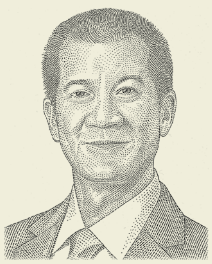

Davis Select International ETF

Update from Portfolio Manager

Danton Goei

Davis ETFs

The Equity Specialists

Davis Select International ETF

Annual Review 2019

Perspectives on Our Global Investment Approach and Portfolio Positioning

The Fund invests around the world in select businesses to take advantage of long-term international trends.[1]

Since the underperformance of the Davis Select International ETF (DINT) in 2018 was due in large part to our Chinese holdings, examining why we continue to have confidence in these companies is important. A significant reason for the poor performance of Chinese equities in 2018 has been the tariffs imposed by the United States on Chinese imports starting in July, which led to a series of retaliatory measures. As investors reacted negatively to these macroeconomic concerns, Chinese equities underperformed U.S. stocks. Major Chinese indexes such as the Shanghai Stock Exchange Composite Index and the MSCI China Index declined by –26.91% and –18.86% respectively in 2018. As a result of these price declines, these indexes are trading at highly attractive price to earnings ratios of 10 times earnings and 11 times earnings, respectively. Thus, investor fear is creating what we believe to be an attractive buying opportunity today.

In addition, although the U.S.-China trade dispute will be a headwind to Chinese economic growth, we believe the impact has been overstated. While the export sector was historically a key part of the Chinese economy and a big driver of growth, today exports are a much smaller part of the economy. For example, net exports, which represented 9% of GDP in 2007, fell to only 2% in 2017. While trade's contribution to GDP growth has declined, the consumer sector has taken up the slack. In the first nine months of the year, consumer spending accounted for 78% of GDP growth compared to a 46% contribution five years ago in 2013.[2]

While macroeconomic conditions can be important, we are not investing in the country of China or even in the Chinese market as a whole. Over the past several years our Chinese investments have focused on a certain part of the Chinese market: consumer companies. China's consumption as a percentage of GDP has grown from 35% in 2010 to 38% in 2018 but is still well below the current European Union level of 56% and the United States level of 68%.[3]

The Chinese consumer sector is not just growing rapidly but more importantly includes companies with investment characteristics we seek such as high returns on capital, low capital intensity, iconic brands, economies of scale, the network effects associated with a fast-growing user base, and high barriers to entry that ultimately yield durable competitive advantages. We have identified a number of Chinese consumer companies we believe have strong competitive positions, durable business models, good management teams, and attractive valuations. Moreover, these companies such as Alibaba Group, JD.com and New Oriental Education are driven by Chinese consumer demand with minimal exposure to U.S. exports. While the stock prices of these companies have been heavily affected by concerns about the impact of the U.S. trade dispute, the businesses and earnings potential of our holdings have not, which we believe makes them attractive investment opportunities. ■

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. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results.** **1.** Foreign investments, particularly those in emerging markets, involve greater risk than U.S. investments. Some of these risks are foreign country risk, currency risk, market risk, and emerging market risk. See endnotes for a complete description of these risks. **2.** World Bank and CEIC figures. **3.** World Bank national accounts data and OECD national accounts data files. As of 9/30/18.

Representative Holdings

New Oriental Education is an example of a company that has seen its stock price decline due to trade concerns but that will not be affected by U.S. tariffs in our view, which is why we added to the position in 2018. New Oriental Education is the largest provider of private education services in China. The company started in 1993 as a test preparation business, but in recent years has shifted into kindergarten through 12th grade after-school tutoring, which is now its largest and fastest-growing business. We believe this is an industry with several long-term drivers of growth, not the least of which is a different cultural approach to children's education. As a percentage of income, Chinese parents spend more than four times as much as U.S. parents on their children's education. This spending is driven by a need to bridge the gap between low public spending on education and extremely competitive university admission rates in China. For example, the admission rate for the top 50 U.S. universities is 23% versus an admission rate of only 2% for the top 39 Chinese universities. Admission into these top universities depends on a student's performance on the national Gaokao exam. The Gaokao exam lasts nine hours, spanning two days, and tests students' knowledge of literature, math, English, and science. In anticipation of the Gaokao exam, students start attending after-school tutoring schools as young as kindergarten age, providing a recurring revenue stream for New Oriental Education, which also benefits from a measurable cost advantage in attracting desirable students as a result of the company's brand name.

While regulation in the industry is increasing and currently weighing on multiples, we believe fundamentals remain strong and regulation will be a long-term positive for both the industry and New Oriental Education, the industry leader. In our view, the company benefits from both a strong reputation and a strong brand, two key competitive advantages in building its business relative to lower quality, lower cost providers. We expect the Chinese education market and New Oriental Education's market share to grow over time. New Oriental Education currently trades at 20 times estimated fiscal year 2020 owner earnings with a revenue growth rate in the high 20s.

One area where the Fund is finding value now is select international financial companies. A good example of a recent addition to the Portfolio is the Development Bank of Singapore (DBS), the largest bank in Singapore and one of the largest in Asia. With 60% of the bank's deposit base in low cost current accounts and savings accounts, DBS has a significant advantage in the cost of funding. In addition to a retail customer base with strong brand loyalty, DBS has increased its competitive advantage and ability to attract low cost deposits by offering sophisticated cash management services for corporate clients and by making wealth management a strategic focus for the bank. DBS has become one of the top five banks in Asia for wealth management services where it benefits from a few structural advantages including domicile in a AAA-rated rule of law country and having Temasek, Singapore's Sovereign Wealth Fund, as an anchor investor. Aside from its home market in Singapore, DBS is building its presence in Greater China (China, Hong Kong and Taiwan), India and Indonesia. While this development aside from Hong Kong is currently diluting the company's overall return profile, we think as business efforts in any of those countries increase in scale they will meaningfully boost DBS's earnings power. Management also had the foresight to see the threat from nontraditional competitors and has invested to make DBS one of the most technologically advanced banks globally. We think its approach to digital banking will maintain the company's competitive advantage in terms of efficiency and customer retention for the foreseeable future. DBS trades at just under 10 times estimated 2019 owner earnings, delivering a return on tangible equity in the mid-teens and a 5% cash yield. ■

Conclusion

We believe a key differentiator and long-term advantage for DINT is our focus and willingness to look quite different from the Fund's benchmark index, the MSCI ACWI ex US. While this inevitably leads to periods where we are out of sync with the index over the short term, the fact Davis Advisors has consistently generated successful results for 50 years gives us great conviction in our fundamental, bottom up, long-term approach to investing. As we apply this tried and true investment approach, we are encouraged by the strong competitive positioning and positive business outlook for the companies the Fund owns. We thank you for your continued trust and interest. ■

This report is authorized for use by existing shareholders. A current Davis Select International 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.

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.

Shares of DINT 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. Objective and Risks. Davis Select International ETF's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. Some important risks of an investment in the Fund are: **authorized participant concentration risk; common stock risk; cybersecurity risk; depositary receipts risk; emerging market risk:** As of December 31, 2018, Davis Select International ETF had approximately 52.8% of assets invested in securities from emerging markets; **exchange-traded fund risk; fees and expenses risk; foreign country risk; foreign currency risk; foreign market 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.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of December 31, 2018, the top ten holdings of Davis Select International ETF were: Naspers Ltd.–N, 7.01%; Alibaba Group Holding Ltd., ADR, 6.61%; New Oriental Education & Technology ADR, 6.26%; Ferguson PLC, 4.96%; Schneider Electric SE, 4.75%; DBS Group Holdings Ltd., 4.70%; Safran S.A., 4.61%; Hollysys Automation Technologies Ltd., 4.42%; Sul America S.A., 4.31%; JD.com Inc., Class A, ADR, 4.29%.

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) ex US 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. **Shanghai Stock Exchange Composite Index** is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The index was developed on December 19, 1990 with a base value of 100. Index trade volume on Q is scaled down by a factor of 1000. The **MSCI China Index** captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 459 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 5% of their free float adjusted market capitalization. Investments cannot be made directly in an index.

Shares of the Davis ETFs 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.

Foreside Fund Services, LLC
3 Canal Plaza, Suite 100, Portland, Maine 04101
800-279-0279, davisetfs.com

Item #6316 12/18