

Davis Select Worldwide ETF

Insights from Portfolio Manager
Danton Goei



THE EQUITY SPECIALISTS™

Davis Select Worldwide ETF (DWLD)

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Executive Summary

- We are pleased to offer investors the Davis Select Worldwide ETF (DWLD), one of the first actively managed equity ETFs offered by a manager with decades of experience investing in global equities.
- DWLD is a high-conviction, benchmark-agnostic portfolio with low expected turnover and a strategic long-term time horizon that invests opportunistically around the world.
- Managed using the Davis Investment Discipline, DWLD invests in durable, well-managed businesses with competitive advantages selling at a discount to true value.
- DWLD offers the benefits of a traditional ETF: low costs, tax efficiency, intraday liquidity, and transparency.
- Investment opportunities include: leading U.S. businesses, consumer services businesses in emerging markets and diverse multinationals.
- Investment risks include: foreign country risk, emerging market risk, and foreign currency risk.

Davis Select Worldwide ETF (DWLD)

Davis Introduces Actively Managed Equity ETFs

We are pleased to offer investors the Davis Select Worldwide ETF (DWLD), Davis Select U.S. Equity ETF (DUSA), and Davis Select Financial ETF (DFNL). These are among the first actively managed equity ETFs offered by a manager with decades of experience investing in these areas.

Each of our ETFs is managed using the Davis Investment Discipline. They are high-conviction, benchmark-agnostic portfolios with low expected turnover and a strategic long-term time horizon. Davis ETFs offer investors the benefits associated with traditional ETFs, including low costs, tax efficiency, intraday liquidity, and transparency.

With almost 50 years of investment experience and \$25 billion in assets under management, our goal has always been to provide our research expertise to investors in the vehicle of their choice, which now includes ETFs.¹

The Portfolio

Leading U.S. companies, consumer services businesses in emerging markets and diverse multinationals

In the United States, with corporate profit margins historically high on average, we have chosen to invest in leading businesses where we believe profit margins and earnings have room to expand.

Emerging markets offer attractive values although each country has different opportunities and risks. For example, while the overall Chinese stock market has languished, we have focused on the rapidly growing consumer services sector while avoiding the weak industrial and manufacturing sectors.

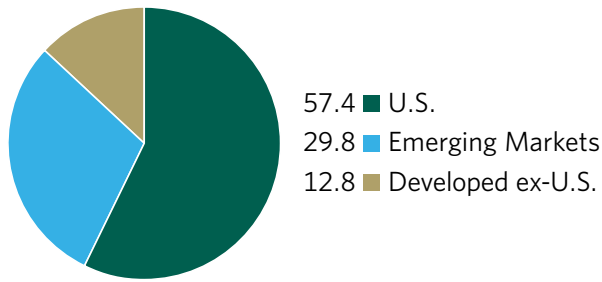
DWLD owns what we believe to be some of the most globally diverse multinational companies with strong long-term growth prospects and deep competitive moats.

Our holdings reflect where we are opportunistically finding investments around the world.

	Ticker	Expense Ratio ²	Holdings	Performance Benchmark	Portfolio Managers
Davis Select Worldwide ETF	DWLD	0.65%	41	MSCI ACWI	D. Goei
Davis Select U.S. Equity ETF	DUSA	0.60%	21	S&P 500	C. Davis D. Goei
Davis Select Financial ETF	DFNL	0.65%	24	S&P 500 Financials	C. Davis

This report 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.** 1. As of 12/31/2016. 2. Davis Selected Advisers, L.P. has contractually agreed to waive fees and/or reimburse the Funds' expenses to the extent necessary to cap total annual fund operating expenses as shown until March 1, 2018. After that date, there is no assurance that the Adviser will continue to cap expenses. The expense cap cannot be terminated prior to that date, without the consent of the Board of Trustees. The gross expense ratio for each fund is DUSA: 0.66%; DFNL: 0.66%; and DWLD: 0.68%.

Regional Breakdown(%)



We place great importance on the resiliency and adaptability of our companies. We look for businesses with strong balance sheets and strong cash generating capabilities that not only can survive economic downturns but also potentially take advantage of instability to widen their competitive lead.

Amazon provides a prime example.³ Looking back at Amazon’s humble beginnings in 1994, one key reason the company became the world’s largest bookseller was Amazon created entirely new markets. The Kindle E-reader was not only a product innovation but also a business model innovation. Printing and shipping costs suddenly disappeared, combining improved convenience for consumers with higher profits for Amazon. Company founder Jeff Bezos and his team then proved they would not be satisfied to sit on their laurels by parlaying their expertise in

cloud computing, gained from running their retail business, to an Infrastructure as a Service (IaaS) business for third parties. Thus, was born Amazon Web Services (AWS), which reached \$10 billion in sales even faster than Amazon’s retail business and which one day might surpass the retail segment in size.

United Technologies is a good example of a company with both a durable business and an innovative culture. Its four business segments are roughly equal in size and include Pratt & Whitney jet engines and aerospace parts, Otis Elevator, and Carrier heating and ventilation systems. Pratt & Whitney, for example, has enjoyed solid growth prospects driven by increased global travel as well as a favorable market structure with only one key competitor in the narrow body or single aisle commercial aircraft business. Moreover, Pratt & Whitney is now rolling out its new PurePower Geared Turbofan (GTF) jet engine that, according to United Technologies, reduces fuel consumption by 16%, environmental emissions by 50% and noise levels during landing and takeoff by 75%. According to industry observers, Pratt & Whitney’s GTF jet engine represents one of the biggest advances in jet engines in the past 50 years, which could result in strong sales going forward. At \$108 a share, United Technologies is trading at an attractive 15.9 times 2016 owner earnings.⁴

Representative Holdings

	Leading global e-commerce giant aptly called the “Everything Store.” Amazon Web Services poised to be next growth engine.
	World’s largest global aerospace manufacturer. Global conglomerate includes Pratt & Whitney, Otis Elevator and Carrier.
	South African media conglomerate with \$65 billion market cap. Owns largest pay TV provider in Africa and one of China’s largest Internet portals. ⁴
	Large oil and gas reserves with decades of production ahead. Low-cost producer.

³ Individual securities are discussed in this piece. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. The return of a security to the Fund will vary based on weighting and timing of purchase. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results.** ⁴ As of 1/6/17.

A third representative holding is Naspers, a company most investors would not recognize despite its \$60 billion market capitalization. Naspers is a South African conglomerate that owns a diverse array of media and Internet holdings in developing markets. The company's satellite TV business is the largest in Africa with 10 million subscribers, and its online classified ad business operates in 31 countries with leading positions in key markets such as Brazil, India, Indonesia, and Russia. Naspers also owns 15% of Flipkart, one of the leading e-commerce businesses in India. Moreover, in 2010 Naspers invested \$34 million in Tencent Holdings, one of China's largest, most innovative and most used Internet portals, and today the company's 33% stake is worth \$70 billion. Considering that Naspers total market capitalization is \$64 billion and also includes other assets, the company's valuation is attractive in our view.

Given Tencent's key position in Naspers' business, examining Tencent's operations more closely is worthwhile. Tencent is led by Chinese entrepreneur Ma Huateng, also known as Pony Ma. The company's messaging app WeChat has 700 million users and is currently the leading social media website in China. In addition, Tencent is one of the world's largest video gaming companies with such popular games as League of Legends, CrossFire and Dungeon Fighter Online as well as an 84% stake in one of the world's leading mobile video gaming companies Supercell. In addition, Tencent has built a highly desirable portfolio of strategic investments in other leading Internet companies such as e-commerce company JD.com, U.S. video game leader Activision Blizzard, China's ride-sharing leader Didi Chuxing, and classified ads leader 58.com. Through our investment in Naspers we are effectively investing in Tencent at a 23% discount and paying 22 times 2017 owner earnings for a company that has grown revenues and earnings at 25% to 30% a year.

While we generally avoid commodity producers because these businesses are capital intensive and dependent on underlying commodity prices, we think these companies can be attractive when three

factors are in our favor: 1) the current commodity price is well below the price necessary to supply the market over the long term; 2) the company is the low-cost producer and has a large amount of reserves; and 3) management has a proven focus on shareholder returns rather than production.

Our fourth representative holding is the Canadian shale oil and gas company Encana, a business that fits all three of these criteria. Based on global supply and demand projections for oil, we do not believe the current price of \$45 per barrel is sustainable. In our view, oil prices will have to increase significantly over time to provide enough supply to meet growing global demand. In addition, because Encana's reserves are located in the core of four of the top six shale areas in North America, Encana's costs to develop and produce oil and gas are quite low. Moreover, Encana's reserves of oil and gas are so large the company has decades of production ahead based on current production levels.

Finally, when Doug Suttles became CEO in 2013 he promptly reduced the territories on which the company focuses to four core areas. A willingness to shrink and focus is rare and is a key trait of successful CEOs. Suttles has also executed well by ensuring Encana's survival during the energy downturn through hedges and asset sales and increased operating efficiency by rapidly bringing well costs down. Based on our conservative estimate of the long-term sustainable price for oil and gas, Encana is trading at 14 times 2017 owner earnings and nine times 2018 owner earnings, which is highly attractive considering we expect the company to increase production at a rate of 10% a year for many years to come.

We believe building wealth in the coming decade will require equity investors to look beyond market indexes and be selective, adaptable and flexible. Given the quality and valuation of the companies in the Davis Select Worldwide ETF, we believe the portfolio is well positioned to grow shareholder wealth and exceed its performance benchmark over the long term. We are mindful of our stewardship responsibility and grateful for your trust. ■

This report is authorized for use by existing shareholders. A current Davis Select Worldwide ETF prospectus must accompany or precede this material if it is distributed to prospective shareholders. You should carefully consider the Fund's investment objective, risks, fees, and expenses before investing. Read the prospectus carefully before you invest or send money.

Shares of Davis Fundamental ETF Trust are bought and sold at market price (not NAV) and are not individually redeemed from the ETF. There can be no guarantee that an active trading market for ETF shares will develop or be maintained, or that their listing will continue or remain unchanged. Buying or selling ETF shares on an exchange may require the payment of brokerage commissions and frequent trading may incur brokerage costs that detract significantly from investment returns.

This report 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. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Objective and Risks. Davis Select Worldwide ETF's investment objective is long-term growth of capital. Davis Select U.S. Equity ETF's investment objective is long-term capital growth and capital preservation. The Fund invests primarily in equity securities issued by large companies with market capitalizations of at least \$10 billion. Davis Select Financial ETF's investment objective is long-term growth of capital. Under normal circumstances the Fund invests at least 80% of its net assets, plus any borrowing for investment purposes, in securities issued by companies principally engaged in the financial services sector. There can be no assurance that the Funds will achieve their objectives. An investment in Davis ETFs is subject to numerous risks, including possible loss of principal. The Fund is actively managed and does not seek to replicate a specified index. The Fund is subject to the following principal risks: authorized participant concentration risk, common stock risk, depository receipts risk, exchange-traded fund risk, fees and expenses risk, financial services risk, focused portfolio risk, foreign country risk, foreign currency risk, headline risk, intraday indicative value risk, large-capitalization companies risk, manager risk, market trading risk, mid- and small-capitalization companies risk, and stock market risk. See the prospectus for a complete description of the principal risks.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors 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 report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 1/11/17, the top ten holdings of Davis Select Worldwide ETF were: Alphabet Inc., Class C, 6.47%, Encana Corp., 5.68%, Amazon.com, Inc., 4.83%, Apache Corp., 4.74%, Berkshire Hathaway Inc., Class B, 4.59%, Adient PLC, 4.49%, Wells Fargo & Co., 4.48%, Naspers Ltd.-N, 4.45%, JPMorgan Chase & Co., 4.00%, Sul America S.A., 3.71%.

Davis Fundamental ETF Trust has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in the prospectus. Holding percentages are subject to change. Visit davisetfs.com or call 800-279-0279 for the most current public portfolio holdings information.

Trailing Price/Earnings (P/E) Ratio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. Portfolio totals are computed using an inverse harmonic methodology.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper 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 **S&P 500 Financials** is a capitalization-weighted index that tracks the companies in the financial sector as a subset of the S&P 500 Index. 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.

Shares of the Davis Fundamental ETF Trust are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.