companies in the index, yet are 50% 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.”

Danton Goei, Portfolio Manager



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. Approximately 11.80% 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 Global ADR SMA Portfolio Holdings

June 30, 2024

High Conviction. Different from the Index.

Holding	Portfolio (%)	MSCI ACWI (%)
Meta Platforms	6.8%	1.5%
Naspers	6.1	0.1
Capital One Financial	5.8	0.1
Meituan	5.8	0.1
Ping An Insurance	5.7	0.1
Prosus	5.1	0.1
Danske Bank	4.3	0.0
Julius Baer Group	4.2	0.0
Humana	4.0	0.1
Teck Resources	3.6	0.0
Amazon.com	3.4	2.5
MGM Resorts International	3.4	0.0
Alphabet	3.1	2.7
Berkshire Hathaway	3.1	0.7
Applied Materials	2.9	0.3
KE Holdings	2.9	0.0
Viatis	2.9	0.0
Solventum	2.5	0.0
DBS Group Holdings	2.2	0.1
JD.com	2.0	0.0
AIA Group	1.9	0.1
Delivery Hero	1.6	0.0
Cigna Group	1.6	0.1
Intel	1.5	0.2
Markel Group	1.3	0.0
Quest Diagnostics	1.3	0.0
SEA	1.2	0.0
Coupang	1.1	—
Liberty Media	1.1	0.0
Owens Corning	1.0	0.0
Tyson Foods	1.0	0.0
IAC	0.9	—
AGCO	0.8	—
Darling Ingredients	0.7	—
Clear Secure	0.3	—
Noah Holdings	0.2	—
CASH	2.7	—
	<b>100.0%</b>	

The above listed securities are representative of a model Davis Global ADR SMA Portfolio as of the indicated date. Portfolio holdings may change over time. Individual accounts may contain different securities. There is no assurance that any securities listed herein will remain in an individual account at the time you receive this report. The securities listed for the MSCI ACWI are not representative of the entire portfolio, which consists of 2,759 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 Global ADR SMA Portfolio

June 30, 2024

Davis Global ADR SMA is a portfolio of attractive businesses from around the world selected using the time-tested Davis Investment Discipline. As one of the largest investors in the strategy, we have a unique commitment to client stewardship.

## Unique Attributes of Davis Global ADR 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 invests in both developed and developing markets. We believe in a bottom-up stock selection process and in not mirroring the benchmark index. Active Share = 91%.
- 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.<sup>1</sup>

		Portfolio	Index
<b>Undervalued</b>	P/E (Forward)	9.5x	19.0x
<b>Attractive Growth</b>	EPS Growth (5 Year)	17.9%	16.0%
<b>Selective</b>	Holdings	36	2,759
	Total Countries	11	47

## Experienced Management

Danton Goei, 26 years with Davis Advisors

## Geographically Diverse Portfolio

United States	50.8%
Asia	23.6
Europe	15.6
Africa	6.3
North & Central America Ex U.S.	3.7

## Top 10 Countries

United States	Switzerland
China	Canada
South Africa	Singapore
Netherlands	Hong Kong
Denmark	Germany

## Sectors

	Portfolio	Index
Financials	29.4%	15.6%
Consumer Discretionary	29.3	10.4
Communication Services	13.5	7.9
Health Care	12.6	10.9
Information Technology	4.8	25.8
Materials	3.7	4.0
Real Estate	3.0	2.0
Industrials	1.9	10.3
Consumer Staples	1.8	6.2
Energy	0.0	4.4
Utilities	0.0	2.5

## Performance

	1 Year	3 Year	5 Year	Inception 10/1/14
Global Equity SMA Composite (gross)	16.81%	-0.04%	8.57%	8.22%
Global Equity SMA Composite (with a 3% max. wrap fee)	13.40	-3.00	5.38	5.04
MSCI ACWI	19.38	5.43	10.74	8.91

*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.** 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. Approximately 11.80% 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 the portfolio are the weighted average of the stocks in the portfolio.*

## Attractive Global Businesses (Top 10 Holdings)

**Meta Platforms (U.S.):** The largest social media company in the world with more than 2 billion daily users

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

**Capital One Financial (U.S.):** Top 10 U.S. bank with \$240+ billion of deposits

**Meituan (China):** A web-based shopping platform for locally sourced consumer products and retail services in China

**Ping An Insurance (China):** A leader in retail financial services and the largest multi-line insurer in China

**Prosus (Netherlands):** A global consumer internet company and spin-off of South African e-commerce group, Naspers

**Danske Bank (Denmark):** Largest bank in Denmark serving more than 5 million retail customers

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

**Humana (U.S.):** One of the largest private insurance companies in America and a leader in Medicare

**Teck Resources (Canada):** A 100-year-old diversified Canadian mining company with a focus on materials used in decarbonization

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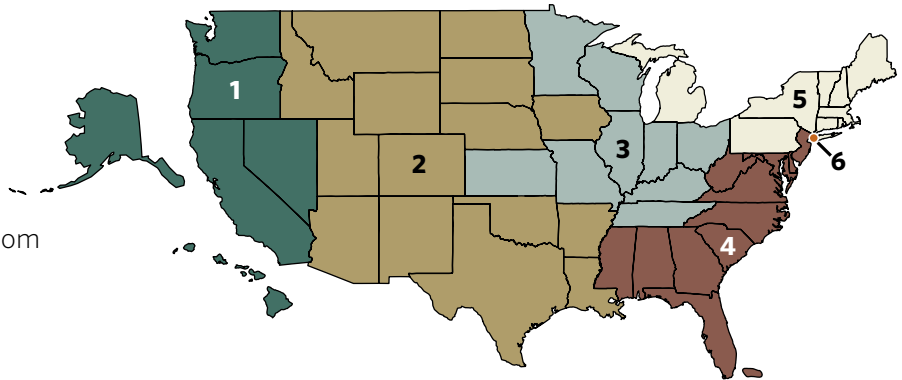
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*This material may be shared with existing and potential clients to provide information concerning market conditions and the investment strategies and techniques used by Davis Advisors to manage its client accounts. Please refer to Davis Advisors Form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

Effective 9/23/14, Davis Advisors created a Global Equity SMA Composite which excludes the institutional accounts and mutual funds. Performance shown from 10/1/14, through the date of this material, the Davis Advisors' Global Equity SMA Composite includes all eligible wrap accounts with no account minimum from inception date for the first full month of account management and includes closed accounts through the last day of the month prior to the account's closing.

A time-weighted internal rate of return formula is used to calculate performance for the accounts included in the Composite. The net of fees rate of

return formula is calculated based on a hypothetical 3% maximum wrap fee charged by the wrap account sponsor for all account services. For the gross performance results, custodian fees and advisory fees are treated as cash withdrawals.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our clients benefit from understanding our investment philosophy and approach. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this 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 Global Companies 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. Each of these holdings must come from a different country. 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 Global Equity account is long-term growth of capital. There can be no assurance that Davis will achieve its objective. Davis Advisors uses the Davis Investment Discipline to invest a client's portfolio principally in common stocks (including indirect holdings of common stock through depositary receipts) issued by both United States and foreign companies, including countries with developed or emerging markets. The global companies strategy may invest in large, medium, or small companies without regard to market capitalization. The principal risks are: China risk, common stock risk, depositary receipts risk, emerging markets risk, exposure to industry or sector 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.

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

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