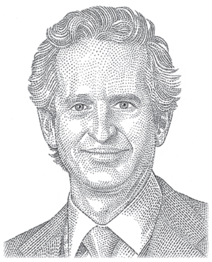
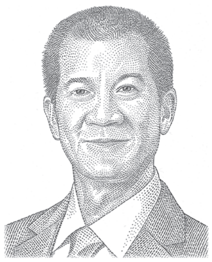




Portfolio Manager
VIDEO

Update from Portfolio Managers

Chris Davis and Danton Goei

Davis Select U.S. Equity ETF (DUSA)

Annual Review 2022

Executive Summary

- Davis Select U.S. Equity ETF (DUSA) returned 17.66% in 2021.
- In an effort to find those select few companies that can grow at above-average rates and yet trade at a below-average valuation on current earnings, our research goes beyond simplistic categories to identify growth businesses with attractive valuations, as well as value businesses with attractive growth. By being highly selective, we have identified a portfolio of companies with this rare combination.
- Our disciplined approach reflects our conviction that the best way to build wealth is by finding those rare businesses that have both substantial current earnings and bright future prospects.
- By being extremely selective, we have built a portfolio that has attractive characteristics of both growth and value. While the earnings of our portfolio companies have historically grown more than 4 percentage points per year faster than the S&P 500 Index, they can currently be purchased at a 53% discount to the index, as can be seen in the table on page 7. We consider this a value investor's dream, as companies that grow profitably over time are more valuable than companies that don't.
- Areas of opportunity include several dominant internet businesses, (Amazon, Alphabet and Meta [formerly Facebook]), financials (American Express, Bank of New York Mellon, Berkshire Hathaway, Capital One, JP Morgan, and Wells Fargo), overseas companies that serve the fast-growing and enormous Chinese middle class (Alibaba, JD.com and Tencent [via Naspers/Prosus]), and bargain-priced growth companies in the technology ecosystem that supply today's hardware infrastructure (Intel and Applied Materials).
- With more than $2 billion of our own money invested alongside clients, our interests are aligned with shareholders.[1]

The average annual total returns for Davis Select U.S. Equity ETF periods ending December 31, 2021 are: NAV Return, 1 year, 17.66%; Inception (1/11/17), 12.59%; Market Price Return, 1 year, 17.71%; Inception, 12.63%. 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. For the Fund's most recent month end performance, visit www.davisetfs.com or call 800-279-0279. Current performance may be lower or higher than the performance quoted. *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. The total annual operating expense ratio as of the most recent prospectus was 0.62%. The total annual operating expense ratio may vary in future years.*

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 12/31/21 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 Attractive Growth and Undervalued reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money. 1.** As of 12/31/21 Davis Advisors, the Davis family and Foundation, our employees, and Fund trustees have more than $2 billion invested alongside clients in similarly managed accounts and strategies.

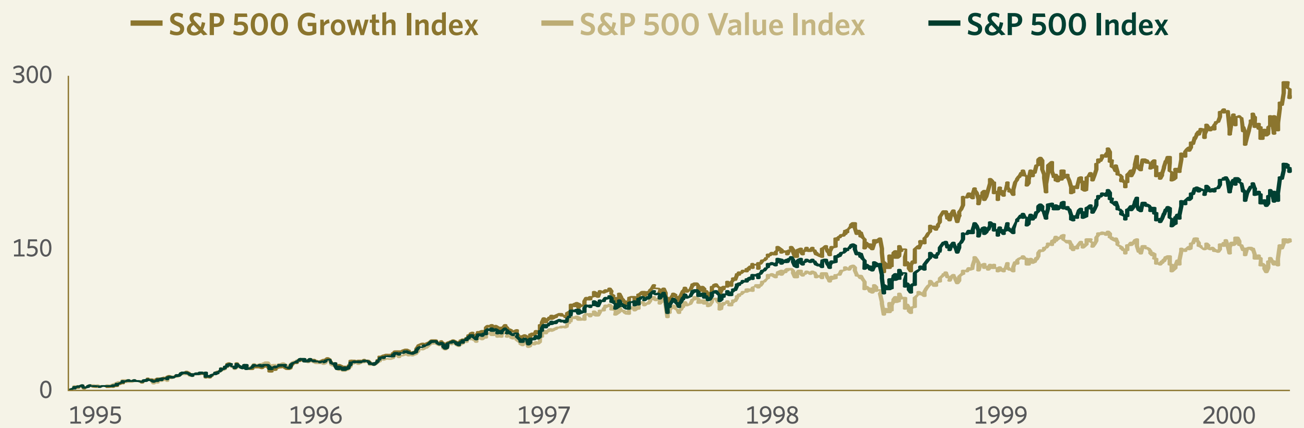
Results

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 2021, we added to this record, increasing shareholder wealth by more than 17%. ■

Market Perspective: Looking Beyond Categories

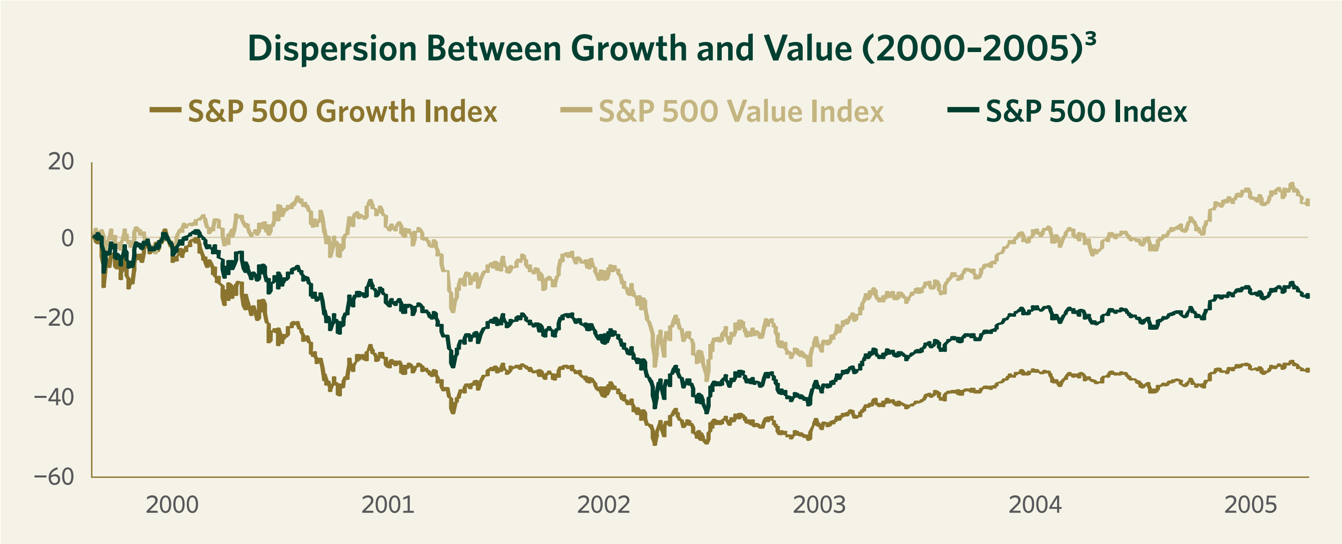
Commentators often divide investment approaches into two different categories: value and growth. Under this taxonomy, value investors tend to place a greater emphasis on a business' current earnings, while growth investors tend to stress its future prospects. Because all businesses are worth the present value of current *and* future cash flow, any rational valuation methodology must incorporate both current earnings and future prospects. As a result, we have often argued that the division between growth and value can create real opportunities for investors willing to look beyond the categories, particularly when investors are flocking to one approach and dismissing the other. For example, as can be seen in the graph below, from 1995–2000, the S&P 500 Growth Index dramatically outperformed the S&P 500 Value Index by more than 11% per year.[2]

Dispersion Between Growth and Value (1995–2000)[2]

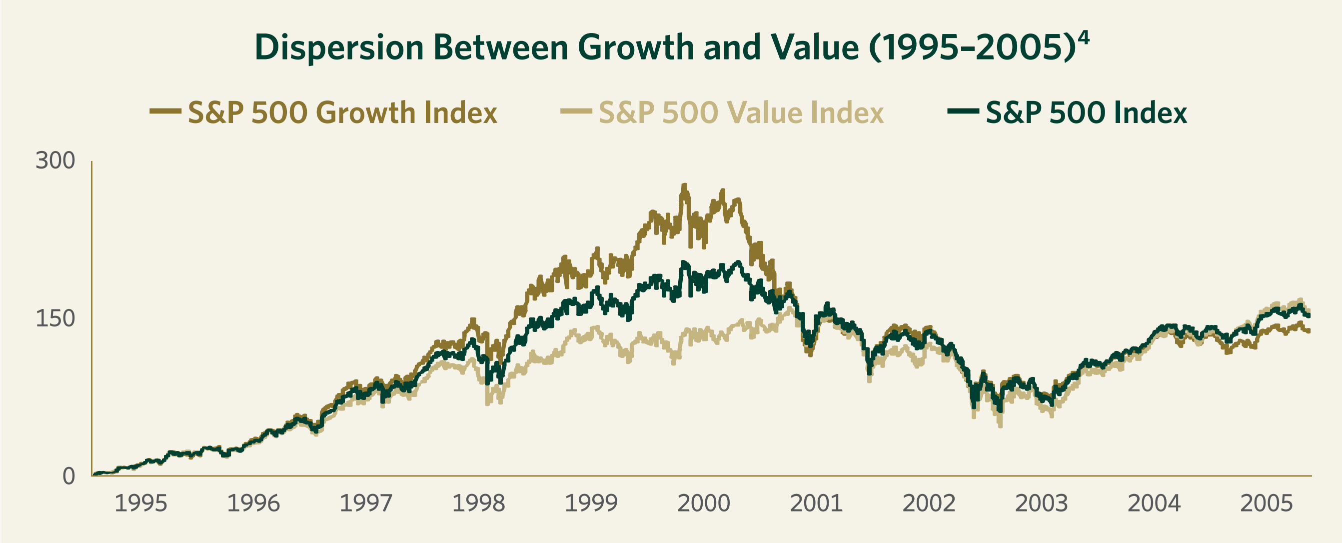


2. Source: Bloomberg. Graph is from 6/30/95–3/31/00.

This enormous dispersion created great risk for those who jumped in late and great opportunity for those who could recognize that growth had become overvalued and were willing to search for opportunities in the unpopular value side of the market. Sure enough, over the next five years, investors in the S&P 500 Growth Index lost almost a third of their savings, while investors in the S&P 500 Value Index earned a positive return, outperforming by approximately 10% per year.



Because the broader S&P 500 Index combines both approaches, growth and value tend to converge over the long term, as can be seen in the graph below, combining both periods.



3. Source: Bloomberg. Graph is from 12/31/99–12/31/05. **4.** Source: Bloomberg. Graph is from 12/31/94–12/31/05.

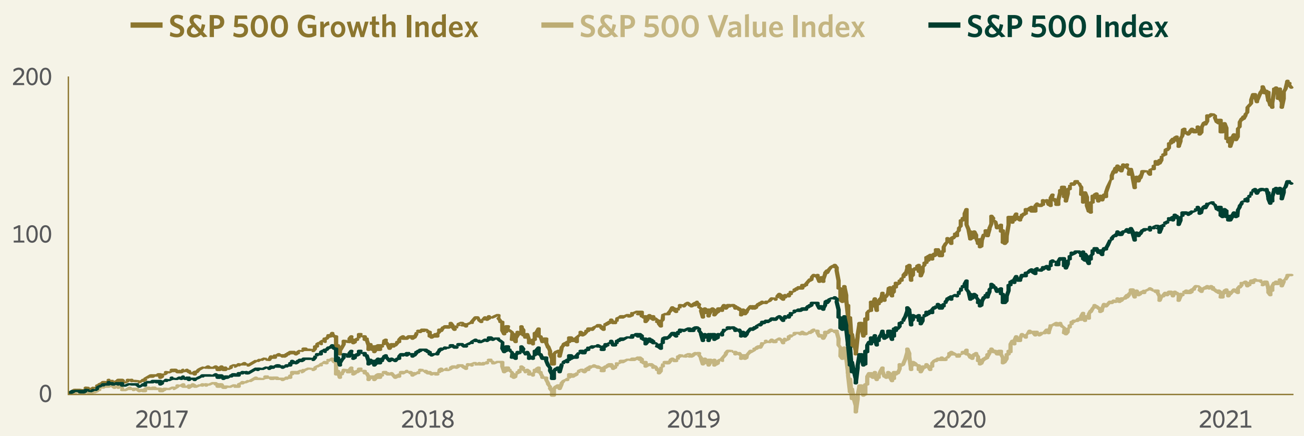
This convergence (or reversion) reinforces the opportunity and risk created when the two approaches significantly diverge over shorter time periods.

Today's euphoric market and the enormous dispersion between growth and value bears striking similarities to the period of the late 1990s discussed above. As shown in the graph below, over the last five years, in an almost perfect echo of the first graph shown above, the S&P 500 Growth Index has outperformed by a staggering 12% per year.

Now as then, we believe that speculative growth has become overvalued and presents risk not just of relative underperformance, but also of absolute losses. Just as importantly, we also see enormous opportunity for those who recognize this risk and are willing to search for opportunities in the unpopular side of the market. Historically, such periods of extreme dispersion have always come to an end. Although predicting timing is never easy, we believe this game is already in extra innings and that the inevitable reversion may be imminent.

This conviction is not just informed by graphs and history, but by the underlying fundamentals to which we now turn. ■

Growth Has Outperformed Value From 2017–2021[5]



5. Source: Bloomberg. Graph is from 12/31/16–12/31/21.

Selectivity, Growth *and* Value

In our opinion, successful long-term investors must consider both a company's current earnings and its future prospects when evaluating a potential investment. The Holy Grail is to identify those select few companies that are able to grow at above-average rates and yet trade at a below-average valuation on current earnings. By being highly selective, we have identified a portfolio of companies that we believe contains this rare combination.

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 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, seeking 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 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.

By recognizing both the value of growth and the importance of value, our portfolio holds those select few businesses that combine what we believe are the best characteristics of both categories: substantial current earnings and bright future prospects. 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. 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. ■

Undervalued Growth

Within the traditional growth category, growing euphoria has led to bubble prices for many companies, most especially those with new and unproven business models. In contrast, 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, Alphabet and Meta (formerly Facebook), trade at steep discounts to many unproven and unprofitable growth darlings that, in our view, trade at euphoric prices. 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 at companies such as Alibaba, JD.com and Tencent that serve 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 wonderful 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. ■

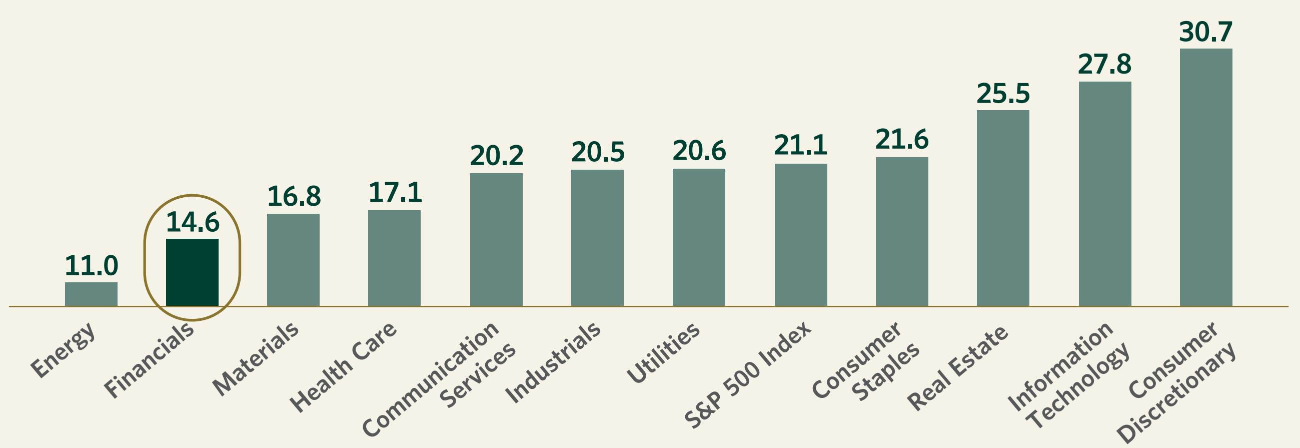
Growing Value

In the same way our research focuses on 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 companies that combine strength and resiliency with long-term growth, profitability and competitive advantages. In today's uncertain economy, we believe select financials represent the best combination of durability and low valuations.

Throughout the pandemic, high-quality financials demonstrated their resiliency. While their share prices gyrated wildly, their strong capital ratios and conservative loan portfolios allowed them to be part of the solution, rather than part of the problem. As investors consider the possibility of higher interest rates in the years ahead, we believe financials should remain in favor, as most will earn higher profits while rates rise. The combination of rising dividends, falling share counts, resilient profits and some inflation hedging may finally lead to the revaluation of select high-quality financials in the years ahead.

Although financial stocks have enjoyed a sharp recovery from last year's panic-induced lows, we believe investors need not worry that they missed an opportunity. As can be seen in the chart below, financials remain one of the cheapest sectors in the market. What's more, the current valuation of the financial sector is low, not just relative to the market, but even relative to its own historic discount.

S&P 500 Index P/E Multiple by Sector[6]



6. As of 12/31/21. Source: Credit Suisse.

In sum, our willingness to look beyond simplistic definitions and categories has led to a portfolio that includes growth companies at value prices and value companies with long-term growth. As can be seen in the table below, we believe this portfolio combines the best of both growth *and* value. While the earnings of our portfolio companies have grown more than 4 percentage points per year faster than the S&P 500 Index (refer to the chart below), they can currently be purchased at a 53% discount to the index. ■

Selective, Attractive Growth, Undervalued[7]

	Fund	Index
Holdings	27	505
EPS Growth (5 Year)	23.5%	19.3%
P/E (Forward)	10.6x	22.5x

Conclusion

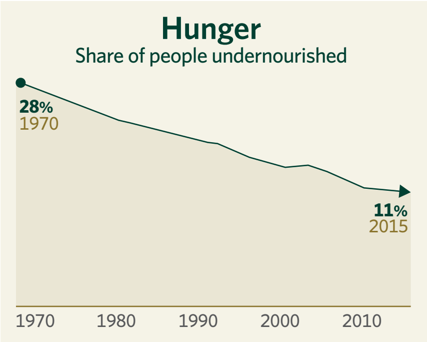
While the pandemic extracted an awful toll on so many families, it also highlighted the inventiveness, creativity and ingenuity of our society. From ecommerce to biotechnology, this has been a period of explosive innovation, adaptability and resiliency and a powerful reminder of two seemingly contradictory investment truths.

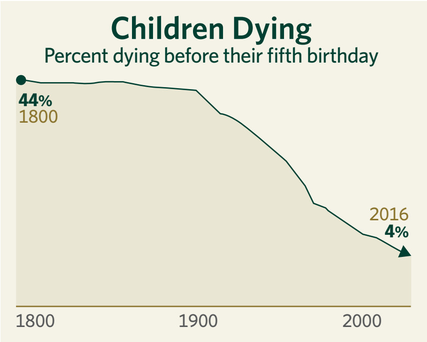
First, unexpected bad things can and will happen. Over our firm's history, we have navigated countless dire and unexpected crises, including the energy crisis, the hostage crisis, the inflation crisis, 9/11, the financial crisis, the COVID crisis and the ongoing climate crisis. As fiduciaries, we must incorporate both expected and unexpected challenges and crises into every aspect of our investment process.

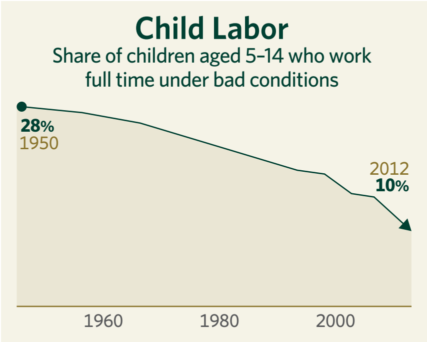
Second, we must also recognize the incredible power of innovation and invention. In the early stages of the pandemic, the most optimistic forecasts called for a vaccine in three-to-five years. And yet, scientists developed one in a matter of months. Similarly, over the longer term, human ingenuity has led to stunning progress in addressing a vast range of horrific global challenges. The graphs on the next page offer a compelling, if incomplete, quantitative picture of this progress.

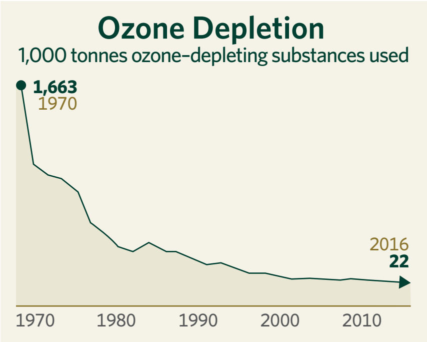
7. Source: Davis Advisors, Standard & Poors. As of 12/31/21.

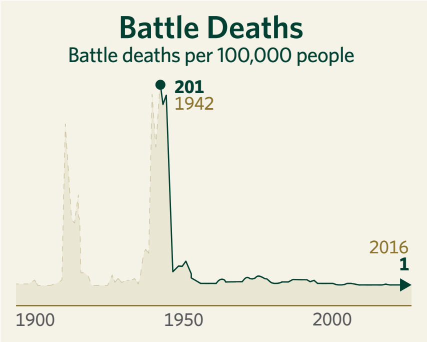
Bad Things Have Been Declining[8]

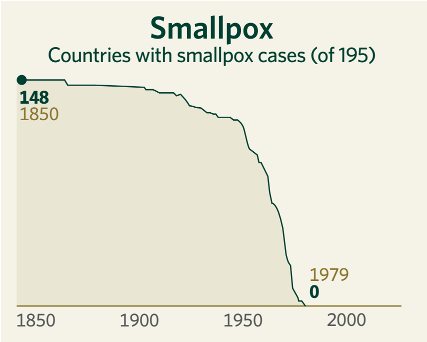


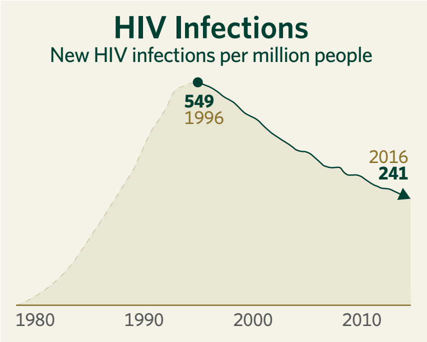


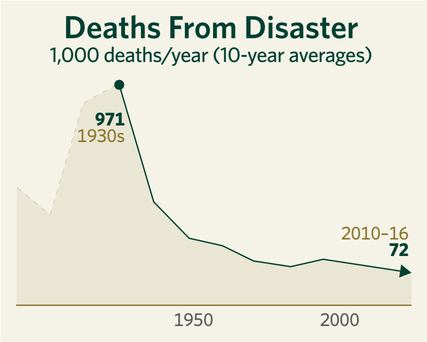


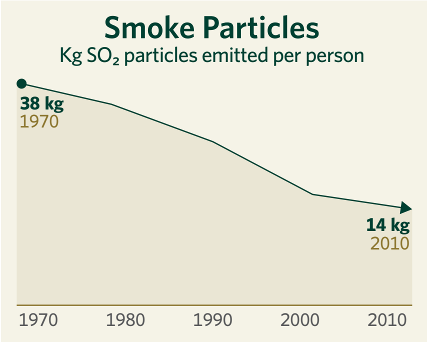


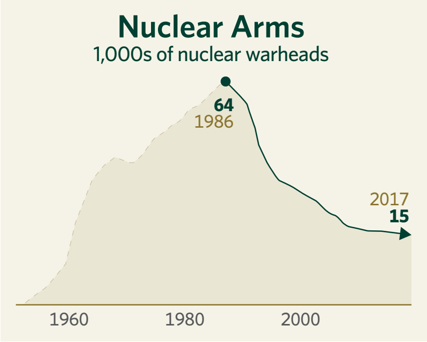






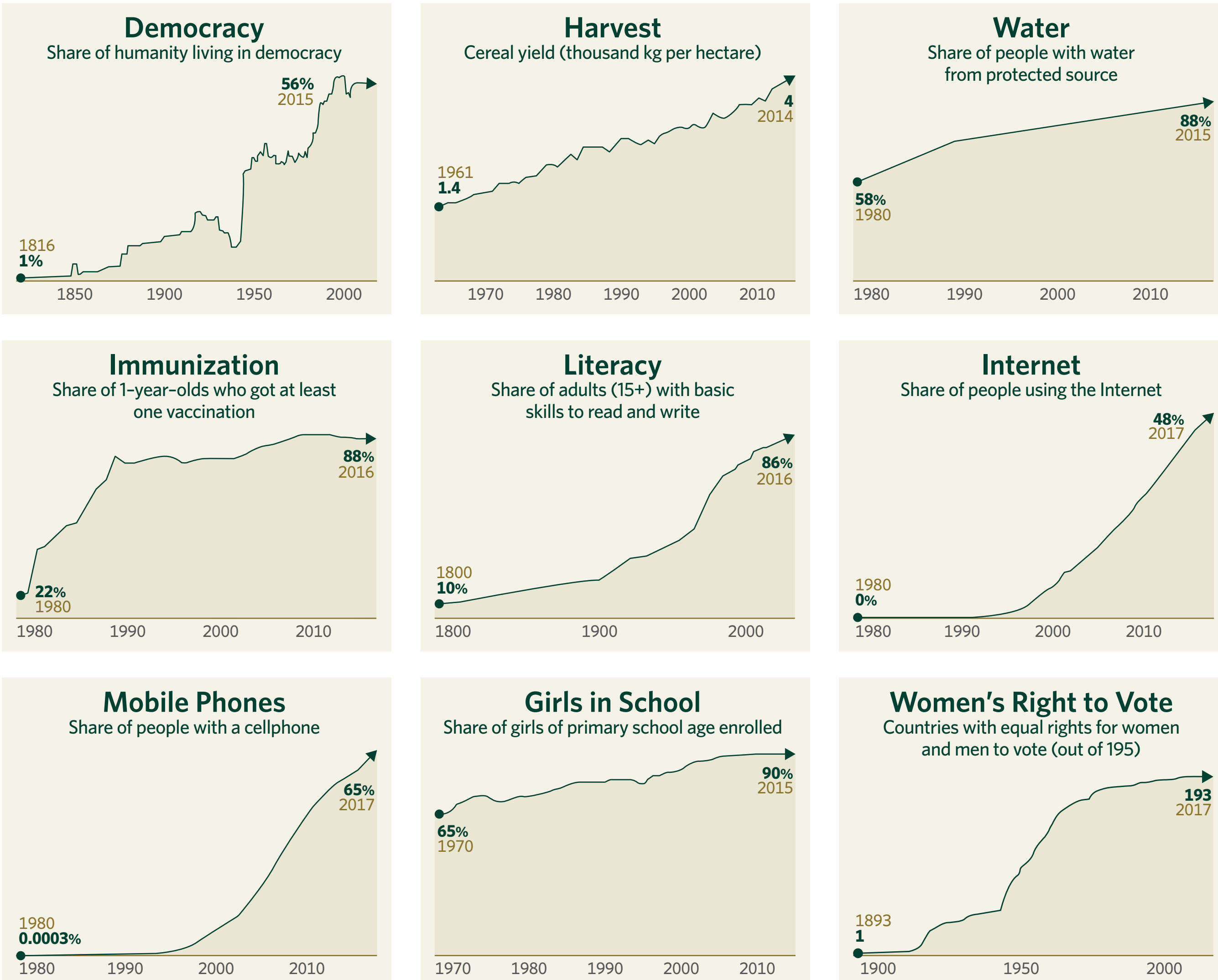






8. Source: https://www.gapminder.org/factfulness-book/32-improvements/

Good Things Have Been Increasing[8]



Betting against progress has been a losing proposition.

Thus, while our goal is always to ensure that our portfolio companies have the durability and strength to withstand unexpected shocks and crises, we also seek those that have the ability to innovate, adapt and build wealth in an ever-changing and unpredictable world.

With more than $2 billion of our own money invested alongside clients, our interests are aligned with our shareholders. This alignment is an uncommon advantage, given that 84% of all funds are overseen by managers who have less than $1 million invested alongside their clients.[9]

Although our investment discipline may not be rewarded by the market over shorter periods, our 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. ■

9. Source: Morningstar. https://www.morningstar.com/articles/1011176/these-fund-managers-are-true-believers

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;** 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 12/31/21, the top ten holdings of Davis Select U.S. Equity ETF were: Alphabet, 10.71%; Capital One Financial, 10.50%; Berkshire Hathaway, 8.55%; Amazon.com, 6.60%; Wells Fargo, 6.44%; DBS Group, 5.02%; Meta Platforms, 4.86%; U.S. Bancorp, 4.71%; Intel, 4.38%; and JPMorgan Chase, 3.45%.

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, 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 4/30/22, 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.

Distributor, Foreside Fund Services, LLC
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