Davis ETFs

Update from Portfolio Managers

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Davis Select Financial ETF (DFNL)

Fall Review 2021

Summary

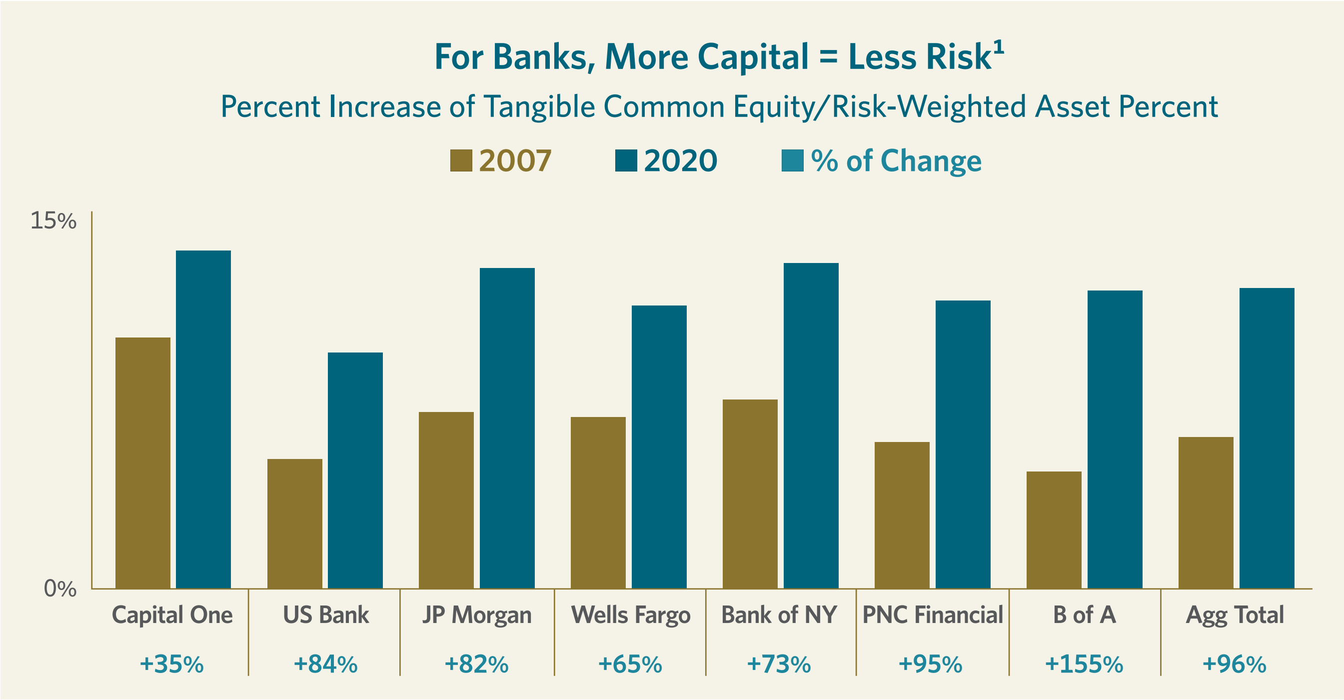
- Davis Select Financial ETF (DFNL) returned 24.76% in the first seven months of 2021, compared to 25.14% for the S&P Financials Index and 17.99% for the S&P 500 Index. Since last July, the Fund has returned 57.76% vs. 55.21% for the S&P Financials Index, and 36.45% for the S&P 500 Index.
- Despite the sharp market recovery from the COVID panic of 2020, we believe financial stocks remain misunderstood, mispriced and primed for long-term revaluation.
- In our opinion, financial stocks have a more attractive balance of risk and reward than any other sector in today's market.
- Durable Financial Strength: Our largest U.S. banks today hold 96% more capital relative to their risk-weighted assets than before the financial crisis. Every one of our major bank holdings remained profitable and built capital through the pandemic.
- Earnings Growth: Over the last 30 years, earnings of the S&P financial sector grew at more than 6% per year, twice the rate of GDP even after paying above-average dividends.
- Attractive Valuations: Financial stocks are now the cheapest group in the S&P 500 Index and trade at their lowest relative valuation in decades.
- Interest Rates: Many financial companies stand to benefit, as higher interest rates may increase earnings.
- Capital Allocation: Many banks have the ability to drive significant shareholder value in the form of dividends and share repurchases.
- If history is a guide, innovations such as blockchain and other types of fintech are more likely to be incorporated into the industry than to disrupt it.

The average annual total returns for Davis Select Financial ETF for period ending June 30, 2021 are: NAV Return, 1 year, 63.70%; Inception (1/11/17), 11.34%; Market Price Return, 1 year, 64.37%; Inception, 11.39%. The performance presented represents past performance and is not a guarantee of future results. *Investment return and principal value will vary so that, when redeemed, an investor's shares may be worth more or less than their original cost. NAV prices are used to calculate market price performance prior to the date when the Fund was first publicly traded. Market performance is determined using the closing price at 4:00 pm Eastern time, when the NAV is typically calculated. Market performance does not represent the returns you would receive if you traded shares at other times. For the Fund's most recent month end performance, please call 800-279-0279 or visit www.davisetfs.com. The total annual operating expense ratio as of the most recent prospectus was 0.64%. The total annual operating expense ratio may vary in future years. Current performance may be lower or higher than the performance quoted. Due to market conditions the fund has experienced relatively high performance which may not be sustainable for the long term.* 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. All fund performance discussed within this piece are as of 7/31/21 unless otherwise noted. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results.**

Durability

As with the Great Depression, we believe the lessons learned from the financial crisis of 2008 dramatically reduced the banking sector's risk and improved its safety and soundness. Our largest U.S. banks today hold 96% more capital relative to their risk-weighted assets than before the crisis. In addition to more capital, banks have also reduced risk through tighter underwriting standards and a greater focus on compliance. Their underwriting was put to the test in 2020 and passed with flying colors.

Rather than being part of the problem, our nation's banks were part of the solution as we dealt with the pandemic, extending credit, deferring collections and helping administer government programs. More importantly, even after significantly increasing reserves last year in anticipation of loan defaults that thus far have not materialized in a significant way, every one of our major bank holdings remained profitable and built capital through the worst economic downturn since the 1930s. ■



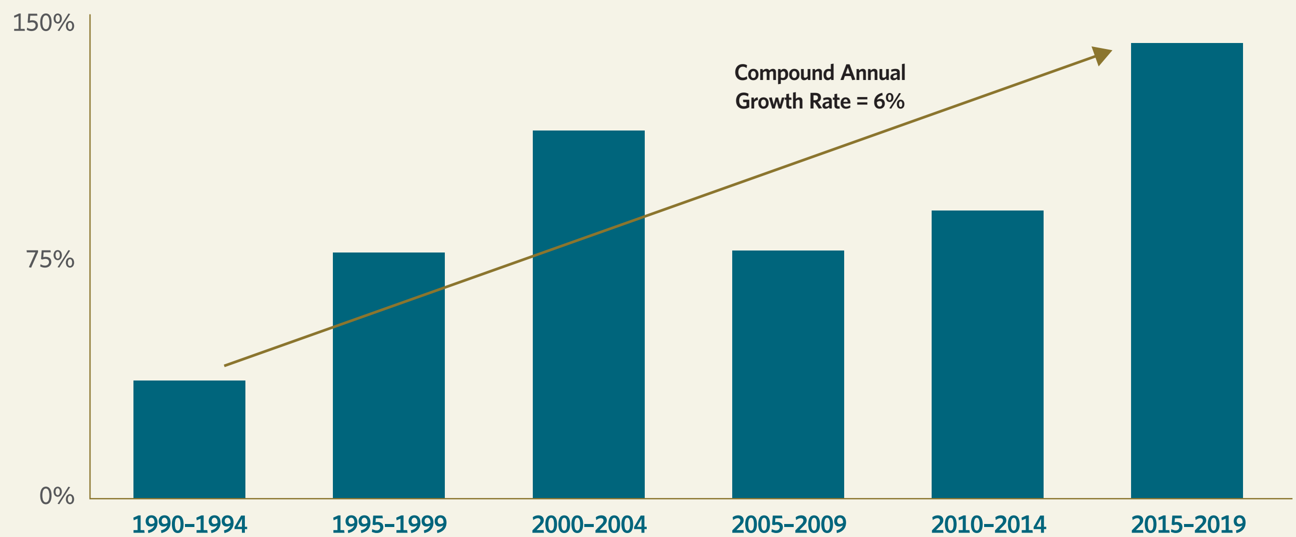
1. Source: Bloomberg and Davis Advisors.

Growth

An often overlooked characteristic of the financial services sector is its long-term growth. In fact, over the last 30 years, the earnings of the S&P financial sector have grown at more than 6% per year, twice the rate of GDP even after paying above-average dividends along the way. Beyond this sector growth, well-managed financial companies can take market share from sleepier competitors, allowing them to post truly impressive growth rates for decades. We refer to such companies as growth stocks in disguise, as investors often fail to appreciate that robust long-term growth can be found in this relatively mature industry. ■

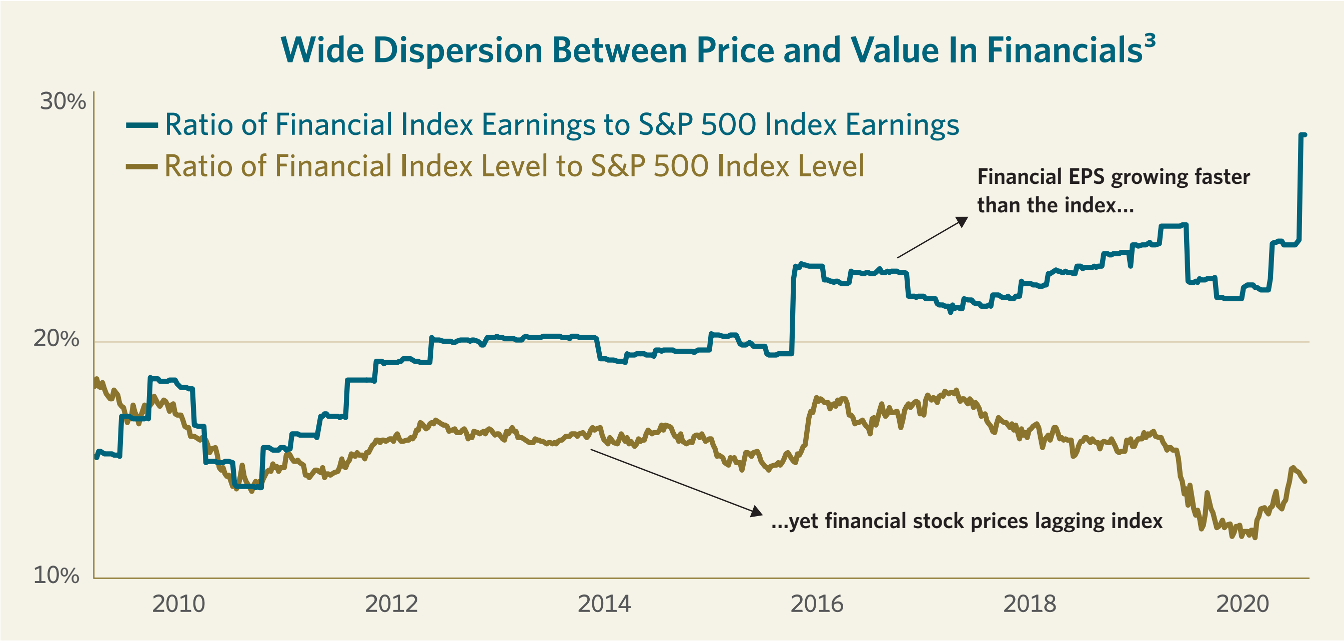
Steady Compounding Machines[2]

S&P Financial Index 5-Year Cumulative EPS Growth



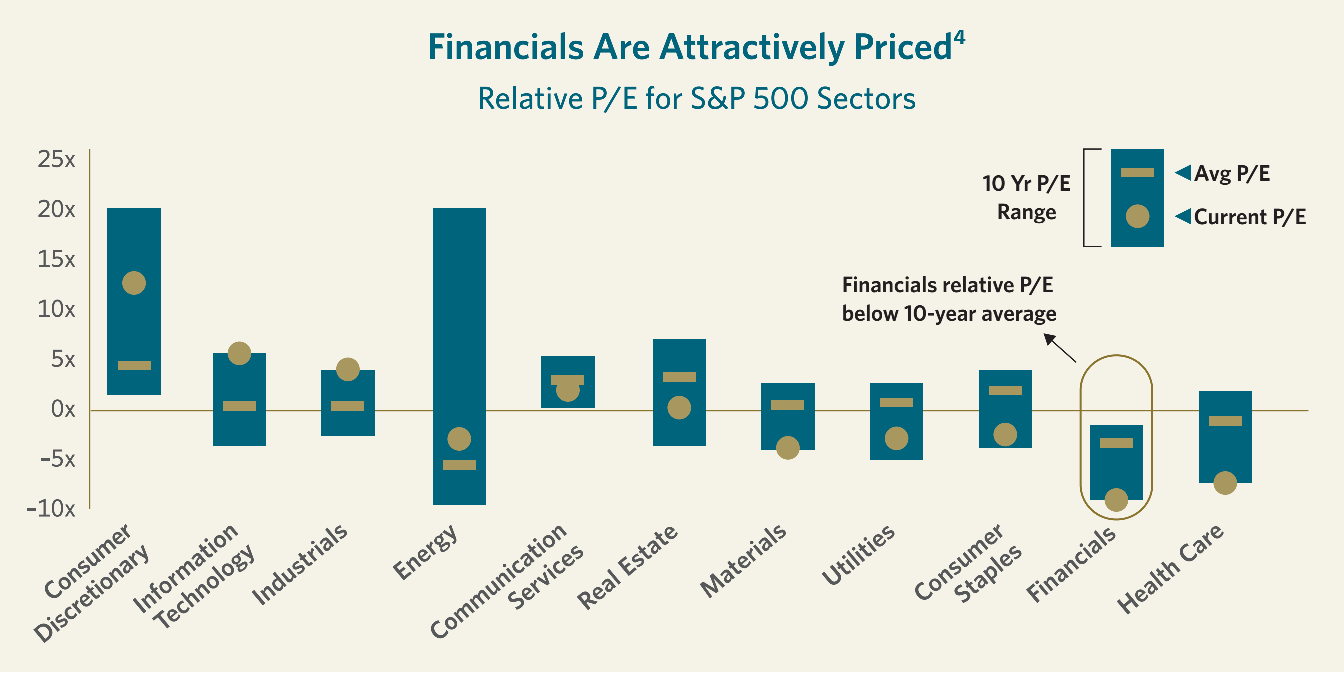
2. Source: Bloomberg and Davis Advisors.

Valuation



For more than a decade, the earnings of the financial sector have risen as a percentage of the S&P 500 Index's overall earnings (illustrated by the blue line in the chart above), while their relative valuation has fallen. This combination of rising earnings and falling valuation presents investors with an opportunity to buy financials at bargain prices.

The magnitude of this discount is reflected in the fact that financial stocks are now the cheapest group in the S&P 500 Index and trade at their lowest relative valuation in decades as seen in the chart below. ■

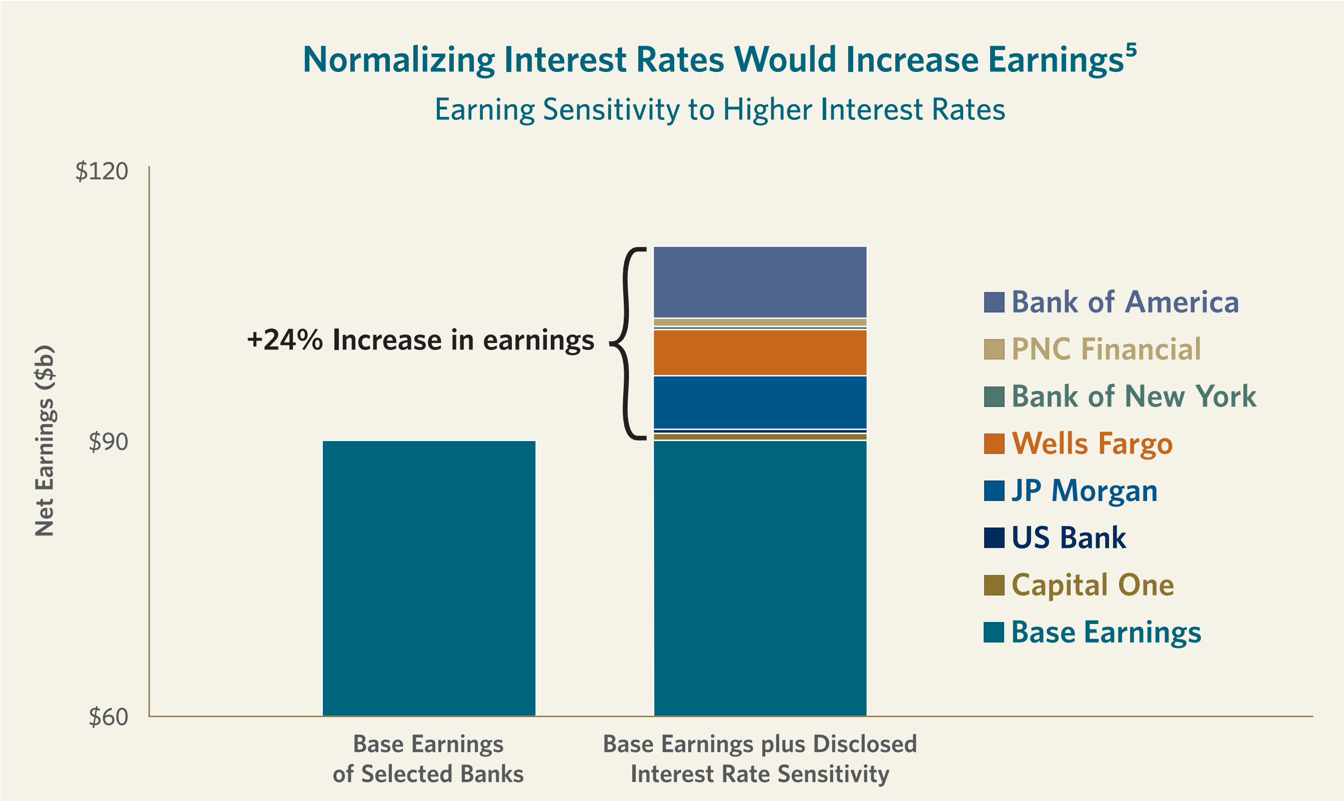


3. Source: Bloomberg and Davis Advisors as of 4/16/21. **4.** Source: Credit Suisse as of 4/22/21.

Interest Rate Sensitivity

As investors fret about the possibility of higher interest rates, many financial companies stand to benefit, as higher interest rates increase earnings. For insurance companies, higher interest rates benefit investment income, as float is invested in higher yielding bonds.

For banks, higher rates increase the spread between deposits and loans. For example, based on the regulatory disclosure of our top bank holdings, a relatively modest increase of 50–100 basis points in interest rates would drive a 24% earnings increase in the first year alone. ■



5. Source: Davis Advisors and Company Filings as of 12/31/20.

Capital Allocation

Because many banks now hold levels of capital far in excess of historical rates, they have the ability to drive significant shareholder value in the form of dividends and share repurchases—*even in the unlikely event that net income does not grow.*

To understand how a company that doesn't grow can still generate good returns for shareholders, imagine a hypothetical bank with a market cap of $12 billion and net income of $1 billion per year. As shown in the example below, if the company allocates 35% of net income to dividends and 65% to share repurchase, the gradual reduction in shares outstanding drives a steady increase in earnings per share, dividends per share and stock price, even without any change in net income or the price-earnings ratio. Compounded out over five years, the powerful alchemy of share repurchase and dividends turns no net income growth into an 8.6% compound annual return for shareholders. What's more, this return could easily be enhanced by any growth in net income and any expansion in the price-earnings multiple from today's depressed levels which we believe is likely. ■

The Importance of Capital Allocation: How No Growth in Net Income Becomes an 8.6% Total Shareholder Return[6]

Example assumes net income allocated 35% to dividends, 65% to share repurchase

Hypothetical Davis Financial Holding	Today	Next Year		Year Five
Earnings (no growth)	$1.0B	$1.0B	→	$1.0B
Shares Outstanding	$1.0B	$946M	→	$757M
EPS	$1.00	$1.06	→	$1.32
Dividends Per Share	$0.35	$0.37	→	$0.46
P/E (stays constant at 12x)	12x	12x	→	12x
Share Price	$12	$13	→	$16

6. This hypothetical example is for illustrative purposes only and does not represent the performance of any particular investment. The return of a stock's share price will vary based on a number of factors (including, but not limited to, those identified above). Equity markets are volatile and an investor may lose money.

Risks

To be successful, long-term investors in financials must always consider risk. For reasons discussed above, we believe many of the traditional risks of the financial sector—including capital, liquidity, credit and interest rates—are low. Furthermore, while regulatory risk always bears mention, the substantial reregulation of the industry following the financial crisis seems to have largely put this risk behind us for another generation.

Today, the risk most on investors' minds comes from Silicon Valley in the form of innovation, disruption and so called fintech. However, the challenges and opportunities of innovation are nothing new to the financial sector. Over the last 50 years, for example, banking has faced disruption from the invention of the money market fund, the mortgage-backed security, junk bonds, interest rate swaps, non-bank financials, the ATM, branchless credit card issuers and the internet banks, to name just a few.

Yet throughout this period, banks have proven masterful at incorporating innovation into their core business models, often with the help of regulators who understandably grow nervous when unregulated institutions make too many inroads into the economically critical financial sector. While we carefully study today's innovators, the long history of financials incorporating innovation into existing business models is reassuring. One current example that bears this out is peer-to-peer payments, an idea popularized by a Silicon Valley startup called Venmo. In response to this innovative new model, the banks created a similar platform called Zelle, which now processes nearly twice as much volume as Venmo. While we are always on the lookout for disruptive change, history teaches that financial companies are more likely to incorporate innovation than to be dislodged by it. ■

Conclusion

In the decade following the financial crisis, financial companies demonstrated a powerful combination of resiliency, profitability and growth while their share prices languished. This disconnect reached a stunning crescendo during the COVID crisis when panicked sellers raced for the exits, making the financial sector one of the worst performing groups of that period. The sharp recovery from this overreaction is just the beginning of what we expect to be a decade of revaluations as investors come to appreciate the durability, steady growth and low valuations of a carefully selected portfolio of financial leaders. These attributes, combined with a sensitivity to higher interest rates, shareholder-friendly capital allocation and a demonstrated ability to incorporate innovation, we believe make financials the most attractive blend of risk and reward in today's market.

We continue to be excited by the investment prospects for the companies in Davis Select Financial ETF. Nothing provides a stronger indication of that than the fact that the Davis family and colleagues have invested in the ETF alongside our clients. We are grateful for the trust you have placed in us. ■

This report is authorized for use by existing shareholders. A current Davis Select Financial 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, charges, and expenses before investing. Read the prospectus carefully before you invest or send money.

Shares of DFNL 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.

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.

Objective and Risks. Davis Select Financial ETF's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. 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. Some important risks of an investment in the Fund are: **stock market risk; common stock 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; 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; **financial services risk; credit risk:** the issuer of a fixed income security (potentially even the U.S. Government) may be unable to make timely payments of interest and principal; **interest rate sensitivity risk:** interest rates may have a powerful influence on the earnings of financial institutions; **focused portfolio risk; headline risk; foreign country risk; large-capitalization companies risk; manager risk; 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; **cybersecurity risk:** a cybersecurity breach may disrupt the business operations of the Fund or its service providers; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **fees and expenses risk; foreign currency 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; **emerging market risk;** and **mid- and small-capitalization companies risk.** See the prospectus for a complete description of the principal risks.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security.As of 6/30/21, the top ten holdings of Davis Select Financial ETF were: Capital One Financial, 10.8%; U.S. Bancorp, 7.2%; Berkshire Hathaway, 6.1%; Wells Fargo & Co., 5.7%; American Express, 5.6%; PNC Financial Services Group, 4.9%; Markel, 4.8%; Bank of America, 4.8%; Chubb, 4.6%; JPMorgan Chase & Co., 4.5%.

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.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, 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 **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. Investments cannot be made directly in an index.

After 10/31/21, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

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.

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