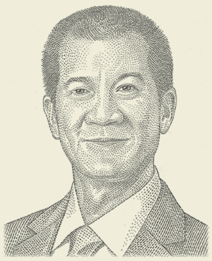
 

Davis Select U.S. Equity ETF

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

Summary

- Our Portfolio is positioned to take advantage of select opportunities in today's market including global leaders selling at bargain prices, dominant lesser known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.
- Our Portfolio is also positioned to avoid the risk potentially facing the index if the prices of an overvalued but widely owned group of companies we refer to as dividend darlings decline in the years ahead.

	Total Returns as of December 31, 2017	
	4th Quarter	Inception (1/11/17)
Davis Select U.S. Equity ETF *NAV Price*	6.9%	16.5%
Davis Select U.S. Equity ETF *Market Price*	6.9%	16.8%

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end and information on other share classes, please visit www.davisetfs.com.

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. The total annual operating expense ratio as of the most recent prospectus was 0.65%. The Adviser is contractually committed through one year from the date of the Prospectus to waive fees and/or reimburse the Fund's expenses to the extent necessary to cap total annual fund operating expenses at 0.65%. The expense ratio before the cap was 0.68%. The total annual operating expense ratio may vary in future years. Current performance may be higher or lower than the performance quoted.

Davis Select U.S. Equity ETF (DUSA)

Annual Review 2018

How is Davis Select U.S. Equity ETF (DUSA) Positioned to Take Advantage of Select Opportunities in Today's Market?

In the current market environment, we are finding opportunities in select global leaders selling at bargain prices, dominant lesser-known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.

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 reduced the share prices of a handful of global leaders such as Berkshire Hathaway, United Technologies, and American Express to bargain levels at a time of high valuations for the average company.[1] We believe buying top tier businesses at bargain prices is a value investor's dream.

Dominant Lesser-Known Businesses—DUSA also invests in a group of lesser-known businesses that dominate dull but necessary niches in the global economy. Whether they participate in unglamorous industries or are 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 Control's leadership in fire and security, building controls, and car batteries; 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 (the company has been an equal but less well-known partner of General Electric for more than 30 years). These companies combine the relevance and resilience of blue chip businesses 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. Similar to evolution, capitalism is a process of constant change that rewards businesses that can adapt. Over the decades, we have seen many examples of today's disrupters emerge 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.

1. 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.**

Beneficiaries of Short-Term Misperceptions— Short-sighted investors often avoid companies that face short-term problems, 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 popular 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. While unloved now, we believe the leading financial companies we own will be big contributors to DUSA's future returns as the reality of their strong economic fundamentals and rising dividends eclipse current investor perceptions.

Similarly, over the past year, investors fled the energy sector in response to the dramatic (and unsustainable) collapse of oil prices. While oil prices are unknowable in the short term, they must exceed the cost of replacing reserves over time. This simple fact should eventually lead to higher energy prices and should drive future returns for the well-positioned, low-cost producers the ETF holds. As a result, we repositioned the energy portion of the Portfolio, adding to existing holdings and initiating new investments. We own a select group of innovative and well-positioned energy companies with the capital allocation discipline, management experience and low-cost, long-lived reserves to allow them to increase production for decades to come. Our holdings include Apache, Encana, and Occidental Petroleum.

All in all, the carefully selected businesses that make up Davis Select U.S. Equity ETF combine above-average resiliency and growth with below-average prices. ■

Where Do We See the Biggest Risks?

Being selective when choosing which companies to own can be a big driver of performance over the long term. However, choosing which companies not to own can be equally important. Although these bubbles seem obvious in retrospect, investing in such companies at the time often seems safe because their prices have gone up for so long and the press is filled with flattering reports. In other words, investors often feel safest when risks are greatest. From the 1990s internet mania to the 2007 housing boom, what looked like a sure thing at the time ended up a speculative bubble. When these bubbles burst, disciplined investors who resisted the siren song of the market darlings tend to outperform as the stocks they avoided drag down the averages.

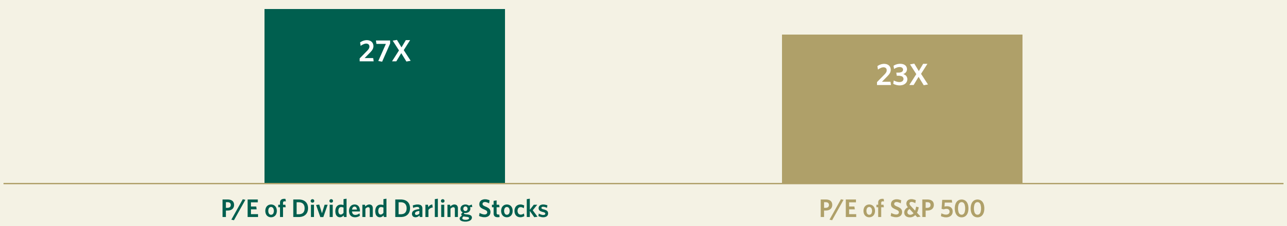
Today, we see a bubble emerging in many popular dividend-paying stocks, often referred to as dividend darlings. Although many of these are well known and substantial companies, their prices have been bid up to bubble valuations by investors whose thirst for short-term income has blinded them to these companies' deteriorating fundamentals. For example, the 25 most widely held dividend paying stocks currently have a combined market capitalization of more than $4 trillion and trade at almost a twenty percent premium to the market. Such high valuations are usually reserved for companies that can grow faster than average. However, as the first chart below shows, these businesses have been shrinking not growing over the last five years. As a result, the companies have been able to maintain their earnings and dividends only by cutting costs, reducing investments in future growth (such as R&D and advertising) and increasing their payout ratio (the percentage of earnings that must be distributed to maintain the companies' dividends). Such trends are not sustainable. We believe investors like us with the discipline to avoid such popular but overvalued companies will be rewarded with improved relative returns as this dividend bubble deflates.

Similarly, with memories of the last recession fading, the market has bid up the shares of low quality companies with high leverage to levels that seem risky to us. As shown in the second chart below, disciplined investors like us who avoid low quality companies were penalized during this unusual period. However, our years of experience have taught us paying high prices for low quality is ultimately a loser's game. While our choice to avoid such companies has detracted in the short term, we expect it to contribute to relative returns in the years ahead. ■

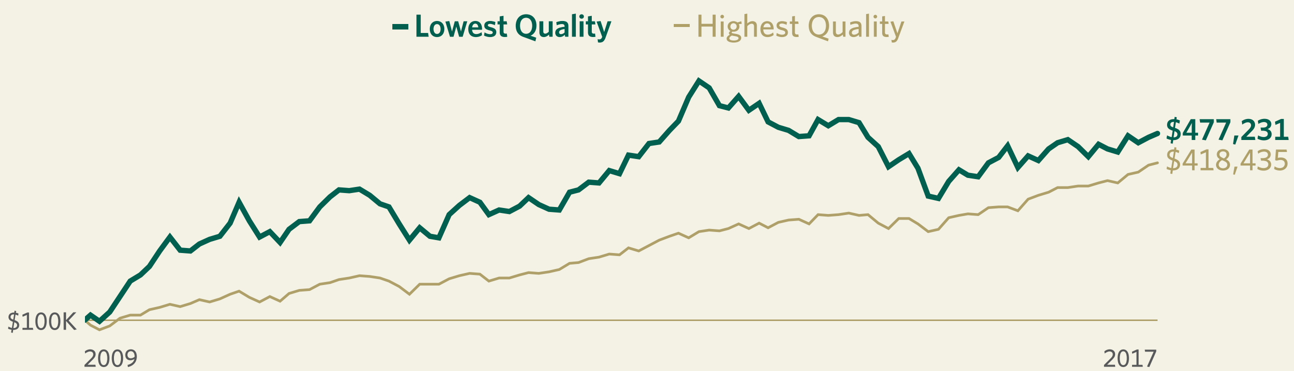
Dividend Darlings May Face Headwinds[2]

Average P/E of 25 Most Widely Held Dividend-Paying Stocks vs. P/E of S&P 500 Index

5-Year Average Revenue Growth: Dividend Darlings = −0.6%   S&P 500 = 5.9%
Payout Ratio: Dividend Darlings = 66%   S&P 500 = 51%



Low Quality Outperformed High Quality[3]



2. Morningstar Direct "Stock Intersection" Report as of 11/30/17. **Past performance is not a guarantee of future results. 3.** Source: Ford Equity Research. 1/1/09–12/31/17. Quality Rating is based upon a number of factors that indicate a company's overall financial strength and earnings predictability. Company size, debt level, earnings history, revenue history and industry stability are all factors used to determine a firm's quality rating. As expected, higher quality stocks have lower average levels of earnings variability and debt as a percent of equity, in addition to higher average earnings and revenue growth persistence ratings, and market capitalizations. High quality stocks also tend to have lower standard deviations of annual returns. Accordingly, a firm's quality rating may be used to gauge the risk associated with a particular stock.

Conclusion

Davis Select U.S. Equity ETF's holdings of global leaders, dominant but lesser known companies, blue chips of tomorrow and beneficiaries of short-term misperceptions offer a powerful combination of strong, attractively priced businesses that should add to our long-term record of building shareholder wealth in the years ahead. In addition to the returns generated by these companies, DUSA's relative returns may also benefit from our decision to avoid widely held but overvalued segments of the index such as dividend darlings and over-priced low quality companies.

As always, we recognize and expect the years ahead will include times of market corrections and disruptions. While unpleasant, such periods are inevitable and generally create opportunities for investors with the judgment and experience to take advantage of them. In short, at a time when pundits and commentators are making the case experience and judgment do not matter and the best investors can hope for is an average result, we strongly disagree. We believe a carefully selected portfolio of durable, well-managed businesses with competitive advantages, selling at a discount to true value and overseen by a seasoned team with a long track record of generating proven results will produce a better-than-average outcome. In investing, as in any other profession, skill matters. For more than 48 years, Davis Advisors has demonstrated the value of that skill by building wealth for our shareholders and generating results that exceeded the market averages. With the vast majority of our net worth invested alongside our shareholders, we have every incentive and intention to build on this record in the years and decades ahead. ■

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.

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: **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; depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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; financial services risk; 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; **foreign country risk; foreign currency 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 December 31, 2017, the top ten holdings of Davis Select U.S. Equity ETF were: Berkshire Hathaway Inc., Class B, 10.02%; Amazon.com, Inc., 9.15%; Alphabet Inc., Class C, 9.05%; Capital One Financial Corp., 7.57%; United Technologies Corp., 6.90%; Apache Corp., 4.73%; Markel Corp., 4.71%; Wells Fargo & Co., 4.66%; JPMorgan Chase & Co., 4.60%; and American Express Co., 4.60%.

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, Thomson Financial, Lipper and index websites.

The **S&P 500 Index** is an unmanaged index of 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.

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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