

Forbes

MARKETS

3 Best Buy Stocks From Davis Global's Danton Goei

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An interview with Danton G. Goei, Portfolio Manager,
Davis Global Fund, Davis International Fund and Davis Select Worldwide ETF

I recently sat down with Danton G. Goei, Davis Funds Portfolio Manager, to discuss his investment strategies and what companies he favors in today's market environment.

Wally Forbes: Thank you for joining me Danton. Can you start by telling me about your fund, which has outperformed the MSCI ACWI Index over the last 1, 3, 5 and 10 years, and since inception?

Danton Goei: The **Davis Global Fund** (DGFAX) invests in our best ideas from around the world. It looks different from the index, has low turnover and a strategic, long-term time horizon. Our results reflect our research process, which focuses on durable businesses, first-class management, long-term earnings power and deep competitive moats. When it comes to valuation, we are very patient and will wait for the right price before making an investment. I apply this same discipline to the **Davis Select Worldwide ETF** (DWLD) and the **Davis International Fund** (DILAX), which have outperformed.

Forbes: What's the advantage of being able to invest around the world?

Goei: Having a broad investable universe provides me the freedom to find the best opportunities wherever they reside. Selectivity and risk management are critical to separate the winners from the

losers. We do very in-depth due diligence and build focused, best-ideas portfolios. We own about 50 companies ranging from globally dominant U.S. businesses and European multinationals, to faster growing companies from the developing world. In contrast, the MSCI ACWI Index has about 2,500 companies, but there are not 2,500 great companies in the world.

Forbes: Can you tell me about three companies you find attractive today?

Goei: One of the companies I'm most excited about is an interesting South African company called **Naspers** (ADR ticker NPSNY). It's not a well-known company, but it has a \$125 billion market cap. Naspers is an international conglomerate that owns a number of companies, including Tencent in China and Flipkart in India, and operates the largest satellite TV company in Africa.

One of Naspers largest holdings is **Tencent** (TCEHY), a dominant internet company in China. Tencent owns three of the top ten apps in all of China. Its apps account for 60% of user time spent online in China. The messaging app, WeChat, is ubiquitous with 980 million monthly users. WeChat alone accounts for 35% of all time spent online in China.

Naspers bought a third of Tencent, which is currently worth \$180 billion. That's interesting because the total market cap of Naspers is \$125 billion, and its ownership

stake in Tencent is worth \$180 billion, 44% more than Nasper's entire market cap.

Naspers also owns 15% of Flipkart, which is one of the top two Indian e-commerce companies, which I think has a great long-term future. They are one of the largest online classified businesses in that world, with number one positions in Brazil, Russia and India. Those are big markets. They also have a presence in the United States. It's basically online help wanted, real estate and cars, which is a good business.

In addition, Naspers operates the largest satellite TV company in Africa, with ten million pay TV subscribers across the continent.

I think Naspers is trading at a big discount to its fair value, probably at least a 40% discount. There's a lot of margin of safety there and a lot of good assets within the company. I love that dual aspect of getting high-quality companies and a low price.

Forbes: Tell me about the second company you find attractive.

Goei: I'd like to talk about a very different type of company, U.S.-based **Capital One Financial** (COF). We all know it well from its credit card ads on television. Capital One is the fourth-largest credit card company in the U.S. It also has a large regional bank business.

I think it's a well-run company. The CEO, Richard Fairbank, is the founder and has been there for 23 years. It has an ex-

perienced management team and they've proven themselves over long periods of time. And they have a very good franchise, especially the credit card business.

What's attractive is that it's trading at about 10 times this year's earnings, which is a very low starting multiple. I think that this business over time should continue to grow. Obviously, credit cards and banking is a pretty competitive business but Capital One has a strong market position and a good brand.

Forbes: Both companies sound attractive.

Goei: Yes, I think both are quality

businesses selling at good prices.

The third company I want to share underscores the diverse types of businesses our portfolios hold. **Ferguson** is a plumbing and heating supplies distributor. It's listed in the U.K. but also trades in the U.S. as an ADR under the ticker FDRGY. I consider this type of investment a "boring is beautiful" quiet compounder.

The key to their distribution success is delivering value by connecting many suppliers to many customers. Ferguson has 52,000 suppliers who provide 250,000 plumbing and heating fixtures needed for homes. They distribute a huge number of products. Ferguson has 1.1 million

customers in the United States, for an 18% market share. It is large, but still has room to grow. Ferguson can grow organically, as the number of homes grows and Ferguson keeps gaining market share. Ferguson's valuation is also very attractive at about 16 times earnings for the calendar year 2018.

I think Ferguson is very focused, very powerful and hard to compete with. I think long-term they've got a great niche area.

Forbes: Danton, thank you very much for taking the time to share your ideas with us.

Goei: Thank you, Wally. It was a pleasure speaking with you.

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The performance presented represents past performance and is not a guarantee of future results. For Davis Global Fund and Davis International Fund it is Class A shares without a sales charge.

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.

Shares of DWLD 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.

Objective and Risks. The investment objective of Davis Global Fund, Davis International Fund, and Davis Select Worldwide ETF is long-term growth of capital. There can be no assurance that a Fund will achieve its objective.

Some important risks of an investment in Davis Global Fund and Davis International Fund: **common stock risk:** an adverse event may have a negative impact on a company and could result in a decline in the price of its common stock; **depository receipts risk:** depository receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **foreign currency risk:** the change in value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign currency; **headline risk:** the Fund may invest in a company when the company becomes the center of controversy. The company's stock may never recover or may become worthless; **large-capitalization companies risk:** companies with \$10 billion or more in market capitalization generally experience slower rates of growth in earnings per share than do mid- and small-capitalization companies; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **mid- and small-capitalization companies risk:** companies with less than \$10 billion in market capitalization typically have more limited product lines, markets and financial resources than larger companies, and may trade less frequently and in more limited volume; and **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines.

Some important risks of an investment in Davis Select Worldwide ETF are: **authorized participant concentration risk:** to the extent that Authorized Participants exit the business or are unable or unwilling to proceed with creation and/or redemption orders with respect to the Fund and no other Authorized Participant is able to step forward to create or redeem Creation Units, Fund shares may trade at a discount to NAV and could face delisting; **common stock risk;** **cybersecurity risk:** a cybersecurity breach may disrupt the business operations of the Fund or its service providers; **depository receipts risk;** **emerging market risk;** **exchange-traded fund risk:** the Fund is subject to the risks of owning the underlying securities as well as the risks of owning an exchange-traded fund generally; **fees and expenses risk;** **foreign country risk;** **foreign currency risk;** **foreign market risk:** because certain foreign holdings of the Fund may trade in a market that is closed when the market in which the Fund's shares are listed is open, there may be changes between the last quote of the foreign holding from its closed foreign market and the value of such security during the Fund's domestic trading day; **headline risk;** **intraday indicative value risk:** the Fund's INAV agent intends to disseminate the approximate per share value of the Fund's published basket of portfolio securities every 15 seconds. The IIV should not be viewed as a "real-time" update of the NAV per share of the Fund because the IIV may not be calculated in the same manner as the NAV, the calculation of NAV may be subject to fair valuation at different prices, the IIV does not take into account Fund expenses, and the IIV calculations are based on local market prices and may not reflect events that occur subsequent to the local market's close; **large-capitalization companies risk;** **manager risk;** **market trading risk:** includes the possibility of an inactive market for Fund shares, losses from trading in secondary markets, periods of high volatility, and disruptions in the creation/redemption process. **ONE OR MORE OF THESE FACTORS, AMONG OTHERS, COULD LEAD TO THE FUND'S SHARES TRADING AT A PREMIUM OR DISCOUNT TO NAV;** **mid- and small-capitalization companies risk;** and **stock market risk.**

See the appropriate prospectus for a complete description of the principal risks.

The Davis Global Fund and Davis International Fund are subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

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 December 31, 2017, the top ten holdings of Davis Global Fund were: Alphabet Inc., 5.94%; Naspers Ltd. – N, 4.88%; Wells Fargo & Co., 4.48%; Capital One Financial Corp., 4.28%; Alibaba Group Holding Ltd., ADR, 4.23%; Amazon.com, Inc., 3.91%; Hollysys Automation Technologies Ltd., 3.76%; United Technologies Corp., 3.46%; Encana Corp., 3.39%; and New Oriental Edu & Tech ADR, 3.32%.

As of December 31, 2017, the top ten holdings of Davis International Fund were: Naspers Ltd. – N, 6.75%; Alibaba Group Holding Ltd., ADR, 5.30%; Safran S.A., 5.12%; Ferguson PLC, 4.83%; New Oriental Edu & Tech ADR, 4.77%; Hollysys Automation Technologies Ltd., 4.56%; Sul America S.A., 4.41%; Encana Corp., 4.13%; InterGlobe Aviation Ltd., 3.97%; and JD.com Inc., Class A, ADR, 3.79%.

As of December 31, 2017, the top ten holdings of Davis Select Worldwide ETF were: Alphabet Inc., Class C, 6.47%; Naspers Ltd. – N, 5.96%; Amazon.com, Inc., 4.93%; Wells Fargo & Co., 4.27%; Encana Corp., 4.25%; Alibaba Group Holding Ltd., ADR, 4.23%; Berkshire Hathaway Inc., Class B, 4.13%; JD.com Inc., Class A, ADR, 3.65%; Adient PLC, 3.59%; and Fang Holdings Ltd., Class A, ADR, 3.45%.

Davis Funds and Davis Fundamental ETF Trust have adopted Portfolio Holdings Disclosure policies that govern the release of non-public portfolio holding information. These policies are described in the appropriate prospectus. Holding percentages are subject to change. Visit davisfunds.com, davisetfs.com, or call 800-279-0279 for the most current public portfolio holdings information.

Over the last five years, the high and low turnover rate for Davis Global Fund was 53% and 16%, respectively. Over the last five years, the high and low turnover rate for Davis International Fund was 47% and 12%, respectively. In its first year of operation, the turnover rate for Davis Select Worldwide ETF was 14%.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper 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. The **MSCI ACWI (All Country World Index) ex U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The Index includes reinvestment of dividends, net of foreign withholding taxes. Investments cannot be made directly in an index.

Shares of the Davis Funds and 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.

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