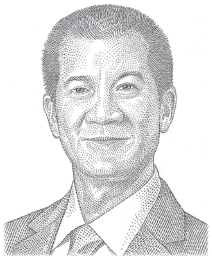
Davis ETFs



Update from Portfolio Manager

Danton Goei

Davis Select Worldwide ETF (DWLD)

Annual Review 2020

Investment Results

Davis Select Worldwide ETF's (DWLD) performance in 2019 was driven by our holdings in the consumer discretionary, communication services, and industrial sectors.

DWLD had a very strong 2019 with a total return of 30.7%, outperforming the MSCI ACWI (All Country World Index) by 4.1%. Among the drivers of outperformance were several of our Chinese consumer holdings, including New Oriental Education & Technology, Alibaba Group, and JD.com. Positive contributors also included semiconductor equipment manufacturer Applied Materials, plumbing and heating supplies distributor Ferguson, and Brazilian health insurer Sul America, along with U.S. Internet stalwarts Alphabet Inc. and Facebook.

The energy and financial sectors were detractors relative to the index in 2019. Although the environment for energy remains volatile, we believe our energy holdings remain attractive. In fact, while the price of West Texas Intermediate (WTI) oil has increased 26% in 2019 from $48.62 to $61.06, our energy holdings are down 9.1%, making them today, we believe, particularly inexpensive. We also believe the financials we own are attractively priced. Names such as Development Bank of Singapore, AIA Group, Bank of Butterfield, and Danske Bank have been negatively impacted in the short term by the drop in interest rates, but over the long term, we project them to have solid future returns.

The strong 2019 returns were in part a rebound from the difficult fourth quarter of 2018 when U.S.-China trade concerns and the direction of

The average annual total returns for Davis Select Worldwide ETF for period ending December 31, 2019, are: NAV price: 1 year, 30.70%; since inception (1/11/17), 9.99%; Market price: 1 year, 30.96%; since inception, 10.02%. 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. Returns of less than one year are not annualized. 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 0.64%. The total annual operating expense ratio may vary in future years. Current performance may be higher or lower than the performance quoted.*

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 12/31/19 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.**

U.S. interest rates led to a sharp market downturn and the worst December performance in 72 years. As investors realized that the impact of the trade conflict was relatively muted, aided in part by three interest rate cuts by the U.S. Federal Reserve, the market started to recover so that by mid-year, it was up 16.2%. The limited U.S.-China phase one trade agreement announced in December this year has further calmed some of the macroeconomic market concerns and fueled additional market advances in the second half of 2019.

Throughout the often high market volatility of 2019, we knew that our decision to focus on Chinese consumer-facing companies, rather than export-driven or commodity-type sectors, was serving us well. Year-to-date revenue growth of 34% at New Oriental Education & Technology, 44% at Alibaba Group, 24% at JD.com, and 53% at Meituan Dianping demonstrated that whether parents in China continued to invest in their children's education, whether consumers continued to order goods online, or whether hungry workers and families continued to order food online, it was not being impacted by concerns surrounding U.S.-China trade relations. These companies' strong balance sheets (all four have net cash positions) and free cash flow generation also means they are well prepared for future economic dislocations or economic challenges.

Encouragingly, despite very strong returns in 2019, we believe our holdings continue to trade at attractive valuations. For example, over the past two years, a period that includes both the market downturn in 2018 and the strong market in 2019, the stock prices of our top 5 positions were up an average of 24.6%. Operating earnings for the five largest positions, however, grew at a much faster rate leading to their multiples actually falling because earnings were up even more than the stock 5 holdings, as well as the rest of the portfolio, remain attractively valued, and we remain optimistic about future returns. ■

Perspectives on Our Global Investment Approach and Portfolio Positioning

DWLD invests around the world in select businesses to take advantage of long-term global trends.

The U.S. and China have agreed to complete an initial phase one trade agreement. While limited in scope, this trade agreement is a real positive because it lowers the likelihood of a rapidly worsening situation. Over time, however, we know the U.S.-China trade relationship will be a complex one, given their economic rivalry. At Davis, we understand that just like over the 50 years since our founding in 1969, the world remains an uncertain place. As a firm, we have managed our clients savings through the stagflation, oil crisis, and Vietnam War of the 1970's; deindustrialization and Black Monday in the 1980's; the dot.com boom and bust, 9/11, and Middle East conflicts of the 1990's and early 2000's; the Financial Crisis in 2008–09; and the recent global trade disputes. One constant during these periods of upheaval has been that the companies in our portfolios have been able to adapt. Relying on the durability of their proven business models and competitive advantages, the strength of their balance sheets and cash generation, and the experience of their management teams, our holdings have persevered and thrived over time. Durability of competitive advantages and ability to adapt are the key traits of the holdings in our portfolio.

One important perspective worth sharing is that international equities look quite attractive at this moment. At year-end, the domestic U.S. Standard & Poor's 500 (S&P 500) Index was trading at a forward price to earnings ratio (P/E) of 20.0x,[1] which is equivalent to an earnings yield of 5.4%. While this level is above long-term averages, it is quite attractive when compared to fixed income securities, such as the 10-year U.S. government bond with a yield of only 1.9%. Importantly, the

1. Source: Wilshire.

S&P 500 Index earnings yield is also likely to grow over the long term, unlike a fixed coupon on a bond. The international equities index, the MSCI ACWI ex US, however, is trading at a much lower 14.4x forward P/E, a significant four multiple points lower. Moreover, segments of the international index are even cheaper, such as the MSCI China Index trading at 12.7x forward P/E.

While the U.S. market has far outpaced international indices over the last decade, this dominance has not always been the case. As Jason Zweig, in his Intelligent Investor article penned in *The Wall Street Journal* on September 28, 2018, insightfully shared, international equities have outperformed U.S. equities for long periods in the past. In the decade ending in December 2007, international equities outpaced U.S. ones by 3.1% a year, and in the decade ending in December 1986, international equities were ahead by 6.2% a year. The starting point matters. It matters a great deal, and in this case, we can see that international equities are starting significantly cheaper than U.S. equities, which are already quite attractive relative to fixed income.

Our portfolio of 30 to 40 companies held for the long term is designed to beat the index over the long term. The main way we achieve long-term outperformance is, of course, by focusing on competitively-advantaged companies run by able and honest management teams and trading at attractive valuations. Another way we can add value is weighting the portfolio towards regions where the long-term prospects are good and valuations are low. So while we continue to find attractive investments in the U.S., particularly in the financials, consumer discretionary and industrials spaces, today we have approximately half of DWLD's assets in international companies. This is the highest level we have had in many years and reflects the combination of competitively-advantaged businesses coupled with low valuations we are finding in select international markets. Selectivity is, of course, key, which is why, for example, we are only in four of the 26 emerging markets present in the MSCI ACWI. ■

Representative Holdings

AIA Group is a new addition to the portfolio in 2019. This former subsidiary of AIG Group is the second-largest life insurer in the world, with over 100 years of operating history in Asia. The two key long-term structural drivers for life insurance growth in Asia are 1) the desire to provide for the key earner's surviving family members and 2) the need to insure against rising uncovered healthcare costs. Insurance is still a product that has to be sold rather than bought and distribution is AIA's most formidable competitive advantage. Its tens of thousands of sales agents are the gold standard in the industry, providing professional face-to-face financial advice and building long-term relationships with customers to enhance their lives.

AIA is present in 18 countries across Asia, but the big prize remains its potential in China. AIA's agents in China have approximately 5x higher sales productivity compared to the industry. Because their current presence is limited to 1/3 of China, the long-term opportunity for AIA is substantial as the financial markets open up further for international insurers. The biggest overhang on the stock remains the unrest and lower sales in Hong Kong, but we believe this to be transitory, as potential consumers do not tend to put off life insurance indefinitely. AIA's management bench is deep, highly experienced, and focused on long-term value creation by investing in technology and people.

AIA's low, double-digit growth for the medium term is self-funded and its balance sheet is among the most conservatively levered in the industry. Unlike most U.S. life insurers, AIA also has very low sensitivity to interest rates and equity market swings due to the type of policies it writes and its risk management. AIA trades at just under 17x 2020 owner earnings for double-digit growth and adjusted operating return on equity (ROE) of close to 19%.

Alphabet, the parent company of Google, is a company we have owned in DWLD since inception. Since 2007, Google has been a five-bagger with a compound annual growth rate (CAGR) of 14%, or

8.5% a year better than the MSCI ACWI. While not every company can replicate Alphabet's level of success, it is a good example of the power of compounding and what we are striving to achieve with our other top DWLD holdings. The company is the operator of a number of globally popular consumer Internet products, including Google Search, YouTube, Google Maps, Gmail, Google Play, Chrome and Android. The company also has sizable initiatives in cloud computing and consumer hardware devices, as well as an autonomous driving unit housed outside of Google and directly under Alphabet. Despite its many business interests, Alphabet still generates over 80% of its revenue and virtually all of its profits from advertising, primarily in the form of performance-based search advertising and to a lesser extent YouTube video advertising and advertising on third-party properties.

Google has been largely unchallenged as the global leader in general Internet search for over a decade, and outside of a few countries, sees limited direct competition. The company's search business benefits from significant competitive advantages in brand, monetization, distribution and product innovation. We expect the growth runway for the core search business to be long, driven by evermore commercial activity moving online. YouTube is another valuable asset within the Google umbrella. YouTube is taking share of video time spent from TV and is well-positioned to be a major beneficiary of advertising dollars shifting away from traditional TV over the next decade. We view the company's investments in cloud, hardware, and autonomous driving as worthwhile, as they leverage the advantages of Google's ecosystem of products, technology, and world-class technical talent. We estimate the core search business is trading at an attractive 21x 2020 owner earnings, after accounting for the value of YouTube separately and excluding losses from loss-making businesses, such as cloud, hardware, and autonomous driving.

While increasing regulatory and antitrust scrutiny of Google has made for worrisome headlines, we think the probability of regulatory outcomes that materially impair Google's earnings power is low, particularly over the medium term. We are comforted by the fact the company has already undergone extensive regulatory review both in the U.S. and in Europe over the last decade, which has brought about modest changes with little discernible financial impact. Other risks include competition from vertical search players such as Amazon in ecommerce and Expedia in travel as they encourage users to bypass Google and come directly to their websites and mobile apps, as well as an inability to earn an adequate return on the vast amount of investment going into unproven new initiatives.

United Technologies (UTX), a leading aerospace and building products supplier, is another holding of DWLD. Trading for close to or slightly below a market multiple, we think the market likely underappreciates the opportunity ahead. The aerospace portfolio includes engine manufacturer Pratt & Whitney and systems supplier Collins Aerospace (which supplies avionics, brakes, landing gear, and a variety of other sub-systems).

Aerospace has been enjoying strong organic growth, aided by sales of Pratt's groundbreaking Geared Turbofan (GTF) engine, which has prompted a major leap forward in commercial airplane fuel efficiency and noise performance. The GTF has had a few technical challenges in its early days, but this is not unusual in new engine programs, and we believe it has a bright future. Most of the upfront investments in the GTF program have now been lapped, and Pratt can look forward to attractive profits for decades as airlines service their growing installed base. We believe this dynamic, along with Pratt's position on key military programs (e.g., the F-35) and ongoing unit growth and cost-out actions at Collins, should drive aerospace profit and margin growth for many years.

Elevator manufacturer Otis and HVAC, fire safety, security, and refrigeration supplier Carrier are scheduled to be spun off to UTX shareholders in the first half of 2020. Otis and Carrier have strong customer/distributor loyalty, great brands, and attractive tailwinds (e.g., urbanization for Otis and global warming for Carrier's air conditioning business), and will be led by newly energized management teams. Once the separations are completed, the aerospace company is expected to merge with defense giant Raytheon. There are risks associated with all these portfolio changes, but we are excited to become future owners of Raytheon, given its long history of satisfying critical defense needs. Its franchises include missiles, missile defense (e.g., the Patriot), radar, and cybersecurity. We believe this portfolio is well-suited to future threats, and there are some promising areas of overlap in product development (e.g., hypersonics). Raytheon also adds a strong balance sheet to the combined entity (to be renamed Raytheon Technologies), which should offer added stability to invest in future programs and return capital to shareholders. ■

Conclusion

Volatile markets and alarming headlines can be unnerving, which makes the fruits of a steady-as-you-go investment approach such as this year all the more enjoyable. The current economic environment is overall quite positive, with low inflation and a forecast by the International Monetary Fund (IMF) for global GDP growth of 3.2% in 2019 and 3.5% in 2020. As experienced investors with several decades of experience and as a firm with over half a century of history, however, we know that these periods can be accompanied by much more challenging environments. So rather than predict the next economic downturn, we prepare for it because we know it can appear when least expected. Hence, the perpetual focus on the strengths of the balance sheets and cash flow generation of our portfolio companies. We thank you for your continued trust and interest in DWLD.

This report is authorized for use by existing shareholders. A current Davis Select Worldwide 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, charges, and expenses before investing. Read the prospectus carefully before you invest or send money.

Shares of DWLD 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 Worldwide ETF's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. Some important risks of an investment in the Fund are: **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; **common stock risk; cybersecurity risk; depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets; **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; **fees and expenses risk; foreign country risk; foreign currency risk; foreign market risk; headline 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; **large-capitalization companies risk**; **manager 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**; **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 12/31/19, the top ten holdings of Davis Select Worldwide ETF were: New Oriental Education & Technology, 7.99%; Alphabet Inc., 6.93%; Alibaba Group Holding Ltd., 6.11%; JD.com Inc., Class A, 5.65%; Amazon.com, Inc., 5.55%; Wells Fargo & Co., 5.05%; Capital One Financial Corp., 4.91%; Ferguson PLC, 4.88%; Berkshire Hathaway Inc., 4.72%; and Naspers Ltd., 4.49%.

Davis Fundamental ETF Trust has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in the prospectus. Holding percentages are subject to change. Visit davisetfs.com or call 800-279-0279 for the most current public portfolio holdings information.

Forward Price/Earnings (Forward P/E) Ratio is a stock's current price divided by the company's forecasted earnings for the following 12 months. The values for the portfolio and index are the weighted average of the P/E ratios of the stocks in the portfolio or index.

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

We gather our index data from a combination of reputable sources, including, but not limited to, Thomson Financial, Lipper, Wilshire, and index websites.

The **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. The **MSCI ACWI (All Country World Index) ex US** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. The index includes reinvestment of dividends, net of foreign withholding taxes. 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 **MSCI China Index** is constructed based on the integrated China equity universe included in the MSCI Emerging Markets Index, providing a standardized definition of the China equity opportunity set. The index aims to represent the performance of large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. China A shares will be partially included in this index, making it the de facto index for all of China. It can be used as a China benchmark for investors who use the MSCI ACWI Index or MSCI EM Index as their policy benchmark. Investments cannot be made directly in an index.

After 4/30/20, 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.

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