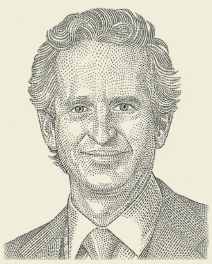
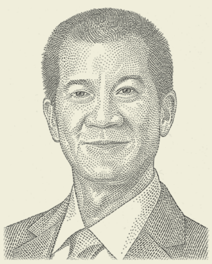
DUSA





Davis Select U.S. Equity ETF

Insights from Portfolio Managers

Chris Davis and Danton Goei

Davis ETFs

THE EQUITY SPECIALISTS™

Davis Select U.S. Equity ETF (DUSA)

Insights from Portfolio Managers Chris Davis and Danton Goei

Executive Summary

- We are pleased to offer investors the Davis Select U.S. Equity ETF (DUSA), one of the first actively managed equity ETFs offered by a manager with decades of experience investing in equities.
- DUSA is a high-conviction, benchmark-agnostic portfolio with low expected turnover and a strategic long-term time horizon.
- Managed using the Davis Investment Discipline, DUSA invests in durable, well-managed businesses with competitive advantages, most of which are headquartered in the United States and selling at a discount to true value.
- DUSA offers the benefits of a traditional ETF: low costs, tax efficiency, intraday liquidity, and transparency.
- Opportunities in today's market include global leaders selling at bargain prices, dominant lesser-known businesses in necessary economic niches, blue chips of tomorrow and beneficiaries of short-term misperceptions.
- Risks in today's market include overvalued dividend darlings and companies near peak profit margins.

Davis Select U.S. Equity ETF (DUSA)

Davis Introduces Actively Managed Equity ETFs

We are pleased to offer investors the Davis Select U.S. Equity ETF (DUSA), Davis Select Financial ETF (DFNL), and Davis Select Worldwide ETF (DWLD). These are among the first actively managed equity ETFs offered by a manager with decades of experience investing in these areas.

Each of our ETFs is managed using the Davis Investment Discipline. They are high-conviction, benchmark-agnostic portfolios with low expected turnover and a strategic long-term time horizon. Davis ETFs offer investors the benefits associated with traditional ETFs, including low costs, tax efficiency, intraday liquidity, and transparency.

With almost 50 years of investment experience and $25 billion in assets under management, our goal has always been to provide our research expertise to investors in the vehicle of their choice, which now includes ETFs.[1] ■

Investment Outlook

Equities should outperform bonds over the next decade. Avoid overpriced dividend darlings and companies with peak profit margins.[2] Disruptive technologies and globalization are creating new opportunities and risks.

We do not make investment decisions based on short-term forecasts, which history has shown are not reliable. Instead, we focus on the important and knowable, which in today's market include the following:

- Equities should outperform bonds over the next decade given bond yields are at multi-century lows.
- Within the equity universe, selectivity will be critical. We believe durable, well-managed businesses whose true value is not recognized by the market should outperform.

	Ticker	Expense Ratio[3]	Holdings	Performance Benchmark	Portfolio Managers
Davis Select U.S. Equity ETF	DUSA	0.60%	21	S&P 500	C. Davis D. Goei
Davis Select Financial ETF	DFNL	0.65%	24	S&P 500 Financials	C. Davis
Davis Select Worldwide ETF	DWLD	0.65%	41	MSCI ACWI	D. Goei

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. **Past performance is not a guarantee of future results. 1.** As of 12/31/2016. **2.** Common stocks and bonds represent different asset classes subject to different risks and rewards. Unlike bonds, the Fund does not offer a fixed rate of return if held to maturity, and the Fund has risks not associated with holding a bond. Bonds are considered to have less risk than equities. Future economic events may favor one asset class over another. **3.** Davis Selected Advisers, L.P. has contractually agreed to waive fees and/or reimburse the Funds' expenses to the extent necessary to cap total annual fund operating expenses as shown until March 1, 2018. After that date, there is no assurance that the Adviser will continue to cap expenses. The expense cap cannot be terminated prior to that date, without the consent of the Board of Trustees. The gross expense ratio for each fund is DUSA: 0.66%; DFNL: 0.66%; and DWLD: 0.68%.

- Opportunities in today's market include: global leaders selling at bargain prices, dominant lesser-known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.
- Risks in today's market include: companies with near peak margins and overvalued dividend darlings that are riskier than they appear. The 25 most commonly held stocks in the five largest dividend-focused ETFs are valued at 25 times earnings, a P/E ratio significantly higher than the market.[4]
- Technology and globalization are reconfiguring industries at an unprecedented rate. Many long-standing brands and business moats are being disrupted in unexpected ways. For example, in recent years the newspaper, retailing and media industries have all seen iconic companies become obsolete. At the current rate of change, we estimate that 75% of the S&P 500 Index will be replaced in the coming decade. To succeed, we believe investors should avoid conventional thinking and remain flexible. ■

The Portfolio

Global leaders trading at bargain prices, dominant lesser-known businesses, blue chips of tomorrow, and beneficiaries of short-term misperceptions

Unlike the S&P 500 Index, DUSA owns around 25 companies we believe are extraordinary. We think these companies offer above-average resiliency and growth with below-average prices.

Global Leaders Trading at Bargain Prices—Some of the strongest and best-known companies in the world make up the largest portion of the portfolio. Short-term economic concerns over the past year have reduced the share prices of a handful of global leaders such as United Technologies, American Express and Monsanto to bargain levels at a time of high valuations for the average company.[5] Buying top tier businesses at bargain prices is a value investor's dream.

Representative Holdings	
Wells Fargo	Historically, one of the most profitable U.S. banks. Record profits each of the past six years. Serves 70 million customers. Conservatively funds loans through $1.2 trillion of low cost deposits.
Alphabet	Global leader in online search, parent company of Google, has generated $14 billion in free cash flow. Beneficiary of growth in online advertising and proliferation of mobile devices worldwide.
United Technologies	Largest global aerospace supplier. Number 1 market share in heating, ventilation and air conditioning (Carrier) and elevators (Otis).[6]
UnitedHealthcare®	Largest managed care provider in the United States, has generated more than $130 billion in revenue. Enormous beneficiary of growing health care industry.
Berkshire Hathaway Inc.	Owns a diversified portfolio of attractive businesses. Competitive world-class capital allocator.

4. Source: Morningstar stock intersection analysis as of most recent date fund holding information was made available to Morningstar. The market is represented by the holdings in the S&P 500 Index. As of 12/31/16. **5.** Individual securities are discussed in this piece. 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. The return of a security to the Fund will vary based on weighting and timing of purchase. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results. 6.** As of 12/31/15.

Dominant Lesser-Known Businesses—DUSA invests in a group of lesser-known businesses that dominate dull but necessary niches in the global economy. Whether participating in unglamorous industries or headquartered in different countries, these businesses are not household names to U.S. investors. As a result, their shares often trade at a discount to better-known companies despite having the same qualities of market dominance and durability as the global leaders described above. Such companies include Johnson Controls' leadership in fire, security, and building controls, Liberty Global's strength in European cable TV and broadband, LafargeHolcim's dominance of the world cement industry, and Safran's leadership in jet engines. These companies combine the relevance and resilience of blue chip companies with below-average valuations.

Blue Chips of Tomorrow—Another theme is fast-moving companies that use innovation to disrupt the economics of larger but less agile competitors. Capitalism is a process of constant change that rewards businesses that can adapt. Over decades, we have seen many examples of today's disrupters emerging as tomorrow's blue chips. Several of DUSA's core holdings reflect this dynamic. Amazon has not only revolutionized the retail business, but also the information and technology industry through Amazon Web Services (AWS). Alphabet (the parent company of Google) began by making the world's information accessible through the Internet and emerged as the largest and most profitable advertising firm in the world, the brains behind the vast majority of all smart phones, a leader in Internet video, and the emerging leader in artificial intelligence and self-driving cars.

CarMax is another example of an innovator that has been just as disruptive in the auto sector, bringing trust, choice and quality to the murky but enormous used car industry. Investors in disruptive leaders stand to benefit not just from the growth in these companies' underlying businesses, but also from their gradual inclusion in the ranks of blue chip stocks.

Beneficiaries of Short-Term Misperceptions—Short-sighted investors avoid companies that face short-term misperceptions, creating an opportunity for long-term investors willing to look beyond today's headlines. In banking, for example, memories of the financial crisis of 2008–2009 combined with subsequent anti-banking rhetoric and media coverage have blinded investors to the fact carefully selected banks are both cheap and safe, in our opinion. Contrary to perception, many top tier banks are not only reporting record earnings but are also far better capitalized than at any time in the last 50 years. Leaders such as Berkshire, JPMorgan, Wells Fargo and American Express demonstrated their resiliency through the worst financial crisis since the Great Depression. While unloved now, we believe these companies will be big contributors to DUSA's future returns as the reality of their strong economic fundamentals and rising dividends eclipses current investor perceptions.

Similarly, over the past year, investors fled the energy sector in response to the dramatic (and unsustainable) collapse in oil prices. While oil prices are unknowable in the short term, they must exceed the cost of replacing reserves over time. We believe this simple fact will eventually lead to higher energy prices and should drive future returns for the well-positioned, low-cost producers DUSA holds.

We own what we believe to be a select group of innovative and well-positioned energy companies with the capital allocation discipline, management experience and low-cost, long-lived reserves that will allow them to increase production for decades to come. Holdings include Occidental Petroleum, Apache and Encana.

We believe building wealth in the coming decade will require equity investors to look beyond market indexes and be selective, adaptable and flexible. Given the quality and valuation of the companies in the Davis Select U.S. Equity ETF, we believe the portfolio is well positioned to grow shareholder wealth and exceed its performance benchmark over the long term. We are mindful of our stewardship responsibility and grateful for your trust. ■

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 Davis Fundamental ETF Trust 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.

Objective and Risks. Davis Select U.S. Equity ETF's investment objective is long-term capital growth and capital preservation. The Fund invests primarily in equity securities issued by large companies with market capitalizations of at least $10 billion. Davis Select Worldwide ETF's investment objective is long-term growth of capital. Davis Select Financial ETF's investment objective is long-term growth of capital. Under normal circumstances the Fund invests at least 80% of its net assets, plus any borrowing for investment purposes, in securities issued by companies principally engaged in the financial services sector. There can be no assurance that the Funds will achieve their objectives. An investment in Davis ETFs is subject to numerous risks, including possible loss of principal. The Fund is actively managed and does not seek to replicate a specified index. The Fund is subject to the following principal risks: authorized participant concentration risk, common stock risk, depositary receipts risk, exchange-traded fund risk, fees and expenses risk, financial services risk, focused portfolio risk, foreign country risk, foreign currency risk, headline risk, intraday indicative value risk, large-capitalization companies risk, manager risk, market trading risk, mid- and small-capitalization companies risk, and stock market risk. See the prospectus for a complete description of the principal risks.

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.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 1/11/17, the top ten holdings of Davis Select U.S. Equity ETF were: Berkshire Hathaway Inc., Class B, 9.48%, Alphabet Inc., Class C, 7.26%, Amazon.com, Inc., 7.26%, United Technologies Corp., 6.94%, American Express Co., 6.38%, Apache Corp., 6.25%, Johnson Controls International PLC, 4.77%, Markel Corp., 4.75%, JPMorgan Chase & Co., 4.51%, Bank of New York Mellon Corp., 4.50%.

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.

Trailing Price/Earnings (P/E) Ratio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. Portfolio totals are computed using an inverse harmonic methodology. **Book value per share** indicates the dollar value remaining for common shareholders after all assets are liquidated and all debtors are paid.

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper 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 **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets throughout the world. The Index includes reinvestment of dividends, net foreign withholding taxes. Investments cannot be made directly in an index.

Shares of the Davis Fundamental ETF Trust are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

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