



Update from Portfolio Manager
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Portfolio Manager
VIDEO

Davis Select International ETF (DINT)

Fall Review 2021

Update on the Fund's current positioning and recent results.

For the first seven months of 2021, Davis Select International ETF returned -13.21%, underperforming the MSCI ACWI (All Country World Index) ex US return of 7.36%. The main detractors to year-to-date performance have been our Chinese consumer holdings. JD.com, Alibaba Group, iQiyi, and Naspers, which owns a significant stake in Tencent, underperformed due to heightened regulatory concerns. Of note, the Chinese government recently enacted new regulations that materially impaired the value of companies in the after-school tutoring sector, including New Oriental Education & Technology Group and TAL Education Group, both of which we have since sold. Short-term underperformance is inevitable, given our willingness to look different than the Index by investing in a focused portfolio of

long-term advantaged companies. Importantly, the stock weakness does not reflect recent company operating results, which have been strong, with these top Chinese consumer companies averaging revenue growth of 27% over the last twelve months.

Starting in earnest in November 2020, the Chinese government embarked on a comprehensive antitrust review of the consumer technology sector. Historically China has followed a more laissez-faire antitrust regulatory approach tolerating fierce and even aggressive competitive behavior as Big Tech transformed the way people communicated, shopped, played and accessed information. As Big Tech has grown in scale and scope, becoming crucial to not only retail and entertainment, but also enterprise software, chip design, news, media, and especially financial services, the Chinese government has wanted to tighten its regulatory oversight.

The average annual total returns for Davis Select International ETF for periods ending June 30, 2021 are: NAV Return, 1 year, 28.08%; Inception (3/1/18), 6.09%; Market Price Return, 1 year, 27.90%; Inception, 6.10%. 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 0.65%. The total annual operating expense ratio may vary in future years. Current performance may be lower or higher than the performance quoted.

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 discussions 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.**

The trend of stricter regulatory oversight of Big Tech is one that is global in nature. Europe led this trend by starting to investigate Google in 2010 for antitrust violations and five years later in 2015 serving the search market leader with a formal complaint. Investigations and lawsuits against other Big Tech companies have become commonplace, as governments everywhere seek to establish standardized regulations for the new and evolving consumer technology sector. The big technology companies have had to adapt and build large regulatory departments, but the scale of their businesses that first invited regulatory scrutiny has, if anything, grown even larger over the past several years.

It is true that the Chinese government operates differently than those in democratically-elected states such as in Europe and the United States, and its decision-making is often opaque. We do, however, have a long government track record to look back on, given the Communist Party of China has been in power for so long. This track record over the past several decades has been one of pragmatism focused on economic growth. At times, the Chinese government has been compelled to make course corrections, such as dealing with the terrible environmental damage that was the consequence of economic growth at breakneck speed or regulating the real estate market to avoid frequent boom-bust cycles. But tightening regulation is nothing new, and the past record indicates that the goal of stricter oversight is to establish a healthier environment for future growth.

The Chinese government has also clearly communicated what its long-term goals are. In 2015, the government proclaimed the Made in China 2025 strategy, which was a policy roadmap to transform the Chinese economy from a powerhouse in labor-intensive industries into a powerhouse of technology-intensive products and services. Industries specifically targeted for leadership positions include information technology, artificial intelligence, robotics, new materials, biotechnology, aerospace and renewable energy. Many of our

holdings, including Alibaba Group, JD.com, DiDi Global and Meituan, are leaders in many of these fields and are key to achieving China's goal of becoming a modern 21st century economy. Their entrepreneurial management teams and talented workforce are driven by the profit motives of private enterprise, and these knowledge-intensive industries are key to their companies' success. As such, we believe the ongoing technology industry antitrust review is designed to strengthen the industry, rather than weaken or nationalize it.

Alibaba Group was the first company to undergo the antitrust review and after a three-month investigation, was fined \$2.8 billion to punish it for non-competitive behavior. The government specifically mentioned its exclusive supplier contracts colloquially known as "choose one from two" as behavior harming customers and competitors. It is our expectation that Alibaba Group will be the most heavily fined company, given it had the most aggressive business tactics. While \$2.8 billion, equivalent to 4% of Alibaba Group's 2019 domestic revenues, is almost three times the previous record \$975 million anti-monopoly fine levied against Qualcomm in 2015, it is also much lower than the legal 10% of revenues that could have been assessed. \$2.8 billion is also an amount that the company can easily weather, given it is also only 4% of the cash on Alibaba Group's balance sheet. While the government clearly wanted to punish the company for non-competitive behavior, it also seems that its goal was not to permanently damage the company, but rather set clear standardized regulations for the entire industry.

Over the 15+ years we have been investing in China at Davis, we have carefully monitored government and regulatory actions, and should we see a move away from the pragmatic long-term growth strategy of the past, we will take action. Today the Big Tech antitrust review in China seems driven by similar goals and circumstances to the reviews ongoing for many years in other countries. Yet the stock market moves in our Chinese Big Tech names are imputing a very dire scenario that neither the government's

track record, long-term strategic plans or recent review of the Alibaba Group support. We instead see a collection of world-class companies trading at exceptionally attractive valuations.

Positive contributors to results were our financial holdings including DNB Bank, DBS Group, Danske Bank, Julius Baer and Bank of Butterfield. The banks proved to be extremely resilient in weathering the recession of 2020. High capital ratios and more conservative credit policies in the aftermath of the financial crisis, coupled with government stimulus programs, combined to diminish the impact of the sharp recession on bank results. Moreover, the economic outlook looks very positive, with expectations for 2021 GDP growth in the U.S. of 6.6%¹, in Europe of 4.2%², in China of 8.3%³ and for the global economy of 6.2%⁴.

Discuss some of the businesses Davis Select International ETF owns.

Danske Bank is the leading bank in Denmark, with a mature 25–30% market share across most financial products in its home market. It also acts as a challenger bank in Norway, Sweden and Finland, where it offers banking services to niche customer segments.

We opportunistically invested in Danske Bank in 2018 after it was implicated in a large money laundering scandal. The Estonian branch, accounting for less than 2% of Danske Bank's profits, saw over 200 billion Euros in suspicious funds flow through it over a number of years. In the aftermath of the scandal, the entire management team has turned over, and there has been substantial investment in updating the bank's compliance defenses. The core of Danske Bank, including during the COVID-induced recession, has proven very resilient. Uncertainty still exists, given the ongoing litigation and investigations, but with Danske Bank's strong balance sheet, good ongoing results and substantial

improvement in compliance systems, we expect the company to emerge from this scandal as an even stronger bank.

Looking forward to its restructuring in 2023, Danske Bank is trading at an attractive 6x P/E. Approximately 40% of current market cap is excess capital over regulatory requirements, and we conservatively estimate that less than a third of the excess will be eventually paid off in fines. We think Danske Bank can return to earning double-digit return on equity while the current valuation is 0.7x tangible book value, which already includes a conservative estimate for potential fines. Our estimated Internal Rate of Return (IRR) for Danske Bank is in the mid-teens, making it an attractive long-term holding.

We added South Korea's best-known company, Samsung, to the portfolio in the first quarter of 2021. Samsung's products are everywhere, and it has recently been ranked as the fifth most valuable brand in the world. Globally, no company makes more TVs, computer screens or mobile handsets. Apart from the company's branded electronic products, Samsung's subsidiaries are themselves globally recognized brands: NeuroLogica (medical equipment), Dacor (stoves/ovens, refrigerators, etc.) and Harmon International (consumer/lifestyle electronics). The Harmon division itself includes other recognizable brands like AKG, Arcam, Cambridge Audio and SmartThings.

While its handset and consumer electronics business are well-known, actually the most valuable part of Samsung is building the components that run a vast array of electronic systems globally. Samsung is the number one manufacturer of memory chips, with a 42% share of the DRAM market and 32% of the flash memory market. In addition, it accounts for 30% of all flat panel displays. Many of its largest customers, including Apple, Sony and Huawei, are also major competitors, which speaks to the trust

1. <https://www.conference-board.org/research/us-forecast>

2. https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/spring-2021-economic-forecast_en

3. <https://www.scmp.com/economy/china-economy/article/3145228/chinas-economic-recovery-falters-delta-outbreak-henan-floods>

4. <https://www.fitchratings.com/research/sovereigns/global-economic-outlook-june-2021-15-06-2021>

that Samsung has built over the years. This high level of trust is what enabled Samsung to build the number two semiconductor foundry business in the world after only Taiwan Semiconductor Manufacturing Company. Samsung's manufacturing of semiconductor chips for customers worldwide is a \$15 billion business, growing nearly 40% a year for the past decade.

Given the post-pandemic economic resurgence and well-publicized shortages in semiconductor capacity, we anticipate significant growth in Samsung's earnings power over the next few years on the back of the company's semiconductor operation. In fact, the outlook for Samsung's handset, consumer electronics, flat panel display, memory chip and especially semiconductor foundry businesses are all very positive, yet the company trades at what we estimate is a significant discount to fair value. Samsung is trading at 7-8x our estimate of peak cycle earnings power, with an attractive IRR of 14%.

Conclusion

We would encourage investors to look very much individually at companies throughout different areas of the economy and markets. A detailed search reveals that many fine businesses still represent good value, particularly considering that conditions for most sectors are improving. Owning durable compounding machines with the potential for free cash flow growth over many years is a core part of our discipline. Over the 50 years since the firm's founding, the Davis investment discipline has demonstrated an ability to generate above-average returns, based on in-depth fundamental analysis, a long-term investment horizon and a strong value discipline. While the times have changed, these fundamental principles are timeless and proven. We thank you for your continued trust and interest in Davis Select International ETF.

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.

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.

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 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: **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; **foreign country risk; exposure to industry or sector risk:** significant exposure to a particular industry or sector may cause the Fund to be more impacted by risks relating to and developments affecting the industry or sector; **headline risk; foreign market 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; emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets; **depository receipts risk:** depository receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **fees and expenses risk; foreign currency 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 International ETF were: Meituan, 6.74%; Alibaba Group, 5.66%; DBS Group, 5.47%; DNB ASA, 5.21%; JD.com, 5.06%; Julius Baer Group, 4.96%; Ferguson, 4.90%; Bank of N.T. Butterfield & Son, 4.70%; AIA Group, 4.67%; and Schneider Electric, 4.67%.

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.

Forward Price/Earnings (Forward P/E) Ratio is a stock's current price divided by the company's forecasted earnings for the following 12 months. The values for the portfolio and index are the weighted average of the p/e ratios of the stocks in the portfolio or index.

Tangible book value per share is a method by which a company's value is determined on a per-share basis by measuring its equity without the inclusion of any intangible assets. Intangible assets are those that lack physical substance, thus making their valuation a more difficult undertaking than the valuation of tangible assets.

We gather our index data from a combination of reputable sources, including, but not limited to, Lipper, Wilshire, 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. 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.