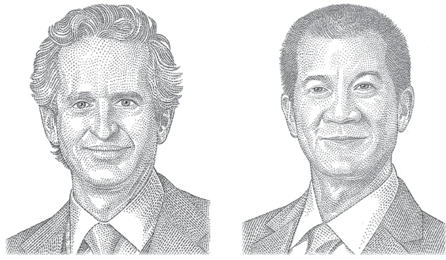
Davis ETFs



Update from Portfolio Managers

Chris Davis and Danton Goei

Davis Select U.S. Equity ETF (DUSA)

Annual Review 2023

Executive Summary

- A decade of distortions caused by historically low interest rates has definitively ended. Though painful and volatile, we welcome this return to economic reality.
- During this decade of free money, speculation was rewarded. Businesses with characteristics central to our long-term investment discipline—such as conservative balance sheets, proven long-term business models, a return-on-capital mindset and expense discipline—fell dramatically out of fashion.
- The disconnect between price and value is illustrated by the fact that our carefully selected companies have grown earnings per share at more than 15% per year over the last five years, a remarkable 5% per year faster than the S&P 500 Index. Yet they are currently valued at about 10x earnings, a steep discount to the broader market.
- Our portfolio companies' rare combination of durable growth with significantly discounted valuations, we believe leaves us in a strong position to continue building wealth for our shareholders, especially on a relative basis versus the index.
- Major investment themes for the next decade include: high-quality financials, durable industrials, blue chips of tomorrow and select headline-risk holdings.
- We see significant opportunity in growth companies trading at value prices and value companies with durable growth prospects. Top holdings include: Capital One Financial, Wells Fargo, Berkshire Hathaway, Applied Materials, Viatris, Amazon, Alphabet (formerly Google) and Meta.
- With more than $2 billion of our own money invested alongside clients, our interests are aligned, and our conviction is more than just words.[1]
- To serve shareholders, we created "Mastering the Mental Game of Investing": an investor behavior video series together with bestselling author, Morgan Housel.

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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. 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 12/31/22, 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.

Overview

In 2022, for the first time in nearly half a century, investors faced the combination of declining stock, bond and real estate prices in conjunction with significantly rising fuel, food and energy prices. In addition to this financial one-two punch, the geopolitical landscape darkened in February, when Russia launched a full-scale attack on Ukraine, the biggest mobilization of troops in Europe since 1945. Finally, relations between the United States and China—our largest creditor, supplier and customer—deteriorated sharply. Against such a backdrop, fear and pessimism unsurprisingly dominated markets, headlines and dinner table conversations.

What a change from a year ago when stocks were near all-time highs, interest rates at all-time lows, and speculation, greed and euphoria dominated. The financial press and social media trumpeted hot IPOs (initial public offerings), "Unicorns" (private companies with a valuation greater than $1 billion), SPACs (special-purpose acquisition companies), Crypto (cryptocurrencies), ICOs (initial coin offerings) and NFTs (non-fungible tokens).

While the switch from greed and euphoria to fear and pessimism has been sudden and dramatic, it is not unexpected. One year ago, in the midst of the speculative frenzy, we wrote

> *"...we believe that speculative growth has become overvalued and presents risk not just in terms of relative underperformance, but also of absolute losses....Although predicting timing is never easy, we believe this game is already into extra innings and that the inevitable reversion might be imminent."*

In 2022, the game finally and definitively ended.

Although this about face may feel painful and volatile, we view it as an overdue return to economic reality. With a portfolio of resilient companies valued on economic fundamentals rather than speculative hype, we welcome this change. For much of the last decade, we have held fast to our long-term investment approach and valuation discipline even though it was out of fashion. As the bubble continues to deflate, our focus on durable businesses with proven growth and low valuations should return to the forefront of investors' minds. We believe this return to reality leaves us in a strong position to continue building wealth for our shareholders and make up for ground lost in the frenzy of recent years. ■

Economic Backdrop

Decade of Distortion

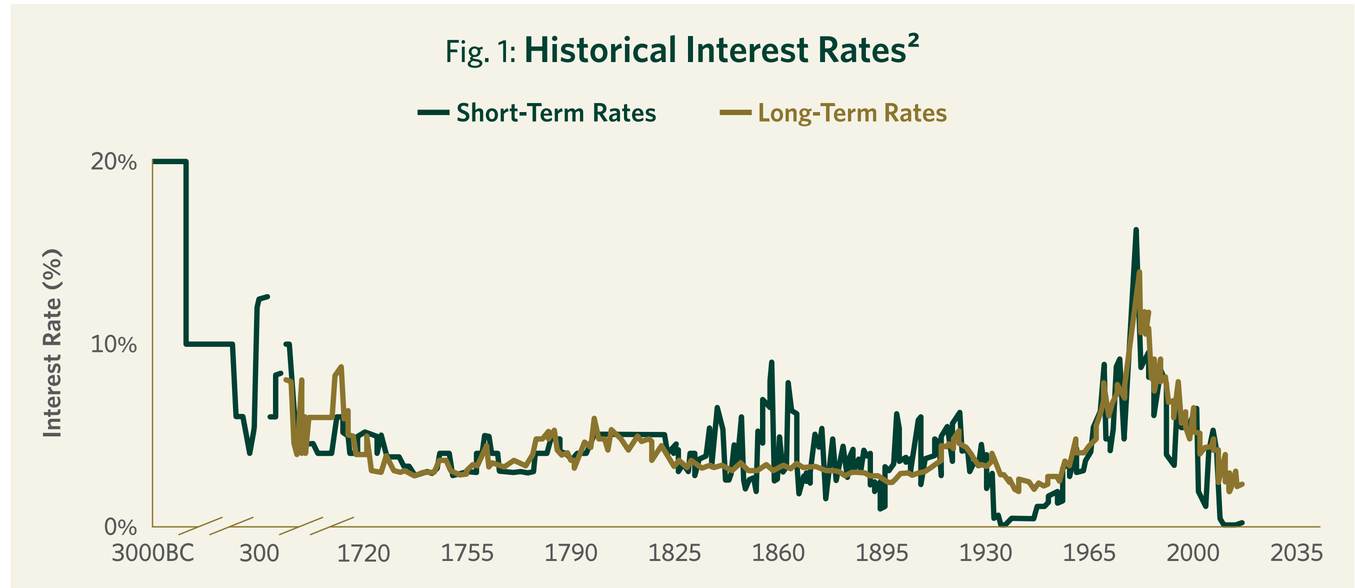
To understand why we are well positioned for the reality of the next decade, we must first review the distortions of the past decade. The foundation of this distortion was the artificial suppression of interest rates. Pushing down interest rates became a matter of national policy—first in response to the great financial crisis of 2008–2009 and then the COVID-19 crisis in 2020–2021. Unfortunately, we believe policymakers pushed rates down too low for too long, which created massive distortions in financial markets and the economy.

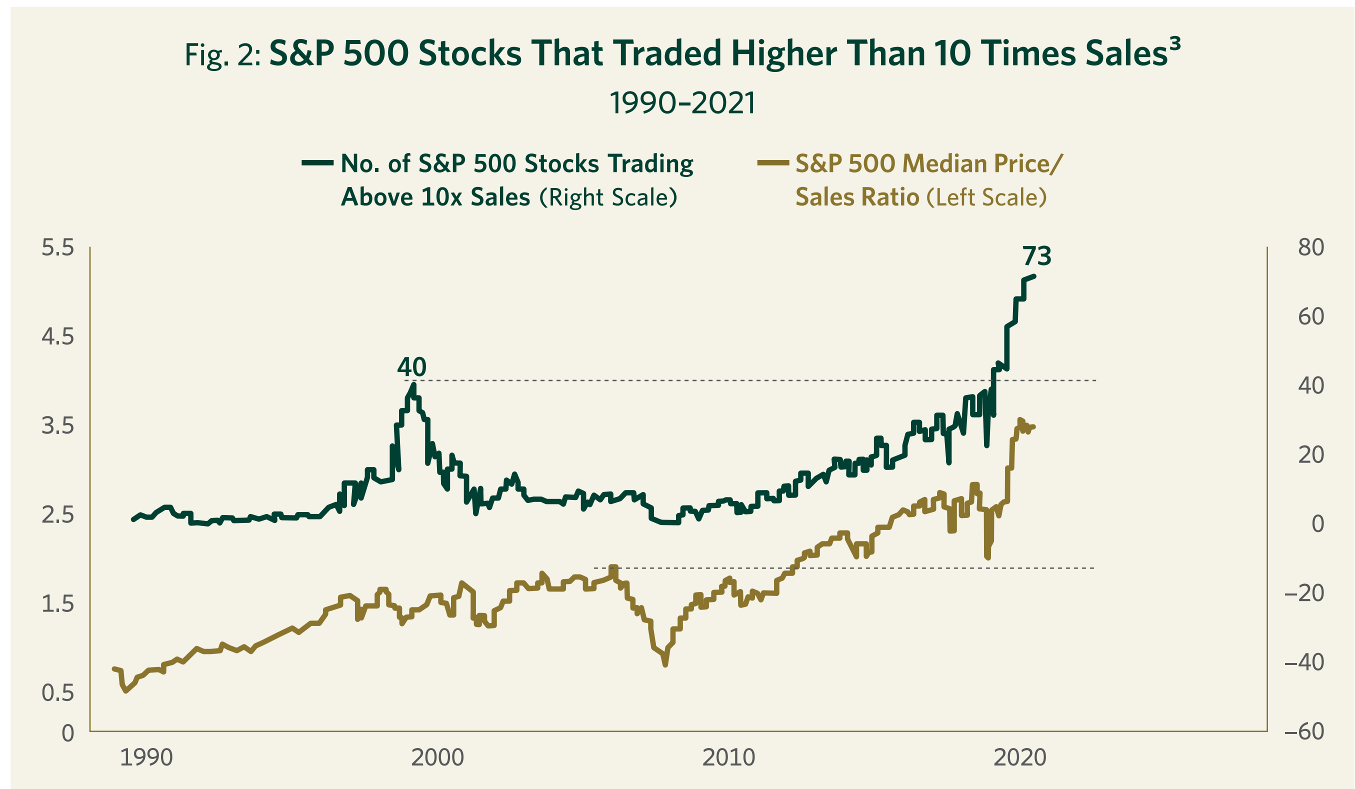
To comprehend just how extreme this period was, think of interest rates as the price charged for using someone else's money or capital. As Figure 1 shows, throughout *all* of recorded human history, users of capital—whether individuals, corporations or governments—have *always* had to pay providers of capital—be they lenders, creditors or investors—for use of their funds. Only twice in all of history have short-term rates approached zero: the 1930s and the period since 2009; and *never* have long-term rates been lower than they were in the past decade.

By reducing the cost of money almost to zero, these artificially low interest rates fueled high leverage, provided cheap capital for speculative business models, led to absurdly high valuations for remote potential earnings and provided easy funding for companies that promised to disrupt whole sectors of the economy. In short, this environment rewarded just the sort of business models we tend to avoid as too risky or too overvalued. For more than a decade, market returns were driven by market darlings trading at ever-higher valuations.

In fact, as you can see in Figure 2, during the recent bubble, a record-breaking 73 companies in the S&P 500 Index traded at more than 10 times sales—an indication of excess never before seen in stock market history.

While this distorted environment inflated the value of speculative growth companies, it also led to the undervaluation of many businesses with characteristics central to our long-term investment discipline—such as conservative balance sheets,





2. Underlying sources: Bank of England; Global Financial Data; Sidney Homer and Richard Sylla. "A History of Interest Rates," 4th ed., Hoboken, NJ: Wiley Finance. **3.** Source: Leuthold Group.

proven long-term business models, a return-on-capital mindset and expense discipline. Furthermore, with rates near zero, earnings of financial firms that rely on interest income—such as banks and insurers—were thwarted, and current cash flow and dividends became undervalued relative to future promises.

During this decade of distortion, the durable and resilient economic fundamentals of our portfolio companies fell dramatically out of fashion. This fall from favor was reflected in the companies' declining valuation relative to the market, despite their sound fundamentals. In Figure 3, the rising green line shows the average earnings over the past decade of the top-15 holdings in our portfolio today, which represent approximately 80% of the portfolio. The falling gold line shows the relentlessly declining valuations that the market placed on these reliable but unspectacular growth companies. ■

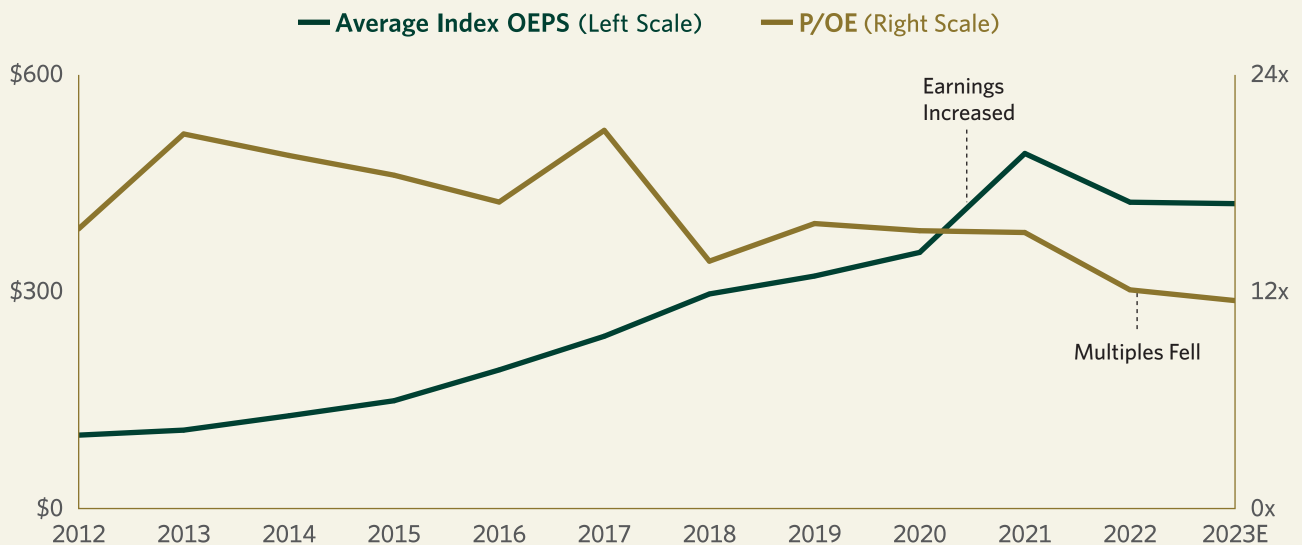
Portfolio Update

In a 1987 letter to Berkshire Hathaway shareholders, Warren Buffett famously observed that in the short term the market is a voting machine, reflecting popularity and fashion. Whereas in the long term, it is a weighing machine measuring changes in economic value. Figure 4 indicates that, after a decade of durable growth and falling valuation, DUSA's portfolio of durable companies currently trades at only 10.1 times forward earnings, a steep discount to the broader market.

This rare combination is the primary reason we welcome the bursting of the bubble created by the artificially low interest rates of the past decade, and why we believe we are so well positioned for the decade to come.

Fig. 3: **DUSA Top-15 Holdings EPS vs. Valuation**[4]

2012–2023E



4. Source: Davis Advisors. Not a recommendation to buy, sell or hold any particular security. The information provided is not a sufficient basis upon which to make an investment decision. The securities listed above represent holdings from DUSA as of 12/31/22. The holdings are subject to change. You should review the most recent shareholder report for a full schedule of investments in DUSA. Owner Earnings Per Share (OEPS) reflects discretionary adjustments to reported earnings made by Davis Advisors, including for transaction amortization, any variance between depreciation and estimated maintenance capital expenditures, certain restructuring costs, idiosyncratic gains and losses, and changes to loan loss reserves. P/OE is the ratio of a company's market capitalization to owner earnings.

Fig. 4: **Selective, Attractive Growth, Undervalued**

	Fund	S&P 500 Index
Holdings	27	503
EPS Growth (5 Year)[5]	15.2%	10.2%
P/E (Forward)[6]	10.1x	17.8x

Importantly, businesses with decent past records might be expected to trade at low valuations if they face secular challenges or a bleak future. We might think of such businesses as 10-year-old racehorses, in that their good past performance is not an indication of a bright future. In the case of the companies in DUSA, we believe the opposite is true and that they will, in aggregate, earn significantly more in the years ahead. ■

Review of Holdings

Bearing in mind John Train's comment that "investing is the art of the specific," we'll spend the remainder of this letter briefly sharing our investment rationale for five of our holdings so our investors can better understand our conviction. While each description will necessarily be brief, high level and significantly abridged, our goal is to illustrate the durability, resiliency and attractive valuation of the companies that make up the fund, and give some sense of why we believe that, *unlike* aging racehorses, their impressive past is prologue. Though these five companies make up only about one-third of the fund, they represent a good cross section of some of the major investment themes that we see playing out over the next decade.

Banking Sector

The largest thematic weighting in DUSA reflects our belief that since the great financial crisis of 2008–2009, investors have significantly undervalued the banking sector. This undervaluation stems from the scars and memories of that crisis and a failure to appreciate that stricter regulations and significantly more capital have made the best banks far safer than they were then. This safety combined with better management, rising dividends, shrinking share counts, low customer attrition and extremely low valuations makes banking one of the most attractive sectors of the market. We own a number of high quality and storied banks, including BNY Mellon, JP Morgan Chase and U.S. Bancorp, but two such banks, Capital One and Wells Fargo are in our top-five positions. Though both are representative of our banking theme, the underlying investment rationale for each is very different.

Capital One

Capital One is well known as the tenth-largest bank in the U.S., the fourth-largest credit card issuer and the second-largest auto finance company. Beginning in 2005, it acquired a large network of bank branches (755 locations in the Mid-Atlantic region) that provide a stable base of reliable, core deposits as they move towards building a national digital bank. So, why do we think Capital One will continue to grow? First, at its heart, Capital One is really a fintech company disguised as a bank. From its beginning (with no brand and no branches) in the late 1980s, they have used data science to attract customers (first through direct mail, then advertising and now the internet) with targeted offers that better serve their financial needs.

Capital One is still led by its extraordinary founder Rich Fairbank who finished first in his class at Stanford Business School and has paid himself zero salary since 1997. Under his leadership, Capital One has developed a contrarian, data-driven culture, been tested through many recessions, including the 2008–2009 financial crisis, the COVID-19 pandemic and the annual stress tests implemented by the Federal Reserve—challenges that assure Capital One can withstand an economic downturn even worse than the financial crisis. The stress test,

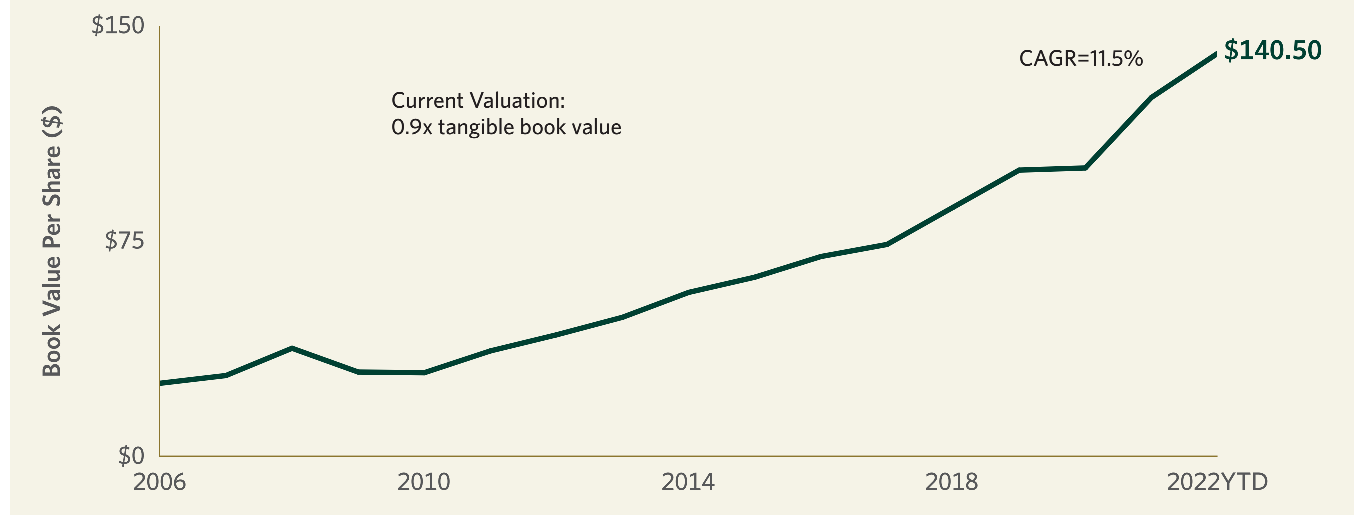
5. Five-year Earnings Per Share Growth Rate (5-year EPS) is the average annualized earnings per share growth for a company over the past 5 years. The values shown are the weighted average of the 5-year EPS of the stocks in the Fund or Index. Approximately 0.67% of the assets of the Fund are not accounted for in the calculation of 5-year EPS as relevant information on certain companies is not available to the Fund's data provider. **6.** Forward Price/Earnings (Forward P/E) Ratio is a stock's price at the date indicated divided by the company's forecasted earnings for the following 12 months based on estimates provided by the Fund's data provider. These values for both the Fund and the Index are the weighted average of the stocks in the portfolio or index.

for example, envisions 10% unemployment, 40% decline in commercial real estate prices, nearly 30% decline in residential real estate values, 55% decline in the stock market and more than a 3.5% decline in gross domestic product (GDP). Above all, as illustrated in Figure 5, although earnings in any given quarter or year can be lumpy, Capital One has compounded its tangible book value per share at 11.5% through the great financial crisis, COVID and the latest economic downturn. Trading at less than book value, we see no reason why this record should not continue for years to come.

We never like to end a discussion about a specific company without mentioning the risks we monitor. Our research indicates that Capital One is in a strong position to weather most of the risks that generally affect banks—including interest rates, credit costs, regulatory changes, liquidity and capital. Although we are certain that credit costs will rise, this increase is already reflected in our models and is hardly unexpected. Instead, for this incredibly well-run bank, we think the most salient risks are 1) the inevitable but not imminent management transition from the company's founder, and 2) the longer-term risk that a tech company, most likely Apple, could manage to disrupt the economics of the credit card industry. We monitor these risks closely, and in the meantime consider Capital One—which is really a growth company that happens to be in the banking business—one of the most attractively valued companies in the portfolio.

Fig. 5: **Capital One Tangible Book Value Per Share**[7]

2006–2022



7. Including adjustments for reinvestment of dividends. Book value per share is the ratio of equity available to common shareholders divided by the number of outstanding shares. This figure represents the minimum value of a company's equity and measures the book value of a firm on a per-share basis. The compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

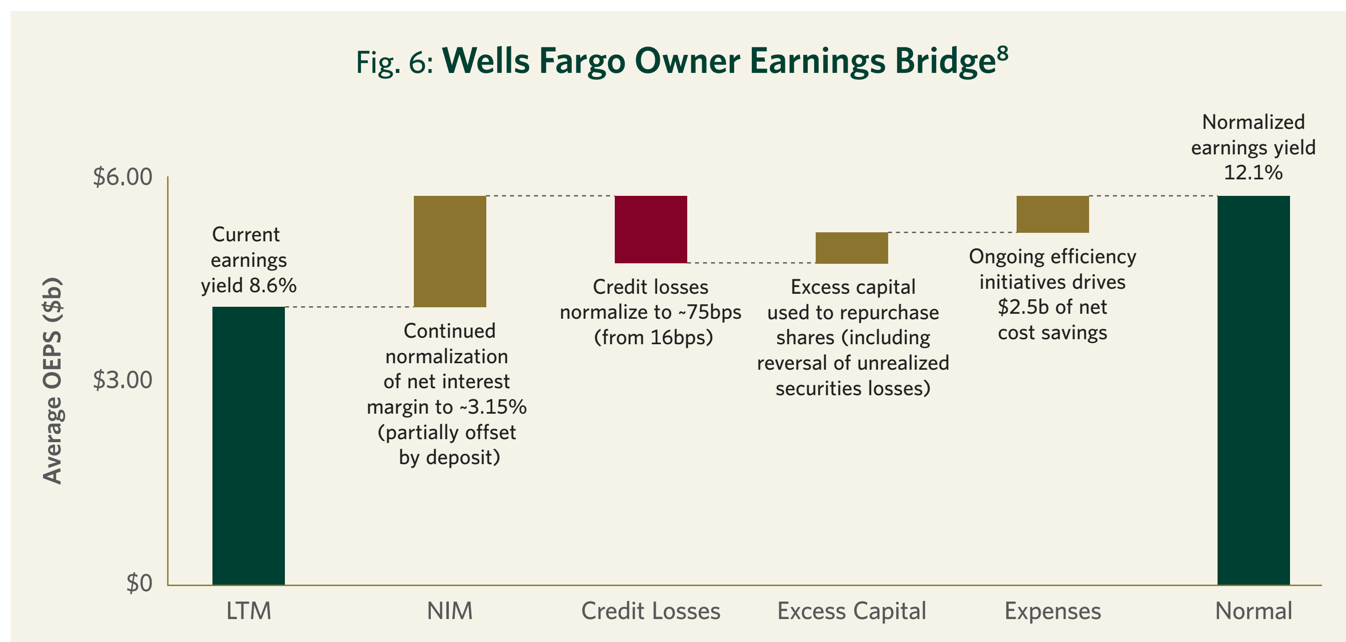
Wells Fargo

Our investment thesis for our next largest bank investment, Wells Fargo, is totally different. As is well known, Wells Fargo is the country's third-largest bank, serving one in three U.S. households. Years of regulatory missteps under prior managements resulted in reputational damage, higher-than-average expenses, numerous consent orders, caps on asset growth, all added to the negative impact of low rates on their interest income. However, where others see bad news, we see resiliency and gradual improvement. Wells Fargo's resiliency is reflected in the fact that despite years of terrible headlines and congressional hearings, Wells Fargo's core customers stayed put and customer attrition remains extraordinarily low.

As to gradual improvement, new management has made steady headway in closing consent orders, settling regulatory matters and upgrading systems. Thus, in our opinion, rather than increasing profits from growth, Wells Fargo's earnings growth for the next three-to-five years should come from the combined tailwinds of rising interest income, partially offset by normalizing credit costs, reduced expenses as systems improve and the scandals of the last decade are gradually put behind them, and the return of excess capital through share repurchases and rising dividends. The hypothetical earnings bridge displayed in Figure 6 gives some sense of the earnings power we see unfolding in the years ahead for this durable financial franchise.

While our grounded optimism carries the day, we are mindful of the risk that Wells Fargo's historically excellent credit culture may have deteriorated, or that exasperated regulators may choose to extract even more major penalties for past infractions.

Fig. 6: **Wells Fargo Owner Earnings Bridge**[8]



8. Owner earnings yield is Davis Selected Advisers' estimate of the amount of cash which a purchaser of an entire company could withdraw from a company while still investing to maintain current operations. It is not the same as the return which a minority investor purchasing shares in the same company would realize. Estimated owner earnings yield represents a single data point about a company. No such data point can, by itself, guide an investor as to what securities should be bought or sold or when to buy and sell them. We caution our shareholders not to give this calculation undue weight. Owner Earnings Per Share (OEPS) reflects discretionary adjustments to reported earnings made by Davis Advisors, including for transaction amortization, any variance between depreciation and estimated maintenance capital expenditures, certain restructuring costs, idiosyncratic gains and losses, and changes to loan loss reserves. LTM stands for Last Twelve Months. Net interest margin (NIM) reveals the amount of money that a bank is earning in interest on loans compared to the amount it is paying in interest on deposits. NIM is one indicator of a bank's profitability and growth.

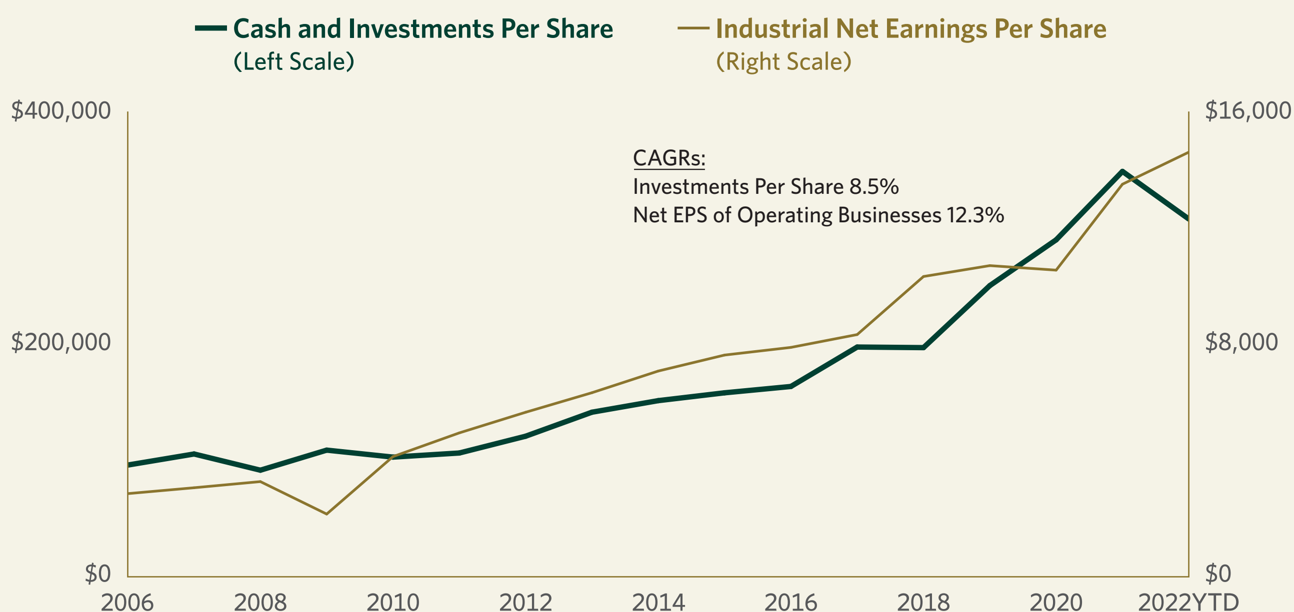
Durable Industrials

The next two stalwarts in our holdings reflect our determination to combine the best attributes of so-called growth and so-called value investments by seeking out companies that might be called "growing value" in the case of Berkshire Hathaway, or "undervalued growth" in the case of Applied Materials.

Berkshire Hathaway

Through its conglomerate structure, Berkshire Hathaway owns many businesses—including utilities, insurers, and industrials—that investors tend to associate with value investing. However, Berkshire Hathaway's holding company structure allows the capital generated in slower-growth businesses to be redeployed in thoughtful acquisitions and astute investments that have allowed the whole to grow faster than the sum of its parts. Because generally accepted accounting principles (GAAP) require realized gains and losses, as well as unrealized changes in securities prices, to flow through the income statement, reported earnings are an unreliable indicator of the company's steady growth in intrinsic value. By capturing the long-term growth in investments per share and the earnings per share (EPS) of Berkshire Hathaway's operating businesses, Figure 7 paints a truer picture of this stalwart holding's durable growth.

In terms of conventional risks, Berkshire is built to weather almost any conceivable financial (and literal) storm. While there is a risk that the company's stock price may decline precipitously should Warren Buffett ever step down (or worse!), we do not consider such price declines a fundamental risk, especially given the company's substantial liquidity and willingness to buy in shares when they are undervalued. Instead, we consider the most important risk to be the degradation of the company's outstanding and unconventional corporate culture should successor managers be tempted to pursue the sort of financial engineering advocated by Wall Street banks, activists and other short-term investors at the expense of long-term shareholder value. We do not see any indication of this risk on the horizon but will stay active and vigilant should it ever arise.



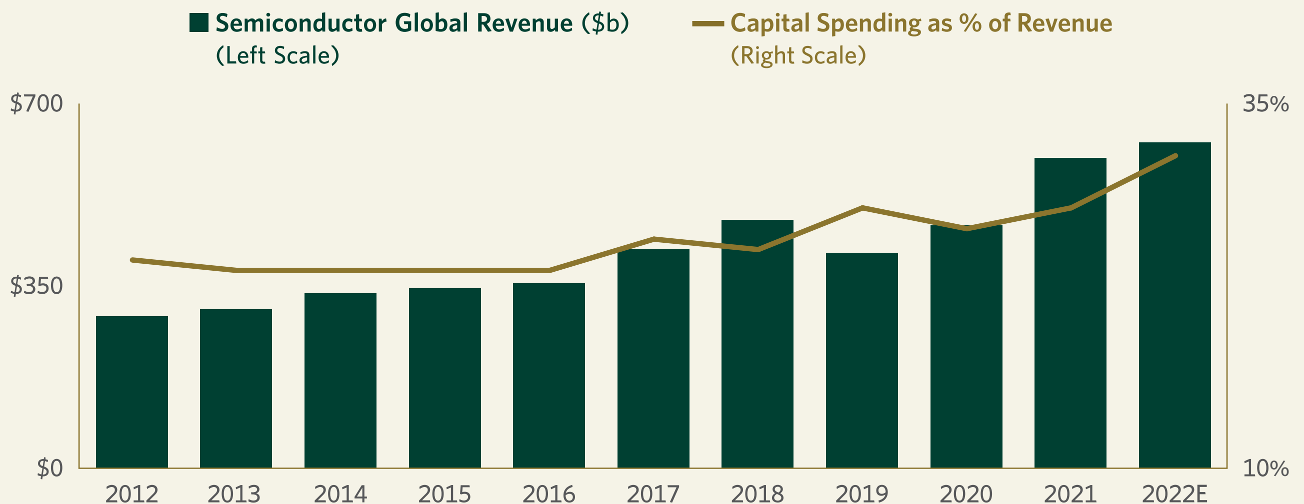
Applied Materials

If Berkshire represents "growing value" then Applied Materials might be said to represent "undervalued growth." Founded more than a half century ago, Applied Materials has grown to be the largest supplier of manufacturing tools, services and software to the semiconductor industry. Holding more than 15,000 patents, Applied has become the irreplaceable supplier to the critical global growth industry, semiconductors. Because this company's earnings can be uneven, short-sighted investors often label this company as "cyclical" and assign it a relatively low valuation.

We disagree and, having perused more than 50 years of data, conclude that Applied is unquestionably a growth company trading at a value price. Figure 8 shows the two sustainable drivers of this growth. The green bars indicate that semiconductor manufacturers have grown industry revenue at 7.5% over the last decade, more than three times the growth of the U.S. economy over this same decade. The gold line indicates that the percentage of this revenue that the industry commits to capital spending has gradually risen from roughly 20% to 30%. Putting these two trends together, it should come as no surprise that Applied has grown revenue at a rate of 11%, and operating income at more than 19% over this same time period.

In the near term, the impact of the chip industry's post-pandemic inventory correction, which could reduce equipment demand, may more than offset the benefit of recent supply chain issues that limited Applied Materials' ability to meet customer demand. Longer term, geopolitical tensions between China and the U.S. are driving investment in potentially redundant chip production globally, while at the same time the U.S. and her allies are restricting export of leading-edge production tools into China. Even though the near term is frustratingly veiled in uncertainty, the recent shortages and trade restrictions have firmly established that access to chip-production technology is essential to every major industrial economy. Given this, we see more opportunity than risk.

Fig. 8: **Semiconductor Global Revenue and Capital Spending**
2012–2022



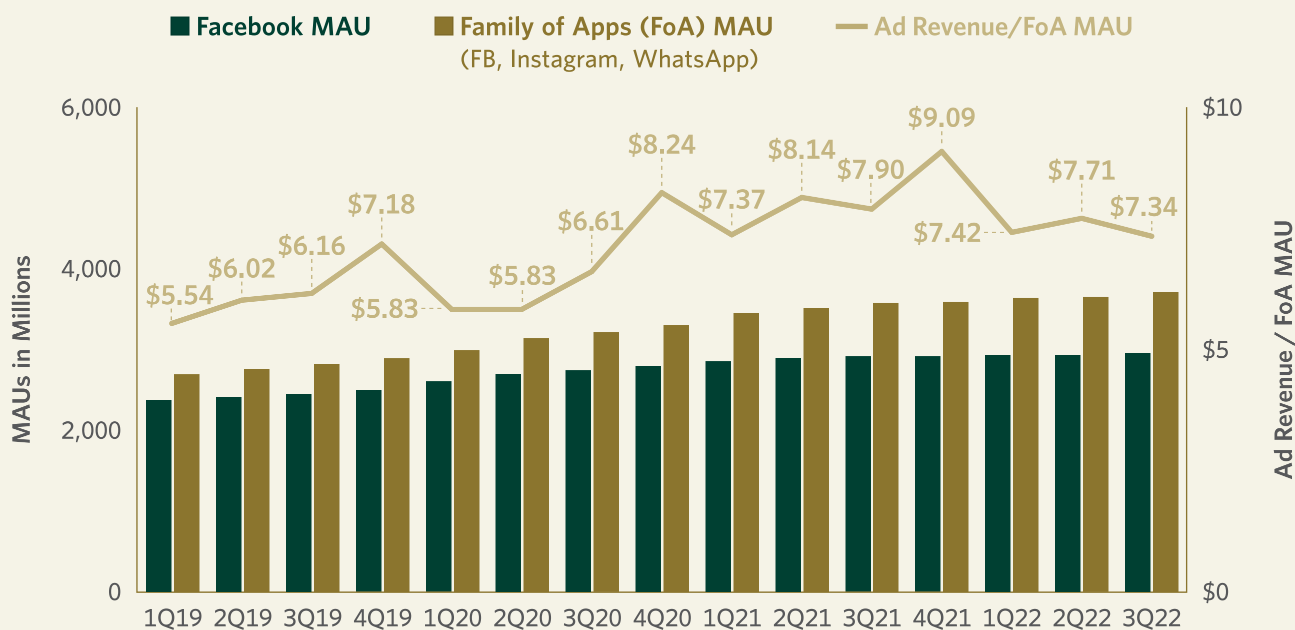
The New Blue Chips and Headline Risk

A final example of our largest holdings reflects two different investment themes. First, we consider the largest digital platforms, including Alphabet (formerly Google) and Amazon (both of which we own) among the most valuable and durable compounding machines built in the last century and the logical successors to the consumer blue chip companies which led the market for the past century. While growth for these giants has slowed along with the economy, we remain highly convinced that they are continuing to build value and will for many years to come. Second, over long market cycles, any growth company may fall out of favor in the short term for specific reasons that get amplified in newspaper headlines and lead investors to race for the exits. While buying at such times comes with risk, 50 years of experience has taught us that companies with such "headline risk" can be profitable investments if the risk is already discounted in the stock price, the cause for alarm is short-term in nature and the underlying business remains resilient.

Meta

As both a "blue chip of tomorrow" and a company languishing under "headline risk," our investment in Meta reflects these two investment themes. With more than three billion daily users across its three platforms (Facebook, Instagram and WhatsApp), Meta has more users than almost any company in history. Despite this success, Meta currently languishes under a cloud of skepticism concerning two issues: competition from other services, such as TikTok, and significantly increased spending both on artificial intelligence (AI) and speculative new ventures including virtual reality and augmented reality (often referred to as the metaverse).

Starting with competition, despite the drumbeat of negative headlines, which leads most investors to assume that Facebook's core businesses are shrinking, Figure 9 shows continued growth in the number of users on their core service, including Facebook (green bars), as well as the company's entire family of applications.



The gold line in Figure 9 shows Meta's ad revenue per user up more than 30% since 2019 but down from last year's peak. While we find this decline concerning, it is hardly surprising given the slowing economy and time needed for Facebook to adjust to changes made by Apple—somewhat disingenuously in the name of privacy—that reduced the efficacy of some of Meta's advertising while favoring Apple. We highlight this decline as a risk but believe it will prove temporary. We think that Meta's growing user base as well as the continued growth in the amount of time users are spending on these platforms is a far more important indicator of Meta's relevance and value.

As to the second concern—i.e., growing spending on AI and the metaverse—these are really two different issues. For the former, the AI spend is aimed at making Meta's vast platforms more productive to advertisers, an effort which likely should bear fruit. For the latter, in the face of enormous skepticism and ridicule about the metaverse, we have a somewhat contrarian view based on our long-term perspective on both the technology industry and on Meta's management.

In decades of analyzing the technology industry, we've experienced two major shifts in computing platforms: first from the mainframe computer to the personal desktop computer (PC) in the 1980s and 1990s; and second from the PC to handheld devices and smartphones—beginning with the Blackberry in the 1990s followed by the iPhone and Android systems around 2007. With each evolution, the companies who drove the change—from IBM to Microsoft and Intel, and from these to Apple and Google—created enormous value.

Based on this history, it seems probable both that the current smartphone platform will not be the last, and that huge value will accrue to the company(ies) that lead the transition to a new form and platform.

In considering the possibilities, it seems plausible that some combination of virtual and/or augmented reality will eventually replace the little rectangular boxes and tiny screens that we all stare at for hours per day.

Given Meta's great success in acquiring and/or building three of the largest social networks in history, we think the company has earned the right to invest a certain percentage of current profits into this potential opportunity. We would even go further to say that, in general, we are encouraged when proven managements are willing to sacrifice short-term profits to better position the company for long-term growth. If these investments don't pay off, we have every confidence, that Meta will cut spending to increase profits. If they do pay off, the profit potential is exponentially more. Given that the company is trading at a reasonable valuation even after making these investments and at a single-digit multiple excluding them, we consider the metaverse spending to be a free option with improbable but enormous upside.

As for other risks, we consider ongoing regulation manageable but remain especially focused on both the number and engagement of users. Should either of these variables turn negative, we will reconsider the holding. However, down more than 65% from its high, we believe that all of the risks are more than discounted and have added to our holding of Meta.

If space allowed, we would happily continue this exercise for the other 22 holdings that make up DUSA as all reflect some combination of the durable growth prospects and discounted valuations of the companies presented above. However, we hope this deeper dive into the investment rationale of our largest positions offers a better understanding of why, despite falling prices and negative headlines, we welcome the end of a decade of distortion and look forward to the decade ahead. ■

Conclusion

2022 represented a complete change in market fundamentals and sentiment as we moved from a time of record-low interest rates, speculative bubbles and market highs to a period of inflation, recession and a bear market. Although painful, this transformation represents a long overdue return to normalcy after a decade in which suppression of interest rates inflated asset prices, rewarded speculation and devalued economic fundamentals. During that stretch, especially the past five years, our focus on durability, resiliency and valuation left us out of the hottest areas of the market, and though we grew the value of the assets entrusted to our stewardship, we significantly lagged the indices.

So why are we convinced that now is an excellent time to invest in Davis Select U.S. Equity ETF? Because we maintain that our focus on durability, resilience and valuation, which has long been out of fashion has prepared our portfolio to weather the bear market, a recession and the return of inflation. While the market has not yet rewarded us for this discipline, the strength, performance and competitive position of the select businesses we own, such as the five discussed above, gives us confidence that this is just a matter of time. If a picture is worth a thousand words, Figure 10 says it all. The combination of resiliency and growth at a more than 40% discount to the averages is a value investor's dream.

Fig. 10: **Selective, Attractive Growth, Undervalued**

	Fund	S&P 500 Index
Holdings	27	503
EPS Growth (5 Year)	15.2%	10.2%
P/E (Forward)	10.1x	17.8x

During the past decade, as the floodwaters rose around us, we built an ark to ride out the storm. In the years ahead, we expect that our values of discipline and patience will be rewarded.

Above all, we never forget that we are stewards of our shareholders' savings and that our most important job is growing the value of the funds entrusted to us. With more than $2 billion of our own money invested alongside that of our clients, we are on this journey together and our conviction in our portfolio of carefully selected companies is more than just words.

Given that 85% of all funds are overseen by managers who have less than $1 million invested in tandem with their clients, we believe our alignment with shareholders is an uncommon advantage. While we do not welcome the pessimism and fear that have characterized our world recently, we are well prepared for it and, more importantly believe we are well positioned for the future. Thank you for the trust you have placed in us. ■

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- Viewing volatility as a cost of admission to building wealth
- Saving like a pessimist, but investing like an optimist

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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. The investment objective of Davis Select U.S. Equity ETF is long-term capital growth and capital preservation. 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; **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 12/31/22, the top ten holdings of Davis Select U.S. Equity ETF were: Berkshire Hathaway, 10.74%; Capital One Financial, 8.18%; Alphabet, 7.99%; Wells Fargo, 6.47%; Meta Platforms, 5.73%; Cigna, 5.53%; Amazon.com, 5.08%; U.S. Bancorp, 4.69%; Markel, 4.18%; and DBS Group Holdings, 4.04%.

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.

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. Investments cannot be made directly in an index.

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