


Update from Portfolio Managers

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Davis Select U.S. Equity ETF (DUSA)

Annual Review 2021

Results

Since our firm's founding more than 50 years ago, we have built wealth through recessions and expansions, crashes and bubbles, fear and euphoria. In 2020, our decades of experience proved invaluable, allowing us to chart a steady course through a tumultuous year that included the culmination of a decade of economic expansion, followed by the worst economic contraction in a century. A year that began with the stock market surging to a record high, succeeded by the fastest 30% market drop ever. A year that witnessed the highest unemployment since the Great Depression and the biggest upside payroll surprise in history. A year that included home confinement and a global pandemic, as well as massive demonstrations and a contentious election. By remaining steadfastly focused on facts and data, rather than emotions and opinions, we successfully navigated these ups and downs, generating a 14.22% return and adding to our long record of building wealth for our shareholders. ■

The average annual total returns for Davis Select U.S. Equity ETF periods ending December 31, 2020 are: NAV Return, 1 year, 14.12%; Inception (1/11/17), 11.35%; Market Price Return, 1 year, 14.22%; 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 first traded on NASDAQ. 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 0.63%. The total annual operating expense ratio may vary in future years. Current performance may be higher or lower than the performance quoted. The Fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

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. All fund performance discussions within this piece are as of 12/31/20 unless otherwise noted. 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.**

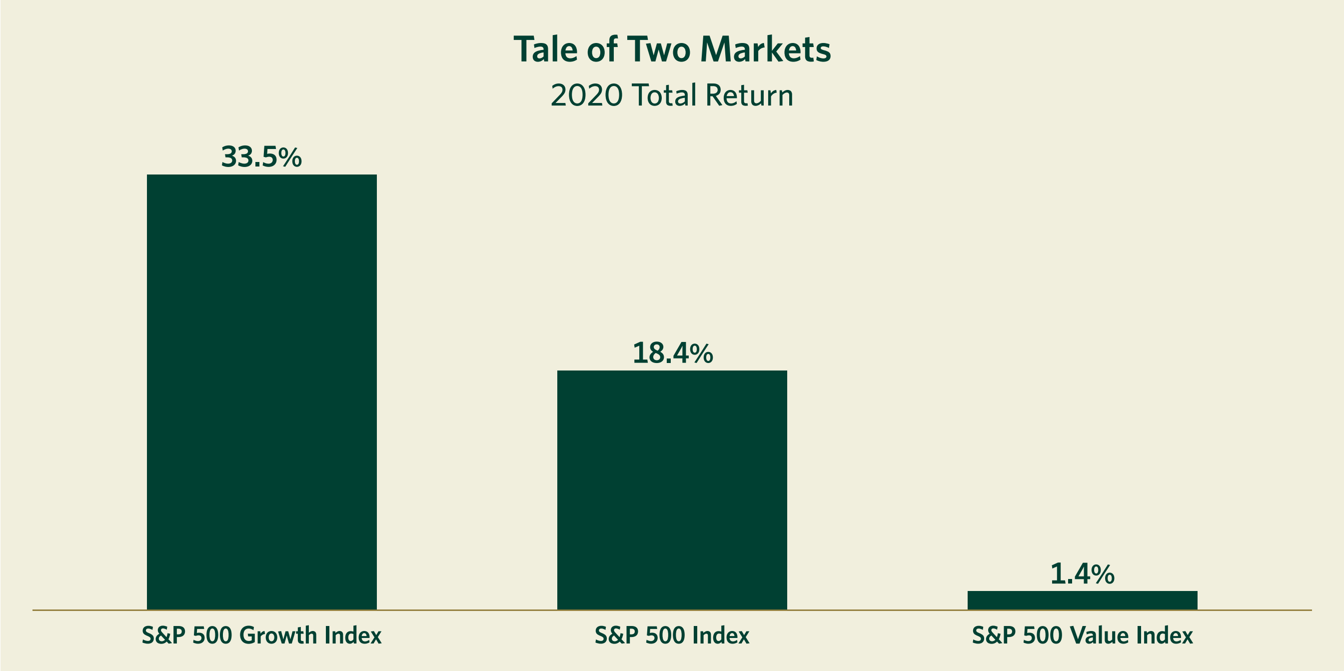
Portfolio Outlook

As investors, however, we know that the future matters more than the past. In 2020, the meteoric rise of a relatively small number of companies generated the vast majority of market returns. In fact, five companies alone explained about half of the total return of the S&P 500 Index last year. While our ownership of several of these companies contributed significantly to our decent 12-month returns, their huge price appreciation relative to the rest of the market has generated a record dispersion in relative valuations.

For active managers like us, valuation dispersions create opportunity for enhanced future returns. Specifically, this huge gap allowed us to trim positions in high fliers, while adding to durable growth businesses trading at bargain prices. By avoiding the speculative bubble of extreme valuations at one end of the market and instead owning resilient and proven growth businesses that can be purchased at bargain prices at the other end of the market, the portfolio is positioned with less risk and more relative upside than we have seen since the late 1990s. While the market's short-term direction is unknowable, this rare combination ideally positions us to build on our long-term record of wealth creation in the years and decades to come.

Dispersion Creates Opportunity

The extreme dispersion in returns and valuation makes today's investment landscape a tale of two markets, as reflected in the enormous gap between the performance of the so-called growth and value indices. As can be seen in the chart below, the S&P 500 Growth Index soared more than 33% last year, while the S&P 500 Value Index returned just over 1%.



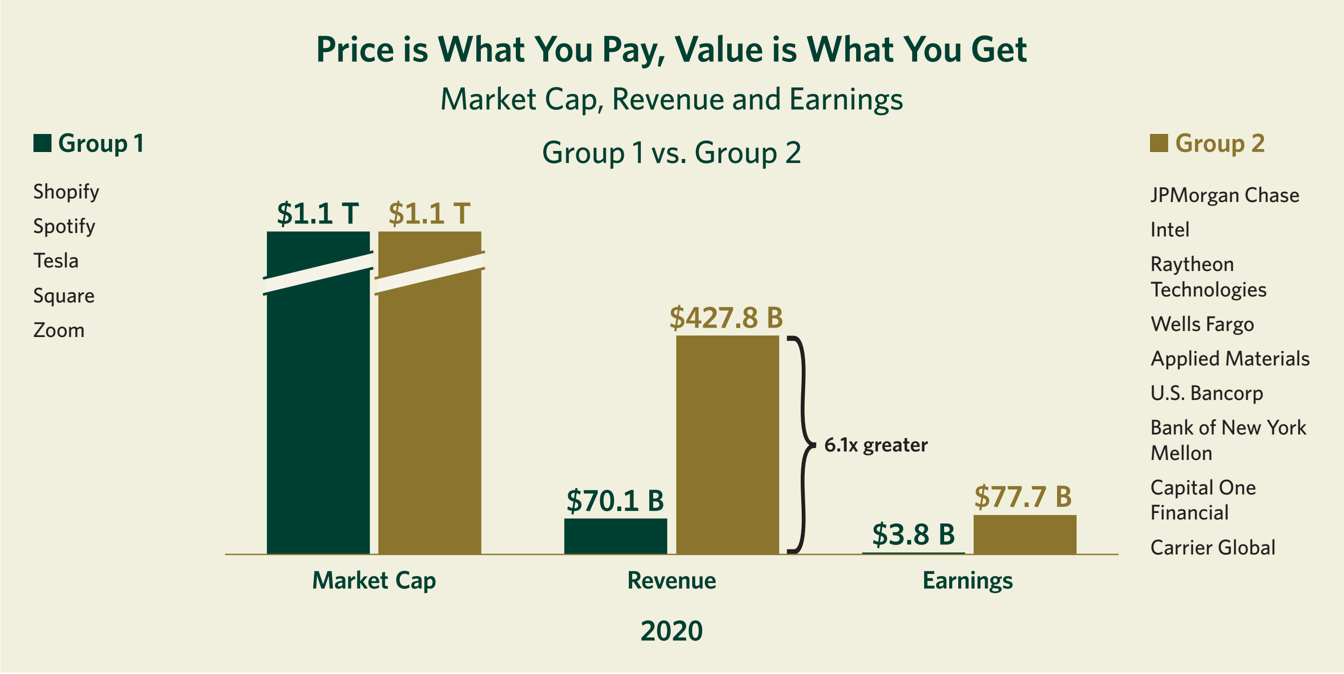
Source: Standard & Poor's and Davis Selected Advisers.

A one-year gap of more than 3,000 basis points between growth and value is one of the widest on record and creates opportunity for investors who recognize the important difference between price and value as summed up in the phrase, "Price is what you pay. Value is what you get." To understand why this extreme price dispersion creates a historic value opportunity, imagine if you had roughly $1 trillion to invest and were offered a choice of two different portfolios. Group 1 consists of 100% ownership of a small group of growth darlings, whose stock prices have soared in recent years, but possess short operating histories and uncertain long-term competitive advantages: Shopify, Spotify, Tesla, Square and Zoom. As of December 31, this portfolio could be purchased for a price of $1.1 trillion.

For the same price of $1.1 trillion you could instead buy Group 2, composed of 100% ownership of JPMorgan Chase, Intel, Raytheon Technologies, Wells Fargo, Applied Materials, U.S. Bancorp, Bank of New York Mellon, Capital One Financial and Carrier Global (not coincidently largely a cross section of DUSA's core holdings). While these companies may be less glamorous than those in Group 1, few would deny that they are leaders in their industries with long records of profitability and growth.

While the prices of Group 1 and Group 2 are roughly the same, their value is staggeringly different. As illustrated in the chart below, investors in Group 2 are receiving 6.1 times the revenue and almost $74 billion more of annual earnings per year. In other words, if you owned 100% of Group 1, you would expect to earn about $3.8 billion in 2021, If you owned 100% of Group 2, you can expect to earn $77.7 billion in 2021, more than twenty times as much.

Defenders of Group 1 will be quick to point out that these market darlings are growing quickly, to which we would offer two responses. First, even if they grow their revenue fivefold while growing



Source: Davis Advisors. Bloomberg and company filings. Not a recommendation to buy, sell, or hold any particular security. The companies in Group 1 represent the five growth securities discussed in an independent, third-party article (https://theirrelevantinvestor.com/2020/06/18/market-cap-madness/) that was focused on the significant increase in market capitalization of these growth stocks. Group 2 primarily represents DUSA holdings with a market value that was approximately equal to that of Group 1 as of 12/31/20.

their after-tax profit margin from 5% to a stellar 20%, they would still be earning less than Group 2 is earning today! Second, the companies in Group 2 are also growing. In fact, beyond their durability and resiliency, one of the most striking characteristics of these outstanding companies is their long-term record of growth. While there are few certainties in life, because of the leadership and durability of these companies we believe that their aggregate earnings will be higher five years from now than today. The fact that the enormously greater value of Group 2 can be purchased at roughly the same price as Group 1 gives us great optimism about the relative and absolute returns of our portfolio in the years ahead. ■

Portfolio Positioning: Selective, Growing and Undervalued

At Davis Advisors, our research-intensive stock selection process looks beyond labels to build the portfolio one company at a time. While the growth/value categorization discussed above is helpful in illustrating both the mania and opportunity in today's market, the best way to build wealth is by finding those select few businesses that combine the best characteristics of both categories. After all, categories do not build wealth. Nor do average businesses. Instead, generational wealth is built by investing in those select few businesses that combine durable and resilient growth with attractive valuations. As can be seen in the table that follows, we believe three words describe our portfolio today and capture the opportunity we see going forward: *selective, growing,* and *undervalued.*

Selective, Attractive Growth, Undervalued

	Fund	Index
Holdings	26	505
EPS Growth (5 Year)[1]	26.9%	19.8%
P/E (Forward)[2]	20.8x	24.9x

Selective

The portfolio's selectivity means that we invest in fewer than one out of every 15 companies included in the S&P 500 Index. Just as with the best universities or best companies, the ability to select from a large pool of applicants creates the potential opportunity to choose only the most exceptional candidates and reject those that are average or worse. Our research efforts comb through hundreds of potential investments, in an effort to seek those whose business and financial characteristics can turn long-term investments into compounding machines.

In particular, we look for durable, growing businesses that can be purchased at attractive valuations and seek to reject businesses that generate low returns, are stagnant, overvalued, overleveraged or competitively disadvantaged. While funds that passively mirror the S&P 500 Index are forced to invest in all companies, including those that we view as significantly overvalued or competitively challenged, our selective approach allows us to reject such companies. In this environment of wide dispersions, the ability to selectively reject certain companies and sectors from our portfolio may prove just as valuable as the ability to selectively invest in others.

As shown in the table above, our selectivity has allowed us to build a portfolio of companies that has grown more than 4% per year faster than the

1. Five-Year EPS Growth Rate is the average annualized earning per share growth for a company over the past five years. The values for the portfolio and index are the weighted average of the five-year EPS Growth Rates of the stocks in the portfolio or index. **2.** 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.

S&P 500 average, and yet can be purchased at a 23% discount to the average. To find such an attractive combination, our research goes beyond simplistic categories to identify growth businesses with attractive valuations, as well as value businesses with attractive growth rates.

Growth Businesses with Attractive Valuations

While some of the data shared on page 4 indicates that many growth companies are significantly overvalued (or at least unproven), our research focuses on a select handful of growth stalwarts whose shares still trade at reasonable valuations. For example, because of concerns about future litigation and regulation, several dominant Internet businesses, including Amazon, Google and Facebook, trade at steep discounts to the unproven and unprofitable growth darlings highlighted earlier. While we expect a continued barrage of negative headlines around these names, as well as increased regulation in the years ahead, we do not expect a significant decline in their long-term profitability.

We have also found opportunities to buy growth companies at attractive prices by looking overseas, particularly at companies such as Alibaba, New Oriental Education & Technology and Naspers that serve, educate and entertain the fast-growing and enormous Chinese middle class.

Finally, we have found bargain-priced growth companies in less glamorous parts of the technology ecosystem. Like the manufacturers of picks and shovels during the Gold Rush, outstanding companies such as Intel and Applied Materials have generated attractive profits manufacturing the underlying hardware that enables such exciting but speculative new fields as self-driving cars, cloud computing, artificial intelligence, machine learning, software as a service and the internet of things.

Value Businesses with Attractive Growth Rates

In the same way our research seeks to find durable growth companies that are not overvalued, we also seek out value companies capable of long-term growth. In doing so, we seek to avoid risks inherent in companies that we would classify as value traps or speculative value. While the shares of such companies may trade at cheap prices, their businesses are often fragile, impaired, prone to disruption or highly sensitive to the timing of an economic recovery. Decades of experience have taught us the dangers of owning weak businesses unable to withstand unexpected shocks, even if they sell at cheap prices. Although such speculative gambles may hit from time to time, poor businesses do not build generational wealth. Instead, our attention within the value part of the market remains steadfastly focused on finding companies that combine strength and resiliency with long-term growth, profitability and competitive advantages. In today's uncertain economy, we believe we have found such businesses trading at bargain prices in two sectors: industrials and financials.

In the industrial space, concerns about the impact of the economic downturn on short-term profitability led to a wave of selling in a select group of leaders with durable competitive advantages, long records of profitability and bright long-term prospects. Companies like Raytheon Technologies, Carrier Global, Ferguson and Berkshire Hathaway are all wonderful examples of attractive investments in this sector.

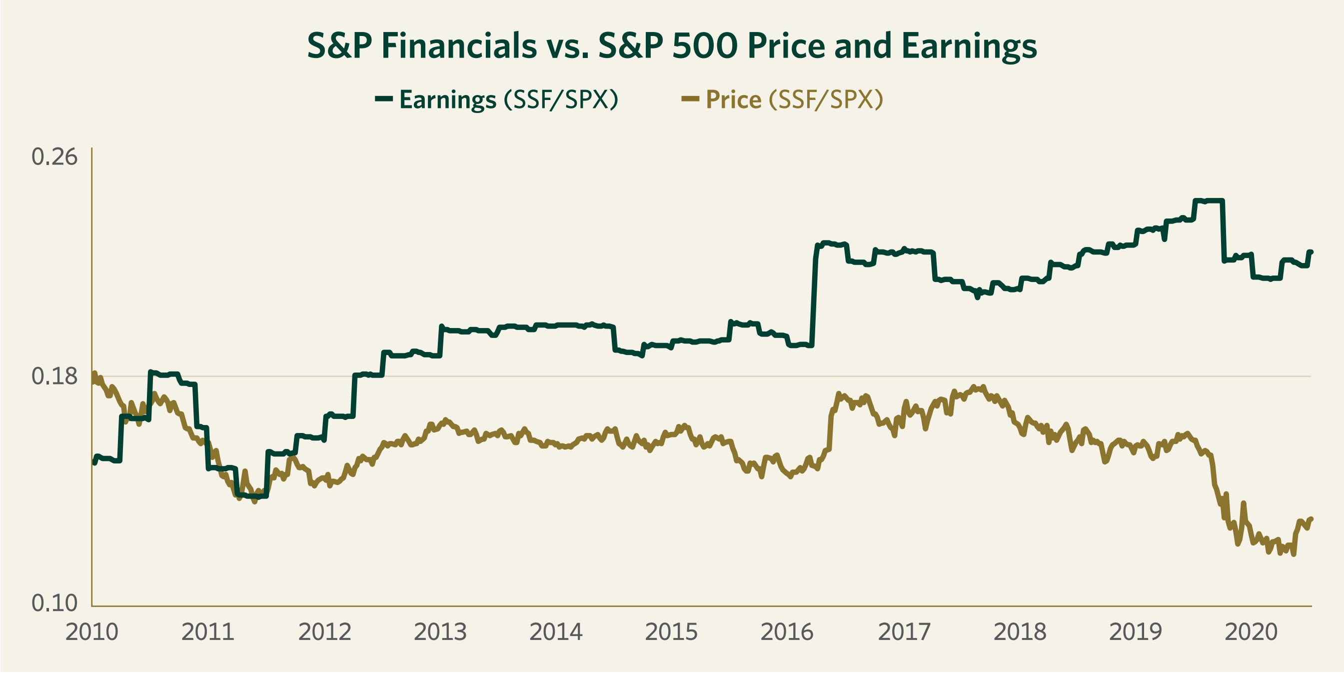
In the financials space, the opportunity set is even more attractive and the undervaluation more extreme, especially in the banking sector. It is here that we see the best opportunities in today's market.

As the pandemic unfolded in the first part of this year, panicked sellers abandoned the banking sector, making it one of the worst-performing areas of the market, despite the fact that banks entered this downturn with record high levels of capital and extremely conservative loan portfolios. As a result, we purchased or added to select well-capitalized financial leaders, such as Wells Fargo, Capital One Financial and U.S. Bancorp, at distressed prices.

Our confidence in their strong capital positions stems from the regulatory requirements enacted following the financial crisis. These requirements ensure that the nation's largest banks have more than enough capital and liquidity to withstand an even worse economic scenario than the financial crisis. Specifically, coming into this current pandemic-related crisis, all of our major bank holdings were subject to a stress test that included a multi-year recession where the stock market declines 50%, commercial real estate 35%, home values 25%, unemployment rises to 10% over a three-year period and GDP shrinks 8%. In the midst of 2020, the regulators made this test even more extreme, and yet, in mid-December, when the results of this more stringent stress test were released, all of our major holdings were shown to have more than enough capital.

While such facts and data should give investors enormous confidence, banks remained among the worst-performing sectors of the market in 2020, culminating more than a decade of underperformance in which the lagging prices of bank shares disconnected from the growing value of their underlying businesses. This disconnect between price and value creates the significant opportunity that we have positioned for today. As can be seen in the chart below, over the last decade, during which the earnings of financials grew from 15% to more than 20% of the index, their prices have fallen from roughly 18% to a record low 12% of the index.

As banks emerge on the other side of this current crisis with their balance sheets and earnings power intact, we anticipate that attitudes towards the sector could improve significantly, leading to a powerful increase in their relative valuation and a sharp closing of this enormous gap. In the meantime, we are delighted to be buying durable institutions that are, in our opinion, well-prepared for this turmoil, at distressed prices. By doing so, we are sowing the seeds for future performance.



Choosing to be highly selective and willing to look beyond simplistic definitions and categories, we have built a portfolio that includes growth companies at value prices and value companies with long-term growth. As a result, we believe the portfolio is both growing and undervalued. This rare combination is a value investor's dream and we believe positions us to build on our long-term record of wealth creation and outperformance in the years and decades ahead. ■

Conclusion

An old friend recently remarked that the single year of 2020 was the longest decade of his investment career. Given the extreme gyrations of the last year, it is easy to understand what he means. However, over more than five decades of successful investing, we have built wealth using a simple but powerful equation:

Volatility – Emotion = Opportunity

Looked at through this lens, 2020 was a year of opportunity. While there remains plenty of risk in the world, the disparity of returns that characterized the market in 2020 allowed us to generate decent returns, while strongly positioning the portfolio for the future. In fact, we have not seen such an extreme disconnect between price and value since the late 1990s at the height of the tech and telecom bubble. In the years following that last era of dispersion, we posted some of our best relative returns in decades.

Just over a year ago in our last annual report, we wrote that "2020 will be a year of incendiary rhetoric and sensational headlines." Little did we know how true that would be! However, we also advised that, "To navigate such 'noisy' times, successful investors must keep emotions in check and focus relentlessly on the underlying fundamentals of the businesses they own." Throughout 2020, we have heeded our own advice, always remembering that while prices can fluctuate with emotions, value is created by earnings.

Above all, we believe our portfolio is built to last. Beyond the long-term attractive growth prospects and reasonable valuations of the carefully selected businesses we own, each is characterized by durability, resiliency and adaptability, in our opinion. Such attributes allow our companies and the portfolio as a whole to weather storms like 2020 and adapt to changing times.

With more than $2 billion of our own money invested alongside clients, our interests are aligned, and our conviction is more than just words.[3] This alignment is an uncommon advantage, given that 88% of all funds are overseen by managers who have less than $1 million invested alongside their clients.

Although our investment discipline may not be rewarded by the market over shorter periods, our proven active management approach has built wealth for our shareholders over many decades.

We value the trust you have placed in us and look forward to continuing our investment journey together. ■

3. As of 12/31/20 Davis Advisors, the Davis family and Foundation, employees, and Fund directors have more than $2 billion invested alongside clients in similarly managed accounts and strategies.

This report is authorized for use by existing shareholders. A current Davis Select U.S. Equity 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 DUSA 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 U.S. Equity ETF's investment objective is long-term capital growth and capital preservation. There can be no assurance that the Fund will achieve its objective. The Fund invests primarily in equity securities issued by large companies with market capitalizations of at least $10 billion. 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; **focused portfolio risk:** investing in a limited number of companies causes changes in the value of a single security to have a more significant effect on the value of the Fund's total portfolio; **financial services risk; foreign country risk; headline 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; 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 12/31/20, the top ten holdings of Davis Select U.S. Equity ETF were: Alphabet, 10.59%; Capital One Financial, 9.33%; Amazon.com, 8.59%; Berkshire Hathaway, 7.72%; Carrier Global, 5.65%; Wells Fargo, 5.12%; New Oriental Education & Technology, 4.90%; Facebook, 4.62%; JPMorgan Chase, 3.79%; and U.S. Bancorp, 3.76%.

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.

Five-Year EPS Growth Rate is the average annualized earning per share growth for a company over the past five years. The values for the portfolio and index are the weighted average of the five-year EPS Growth Rates of the stocks in the portfolio or index.

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 Value Index** represents the value companies of the S&P 500 Index. The **S&P 500 Growth Index** represents the growth companies of the S&P 500 Index. Investments cannot be made directly in an index.

After 4/30/21, 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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