DFNL

Davis Select Financial ETF

Insights from Portfolio Manager

Chris Davis

Davis ETFs

The Equity Specialists™

Davis Select Financial ETF (DFNL)

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Executive Summary

- We are pleased to offer investors the Davis Select Financial ETF (DFNL), one of the first actively managed equity ETFs offered by a manager with decades of experience investing in financial stocks.
- DFNL is a high-conviction, benchmark-agnostic portfolio with low expected turnover and a strategic long-term time horizon.
- Managed using the Davis Investment Discipline, DFNL invests in durable, well-managed financial businesses with competitive advantages selling at a discount to true value.
- DFNL offers the benefits of a traditional ETF: low costs, tax efficiency, intraday liquidity, and transparency.
- Financial stocks are one of the most attractive areas in today's market with many best-of-breed financial companies selling at a discount to true value.
- We believe selectivity and sound judgment are the keys to long-term outperformance in the vast, inefficient financial sector. Investing in stronger companies and avoiding weaker ones can potentially enhance returns.

Davis Select Financial ETF (DFNL)

Davis Introduces Actively Managed Equity ETFs

We are pleased to offer investors the Davis Select Financial ETF (DFNL), Davis Select U.S. Equity ETF (DUSA), and Davis Select Worldwide ETF (DWLD). 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] ■

Financials Stocks: One of Today's Most Attractive Investments

In 1947, my grandfather Shelby Cullom Davis began investing in financial stocks. Known as the "Dean of Insurance Stocks," he compounded a $100,000 investment into $800 million over his career by investing almost exclusively in financial companies.

The characteristics my grandfather looked for in financial companies included competitive advantages, experienced management and disciplined capital allocation. We use these same criteria. Today we find many financial companies with above-average long-term growth prospects trading at below-average price/earnings (P/E) multiples. This is the reason my grandfather called financials "growth stocks in disguise."

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

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%.

More recently, investors have tended to consider financial companies inextricably linked to the 2008 financial crisis, resulting in a lingering aversion to this out-of-favor group. However, our research shows certain high quality financial companies remained profitable during the worst financial crisis since the Great Depression. Moreover, a significant percentage of the assets on these companies' balance sheets have been added since the financial crisis. These businesses are currently trading at a substantial discount to the market and having doubled their cash ratios are less risky in our opinion. In addition, limited competition and extremely tight credit standards have led to record earnings. Now, some financial companies are in a position to distribute an increasing percentage of their earnings. In combination, these developments are creating a cyclical opportunity in financial stocks in our view.

In addition to the current cyclical opportunity, we believe a strong case can be made that the right financial company is by its nature a long-term, cash-compounding machine. Such a business generates strong current earnings that can be reinvested as well as providing the potential for excellent long-term growth because the industry is so vast and fragmented and the products and services offered by financial institutions are as long lasting as they are ubiquitous. Almost everyone is a customer of at least one, two or three financial companies. In brief, financial businesses offer products that do not become obsolete.

When analyzing financial companies, we focus on both leverage and credit risks. As a result, we seek companies with strong balance sheets, sensible underwriting cultures and conservative management. ■

Representative Holdings	
MARKEL®	Markel, a specialty property and casualty insurer, has generated excellent investment results for decades and grown book value per share more than 14% annually over the last 20 years.[3]
VISA	Visa, the largest payments processing company, has benefited from a hard-to-replicate business model that includes a secure payments network, trusted brand, large merchant base, and powerful technology.
CHUBB	Chubb is a global insurance leader specializing in property and casualty insurance, reinsurance and Asia-focused life insurance. The company a well-regarded management team, strong balance sheet and disciplined underwriting culture.
BNY MELLON	Bank of New York Mellon, the world's largest custodian bank with more than $27 trillion of assets under custody, is a durable franchise that has benefited from economies of scale.
Berkshire Hathaway Inc.	Berkshire Hathaway owns a diversified portfolio of attractive businesses and is a competitive world-class capital allocator.

3. As of 12/31/15.

Selectivity: The Key to Long-Term Outperformance

Investing in stronger companies and avoiding weaker ones can potentially make a significant difference over time. Because the returns of financial stocks are widely dispersed, selectivity is key. In fact, over the last ten years, the average difference between the best and worst performing financial stock in the S&P 500 Index has been nearly 150%.[4] What accounts for these wide differences in outcomes?

A critical factor to recognize when researching financial companies is they are first and foremost human capital businesses. As a result, management judgment, underwriting practices and employee incentives play a central role in determining which financial companies should perform well through an entire business cycle versus those that might be structured to perform well in a specific environment but not necessarily to endure over time. As bottom-up active managers, we have the flexibility to invest more capital in those businesses we believe are best positioned to build long-term wealth while avoiding those with less attractive prospects.

Contrast our carefully considered approach with many passively managed strategies that indiscriminately allocate the most capital to stocks with the largest market capitalizations. This approach can subject investors to the risk of concentration in the most vulnerable areas of the sector.

We build the Davis Select Financial ETF one company at a time. The portfolio includes best of breed commercial banks, investment banks, insurance companies, wealth management firms, asset managers, credit card companies, diversified financial conglomerates, and rating agencies.[5] ■

Financials: Underappreciated and Under Owned

The biggest hurdles to investing in financial companies in this environment are psychological and emotional as investors still remember the aftermath of the 2008 financial crisis. While the overall market has more than doubled since then, financial stocks have not appreciated as much—even though select financial companies are delivering record earnings and have the strongest balance sheets in decades.

As always, investor fear is correlated with prices. When stock prices decline, people feel more concerned and are less likely to buy, and when prices go up they feel reassured. This behavior tends to result in an undesirable outcome.

We take the opposite approach. We search for companies with stock prices that have lagged the companies' true business value. We look in overlooked areas of the market where prices do not reflect true value. In today's environment, the financial sector offers the opportunity we seek.

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 Financial 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. ■

4. Source: Davis Advisors and Wilshire Atlas. As of 12/31/16. **5.** 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.**

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, 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 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. 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 Worldwide ETF's investment objective is long-term growth of capital. 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, depositary 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 Financial ETF were: Markel Corp., 6.70%, Capital One Financial Corp., 6.13%, Loews Corp., 6.06%, American Express Co., 5.99%, Berkshire Hathaway Inc., Class B, 5.79%, U.S. Bancorp, 5.53%, Chubb Ltd., 5.37%, Visa Inc., Class A, 5.21%, Goldman Sachs Group Inc., 4.54%, JPMorgan Chase & Co., 4.51%.

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. **Book value per share** indicates the dollar value remaining for common shareholders after all assets are liquidated and all debtors are paid.

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.

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