

Update from Portfolio Managers
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Davis Select U.S. Equity ETF (DUSA)

Semi-Annual Review 2020

Please provide your current perspective on the market during COVID-19:

The first half of 2020 has been filled with fear, tumult and extreme volatility. Families and communities have suffered real hardship and terrible losses. As stewards for the savings of hundreds of thousands of individuals and families, we are gratified to report that despite this turmoil, we have increased the value of the funds entrusted to our management for all periods longer than one year and are up a modest 0.08% for the trailing one year. We are committed to helping our clients achieve their financial aspirations, whether a comfortable retirement, a child's education, a dream home or gifts to charity, and at this challenging time, our first thoughts are for their safety and well-being.

As human beings, we do not welcome times of fear and panic. However, as investors, we welcome the bargain prices such emotions produce. The market's steep decline and dramatic rebound has left many investors fearful and confused. Some don't understand why the market is not down more in the face of terrible headlines. Others wonder if they missed their chance to buy at bargain prices in March. Though understandable, such thoughts ignore the fact that the short-term direction of stock prices is not predictable. No one knows if the market will be lower or higher six months from now. Although unsettling, short-term uncertainty is nothing new and must always be incorporated into investors' plans and perspective.

The average annual total returns for Davis Select U.S. Equity ETF periods ending June 30, 2020 are: NAV Return, 1 year, 0.08%; Inception (1/11/17), 5.60%; Market Price Return, 1 year, 0.21%; Inception, 5.65%. 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 bid/ask midpoint 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. Equity markets are volatile and an investor may lose money. All fund performance discussions within this piece are as of 6/30/20 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.**

Since our firm's founding more than 50 years ago, we have weathered countless periods of crisis and turmoil by being prepared and knowing that unpredicted events, crises and corrections are painful but inevitable. As a result, rather than try to make short-term predictions, we have built wealth for generations by identifying durable and profitable businesses that have the strength to weather such storms. Today, our research indicates that the market's bounce has been driven by only a handful of companies and sectors, leaving a number of high-quality, durable businesses still trading significantly below the prices they traded at just a few months ago. The decision to buy such durable, profitable businesses at today's discount prices creates the opportunity to build tomorrow's wealth.

The futility of short-term forecasts

As we consider the events of this year, beginning with a global pandemic followed by the steepest recession on record, a 34% market decline, 20% unemployment, a 44% market rebound and more recently civil unrest and mass demonstrations, it is instructive to realize that no pundits or commentators predicted these events. Yet the same pundits and commentators who failed to predict what has already happened are busy predicting what is going to happen next. From the timing of a vaccine to the

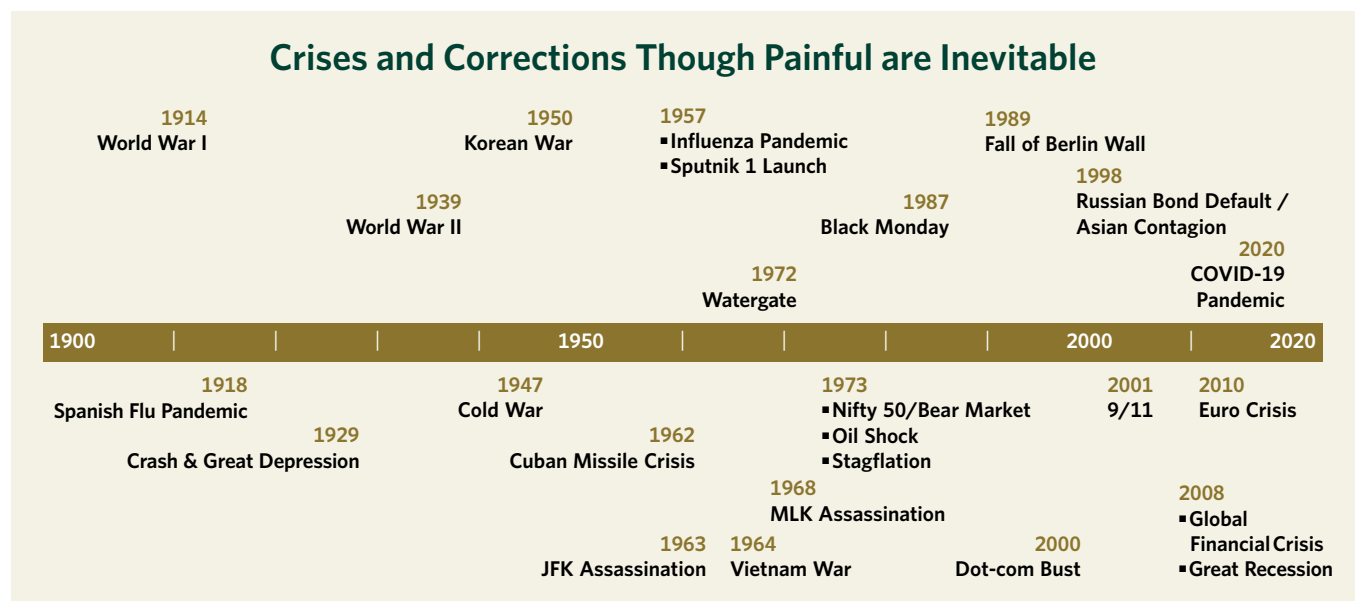
shape of the economic recovery, from stock market forecasts to election results, the media is filled with experts delivering worthless forecasts.

Rather than speculate about the course of current events, our aim is to share the long-term context that has helped us build wealth for more than fifty years through periods of prosperity and times of turmoil. Armed with such a framework, investors will be prepared to unemotionally distinguish between the short-term volatility and long-term opportunities presented in the current market.

Crisis are a painful but inevitable part of the investment landscape

One word we hear most in describing the current environment is "unprecedented." While this description is technically correct, it wrongly implies that crises and corrections are something new and different. The timeline below captures just some of the geopolitical shocks, economic crises, political turmoil and market crashes that our country and economy have endured over the last hundred years.

For the individuals who lived through the events listed below, each was unpredicted and terrifying. Yet even in the face of this daunting list, our nation proved resilient for the simple reason that individuals and institutions adapt to changing times. While each

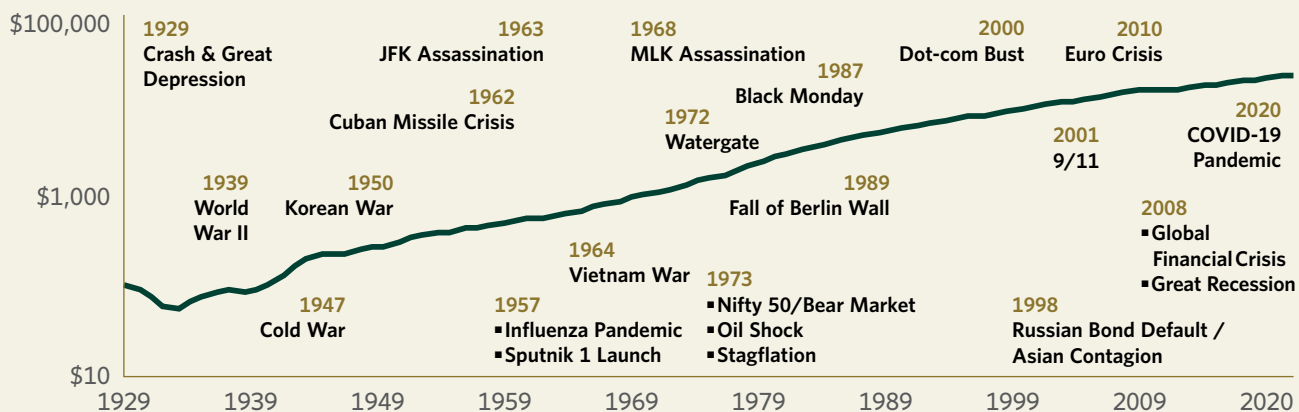


Source: Davis Advisors

The U.S. Economy Has Been Incredibly Resilient Over the Long Term

U.S. Nominal GDP Log Scale

1929–2020



Source: Bureau of Economic Analysis Website—www.bea.gov Past performance is no guarantee of future results.

event was unprecedented and terrible, time and time again, our economy responded, adapted and continued its long-term growth, as can be seen above.

Likewise, the businesses that comprise much of our nation's economy have proven their resilience and adaptability, as can be seen in this powerful chart, showing the market's progress through a century of "unprecedented" events and challenges.

COVID-19 and civil unrest represent the most recent challenges to be added to this long list. At the time of this writing, COVID treatments are improving, and though the timing is uncertain, a vaccine will be developed, businesses will reopen, sporting events will resume and life will get back to normal, most likely in the next 6–12 months, albeit with some lasting changes, such as more openness towards working remotely. The lessons learned from dealing

The Market Has Steadily Marched Upward Despite Inevitable Crises

DJIA Level Log Scale

1929–2020



Source: Bureau of Economic Analysis Website—www.bea.gov Past performance is no guarantee of future results.

with this first modern pandemic will also leave us far better prepared for the next one, and thus safer than we were before. As for today's political discord, students of social history would note that dissatisfaction, frustration and anger at the status quo are, and always have been, necessary ingredients for social change and progress.

In the heat of today's polarized climate, it is worth bearing in mind two deep truths. First, regardless of economic status, gender, race or sexual orientation, few would disagree that it is better to be living today than 50 years ago. Second, the fact that there has been enormous long-term progress over the last 50 years does not mean that there is not a long way to go. Based on history, it may be reasonable to conclude that today's discontent will lead to continued progress on this long journey.

If we can imagine looking back at current events a decade from now, it seems likely that today's challenges, like the many other painful crises we have endured in the last century will, in the end, make our country stronger and serve as reminders of the resilience, durability and adaptability that are hallmarks of our markets, our economy and our nation.

Volatility can be the long-term investor's friend

Despite the more positive longer-term probabilities described above, short-term uncertainty has made the stock market extraordinarily volatile in both directions. While such volatility can be unsettling, it represents a significant opportunity for investors who recognize the difference between price and value, best summed up in the old saying, "Price is what you pay. Value is what you get."

Because stocks are traded every day, it is easy to forget that they represent ownership interests in real businesses, and whether publicly traded or private, the value of any business is determined by the earnings (or more specifically, the free cash flow) that it will generate between now and kingdom come. In contrast to a business' value, its price is simply the amount at which someone is willing to buy or sell that business on any given day.

This contrast can be seen clearly by analogy if we imagine two partners going in 50:50 to purchase a well-located apartment building for \$10 million that reliably generates \$1 million of income after all expenses. In this example, each invests \$5 million, and each is earning \$500,000 per year, or a 10% annual return on their share. Now suppose one decides to sell his share to the other for only \$2.5 million. It is hard to imagine the other viewing this as bad news or thinking the value of their share had declined. Instead, knowing that each half of the business generates \$500,000 of earnings, one would likely jump at the chance to buy the additional share at this bargain price. After all, the earnings on this new investment would represent a 20% return, as it would generate the same amount of earnings at half of the price of their original investment. Similarly, if someone came along and offered to buy the building for an extremely high price, say \$30 million, the partners would likely be delighted to sell at a price so far above what they know to be the building's intrinsic value.

What is true for this hypothetical apartment building is equally true for stocks, which are simply shares in real businesses. Today, as a result of the market's extreme volatility, we are delighted to be seeing both opportunities to buy certain businesses at bargain prices and to sell other businesses at exorbitant prices. This repositioning should pay real dividends in the years to come.

Please provide an update on the ETF's long-term performance and more recent results:

Our primary goal in managing Davis Select U.S. Equity ETF is to increase the value of the savings entrusted to our management. While the Fund's market return is just slightly positive for the trailing one-year period, Davis Select U.S. Equity ETF has achieved this goal in longer-term trailing periods.

On a relative basis, Davis Select U.S. Equity ETF has recently lagged the market. This period has coincided with a time in which momentum investing has been in favor and our value-based approach has been out of favor. The momentum

approach that is currently popular suggests that the more an investment goes up in price, the more attractive it becomes. This approach can be self-reinforcing. As rising prices garner more headlines and more attention, buyers, who fear missing out, jump onto the bandwagon. While momentum may continue to stay in favor for a long time, we are not tempted to change our discipline for the simple reason that momentum investing flies in the face of common sense. Because stocks represent ownership interest in real businesses and because, as discussed above, the value of any business is determined by the earnings the business generates, the more a stock goes up in price, the *lower, not higher*, the future return should be. Sooner or later, the music stops, and price and value converge. Although we recognize that value investing has been out of fashion for more than a decade, we firmly believe that doing something that is logically foolish because it has worked for some time is a recipe for disaster.

We are sticking to our discipline because the carefully selected businesses that we own have generated strong underlying results, even as their share prices have lagged. This disconnect is simply another powerful reminder of the difference between price and value. Starting with value, we have constructed the portfolio to weather any storm, including the one we are currently in. Our portfolio companies exhibit a rare combination of durable business models, profitable long-term growth, strong free cash flow, proven, capable management and below-average valuations.

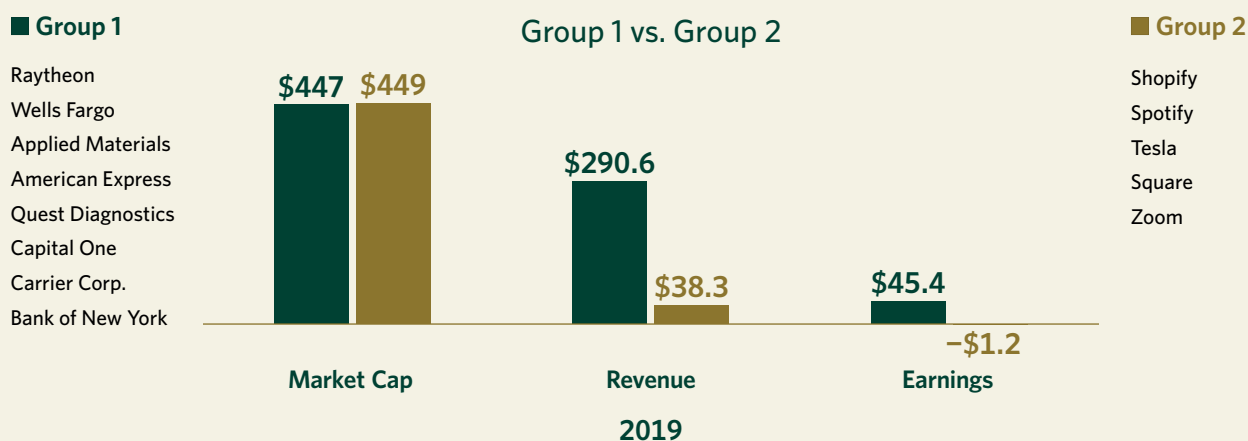
Turning to price, however, even though these businesses have proven records of durability and the financial strength to weather the current storm, the fact that many have a cloudy short-term earnings outlook has led them to fall out of favor, especially

compared to companies that are growing quickly in the current environment, but may have a less certain long-term future. In other words, our research indicates that we are currently seeing a tale of two markets, with a handful of companies significantly overvalued at the same time that many others are significantly undervalued.

To illustrate this dichotomy, imagine having \$450 billion that you must use to buy either one of two groups of companies. Group 1 consists of eight durable, leading and profitable companies with long-term records of profitable growth that, not coincidentally, are all among the top holdings of Davis Select U.S. Equity ETF. These companies are Raytheon, one of the largest aerospace and defense companies; Wells Fargo, one of the most profitable and enduring banks in the country; Applied Materials, the world's most important semiconductor capital equipment company; American Express, the preeminent charge card company in the world; Quest Diagnostics, the nation's largest laboratory testing company; Capital One, the most innovative of the large banks; Carrier Corp., the nation's largest manufacturer of HVAC equipment; and finally Bank of New York Mellon, the world's leading corporate trust and custody bank, founded by Alexander Hamilton. For the \$450 billion it would cost to buy all of these companies, you would generate almost \$300 billion of annual revenue (a good proxy for how much customers value your goods and services) and roughly \$45 billion of annual after-tax profits, or a 10% annual earnings yield on your investment. Furthermore, owning this wonderful group of companies, you would probably lose little sleep worrying about their durability or the sustainability of their competitive advantages. After all, each has a leading position and a demonstrated record of profitability that goes back decades and even centuries.

Price is What You Pay, Value is What You Get

Market Cap, Revenue and Earnings (\$Bn)



Source: Davis Advisors. Bloomberg and Company Filings. See endnotes for details on groups.

Now, for Group 2. Instead of the eight companies listed above, for the same \$450 billion, you could buy Shopify, Spotify, Tesla, Square and Zoom. In aggregate, these companies generate about 87% less revenue than Group 1, and instead of earning \$45 billion after tax, they are generating losses of \$1.2 billion per year. While we accept that these companies are exciting, innovative and have wonderful growth potential, our argument is about their relative valuation and the uncertainty of their long-term competitive advantages.

Faced with the choice of owning eight diversified, proven, leading companies generating seven times the revenue and earning \$45 billion a year after tax, or five exciting but unproven, loss-making technology startups with uncertain long-term futures, we chose durability and profitability. While our choice is out of synch with current market trends that continue to favor short-term growth and hype over long-term value and durability, 50 years of experience has taught us that a willingness to be out of favor in the short term creates the opportunity to build wealth in the long term.

Portfolio update

With the short term cloudy but the long term clearer, we continue to focus on companies like those listed above with durable competitive advantages, proven business models, long histories of profitable growth and capable management teams. For some companies with these characteristics, particularly a number of our leading technology companies, the current environment has accelerated favorable trends such as online shopping and the use of cloud computing services. No portfolio holding has benefited more than Amazon, which continues to be among the most capable and best-managed companies we have ever owned. However, the fact that the shares have surged almost 50% through this tumultuous period reduces our earnings yield and margin of safety. While we continue to own a significant position in this fine company, we have taken advantage of this upward volatility to reduce the number of shares we own.

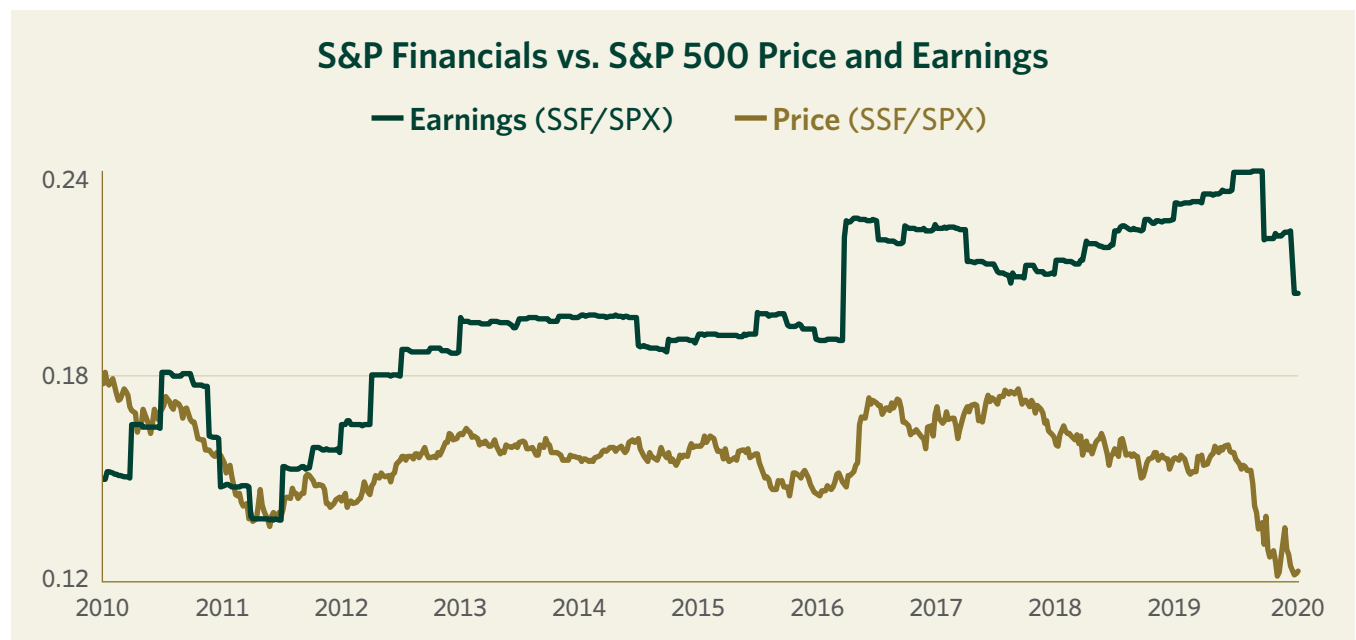
At the other extreme, we own a number of companies, such as those listed in Group 1 above, for which this steep decline in economic activity

has been an unpleasant but manageable reality. Here, the investment opportunities are the greatest, for the simple reason that investors are more concerned with short-term uncertainty than long-term durability. Currently, we see the biggest opportunities in two sectors: first, high-quality global industrial companies, like Raytheon, Applied Materials and Berkshire Hathaway. Each have proven long-term growth records, strong balance sheets, durable business models and excellent management. Buying such companies when they are out of favor is a rare opportunity and one we are glad to take advantage of.

Second, and even more dramatically, we see a significant opportunity in select well-capitalized financial leaders, such as Wells Fargo, Capital One and US Bancorp, which currently sell at distressed prices, despite being explicitly prepared for today's turmoil. This preparation was the result of the lessons learned during the financial crisis and ensures that these leading banks have the durability and resiliency to withstand even a worse economic scenario. Specifically, all of our major bank holdings are subject to a stress test that includes a multi-year recession in which 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%. The fact that our bank holdings are prepared for such a scenario should give investors great confidence. Yet, even though our banks are far more conservatively capitalized, with almost twice the capital they held before the financial crisis, and are carrying far less risk in their credit portfolios, a huge gap has developed between their price and value as can be seen in the chart below. Specifically, the chart shows that 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 the 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, well-prepared for this turmoil at distressed prices, as in doing so, we are sowing the seeds for future performance.



Conclusion:

Last December, we warned 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, 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. Such attributes allow our companies and the portfolio as a whole to weather storms like today and adapt to changing times.

With our own money invested alongside clients, our interests are aligned, and our conviction is more than just words. 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 the years and Davis Select U.S. Equity ETF has outperformed the market averages over the long run after all fees.

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

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; **depository receipts risk:** depository receipts involve higher expenses and may trade at a discount

(or premium) to the underlying security; **fees and expenses risk; foreign currency risk; 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 6/30/20, the top ten holdings of Davis Select U.S. Equity ETF were: Amazon.com, Inc., 12.86%; Alphabet Inc., 11.78%; Berkshire Hathaway Inc., 7.50%; Capital One Financial Corp., 5.43%; Carrier Global Corp., 5.06%; Facebook Inc., 4.84%; New Oriental Education & Technology, 4.33%; U.S. Bancorp, 4.30%; Raytheon Technologies Corp., 3.99%; and American Express Co., 3.62%.

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.

The companies in Group 2 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 1 represents current Davis Select U.S. Equity ETF holdings with a market value that was approximately equal to that of Group 2 as of 6/30/20.

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 Financials** is a capitalization-weighted index that tracks the companies in the financial sector as a subset of the S&P 500 Index. The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue chip stocks. The Dow Jones is calculated by adding the closing prices of the component stocks and using a divisor that is adjusted for splits and stock dividends equal to 10% or more of the market value of an issue as well as substitutions and mergers. The average is quoted in points, not in dollars. Investments cannot be made directly in an index.

After 10/31/20, 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.