Update from Portfolio Managers

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Davis Select Financial ETF (DFNL)

Annual Review 2020

Summary

- Davis Select Financial ETF (DFNL) returned 26.6% in 2019.
- DFNL holdings include: Capital One, Berkshire Hathaway, U.S. Bancorp, JPMorgan Chase, Wells Fargo, Bank of New York Mellon, American Express, Markel, DNB ASA, and Chubb.
- Given today's low prices, we believe select financials will generate strong returns over the next decade because they combine what we feel are durable business models, the strongest balance sheets in half a century, resilient earnings, good returns on equity, the potential for rising dividends, falling share counts, and low valuations.

The average annual total returns for Davis Select Financial ETF for period ending December 31, 2019, are: NAV price: 1 year, 26.63%; since inception (1/11/17), 10.80%; Market price: 1 year, 26.73%; since inception, 10.77%; 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.**

Results and Outlook

DFNL returned 26.6% in 2019, as stock prices recovered after the sharp sell-off in late 2018. This happened despite investors' persistent fears regarding trade tensions, the potential for a hard Brexit, and unexpected gyrations in the interest rate environment. In short, the beaten-down valuations for financial stocks as of the start of the year trumped the macro factors.

Today, the market environment is strikingly similar to what we saw in 1991. With memories of the 2008–09 financial crisis still vivid, many investors remain leery of financial stocks in general and banks in particular. Contrary to investor sentiment, we believe today's leading financial companies are far stronger, more cautious, and better positioned than any other time in memory. With stock prices that reflect investors' skepticism, we believe the carefully selected companies that comprise DFNL will again generate attractive relative and absolute returns over the next decade. ■

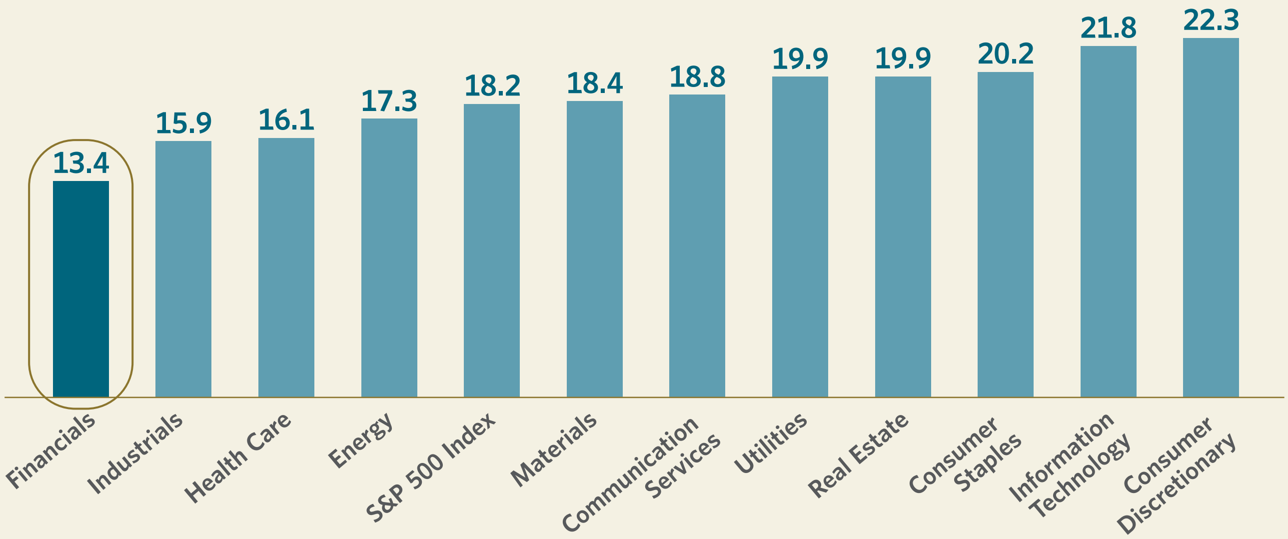
Portfolio Update

Banks (broadly defined, whether of the retail and commercial, investment, or custody variety) make up almost 2/3 of our portfolio. We continue to believe banks are quite attractively valued. Financial stocks continue to be the most cheaply priced sector of the S&P 500 Index at 13.4x and at a 30% discount to the index as a whole.

While investors continue to value banks at a discount based on sentiment and perception, the facts tell a different story. The combination of more stringent regulations and more loss-absorbing capital means that banks are far more resilient today than they were a decade ago. Our six largest U.S. bank holdings have increased their collective ratio of tangible common equity to risk-weighted assets from 6.2% to 11.8% since 2007, an improvement of more than 90%. The "true" improvement in leverage arguably is better than that, as the regulatory definition of risk-weighted assets has been inflated. In the annual stress tests administered by the

Today Financials Are the Most Attractively Priced Sector[1]

(S&P 500 Index P/E Multiples)



1. Source: Credit Suisse. Chart shows the Forward P/E ratios of the sectors in the S&P 500 Index as of 12/31/19.

Federal Reserve, these six companies are modeled to lose a cumulative $54 billion (pre-tax) in the "severely adverse" scenario—which arguably would be worse economically than the 2008–09 crisis—representing less than 10% of their starting common equity capital of approximately $600 billion. (In fact, JPMorgan Chase, Bank of America, and Wells Fargo each have more equity capital than *all 18 banks* participating in the stress test are projected to lose.)

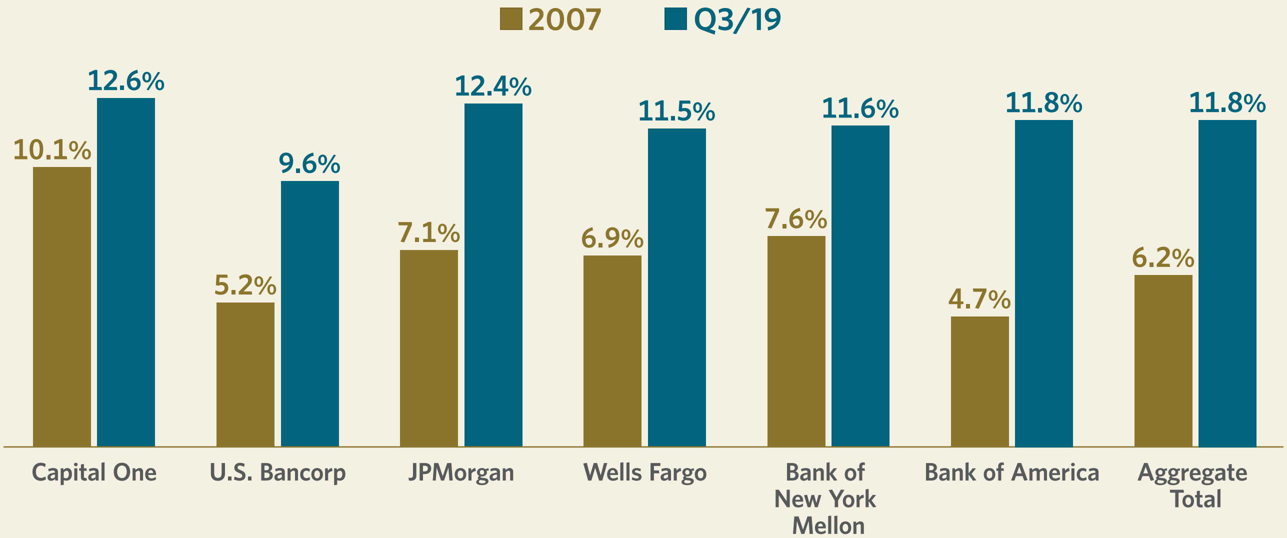
In addition to financial resiliency, banks over time have demonstrated their business models are remarkably durable. In fact, five of our top six bank holdings trace their roots back more than a century and one more than two centuries. While we must always be vigilant in studying new technologies and competitors seeking to disrupt the industry, historically the banking industry has been successful incorporating disruptive innovations and absorbing new technology, ranging from the creation of the money market fund and the mortgage-backed security to the ATM and Internet banking.

For a recent example, consider peer-to-peer payments. In the third quarter of 2019, the upstart Venmo transacted $27 billion in payments volume.[2] The banking industry admittedly had been slow off the mark in responding to Venmo, but eventually it did with the joint development of Zelle, which actually moved considerably more money for customers that quarter at $49 billion. While Venmo remains a strong competitor, it certainly appears that the banking industry is maintaining its central role in customers' financial lives (particularly those who possess greater wealth or are moving larger amounts).

Given this year's run-up in stock prices, it is important to note that bank valuations still seem reasonable. The six largest bank positions in the fund noted above are valued today at approximately 11.5x this year's earnings.[3] While most lenders are "over-earning" due to the favorable credit environment, for many of our bank holdings, this is offset by interest income that is "under-earning" as a result of both

Bank Capitalization—Then and Now[4]

(Tangible Common Equity/RWA)



2. PayPal SEC filing. **3.** As per consensus estimates on Bloomberg. **4.** Company's earnings reports as filed with the SEC, Davis Advisors. As of 9/30/19.

the low interest rate environment and the lag in the re-pricing of fixed-rate loans and securities from the trough. The chart below shows the trend in interest income as a percent of loans and deposits for two of our bank holdings, Wells Fargo and U.S. Bancorp.[5] The spread has declined from 2.5–3.0% down to the low 2%. That isn't to say that the older trend levels are "right," but we'd expect some cyclical reversion over time. Each 10bps of incremental spread adds nearly 10% to pre-tax earnings. In addition, several of our bank holdings continue to hold capital above their regulatory requirements, which can get worked down over time through share repurchases (as demonstrated by Wells Fargo's Fed-approved capital plan to return approximately $32 billion to shareholders over the current year—a payout ratio of approximately 150% of earnings[6]).

The combination of significant capital generation and low valuations creates the potential for compounding machines. For banks that can earn mid-teens returns on equity, a 12x earnings multiple (for example) translates into an approximately 10% investment return even at only 3% business growth.[7] It is for this reason that decades ago Shelby Cullom Davis labeled such financial companies as "growth stocks in disguise." Furthermore, we think an argument can be made for bank multiples to expand, given that shifts in their business mix and higher capital levels have made the companies safer. ■

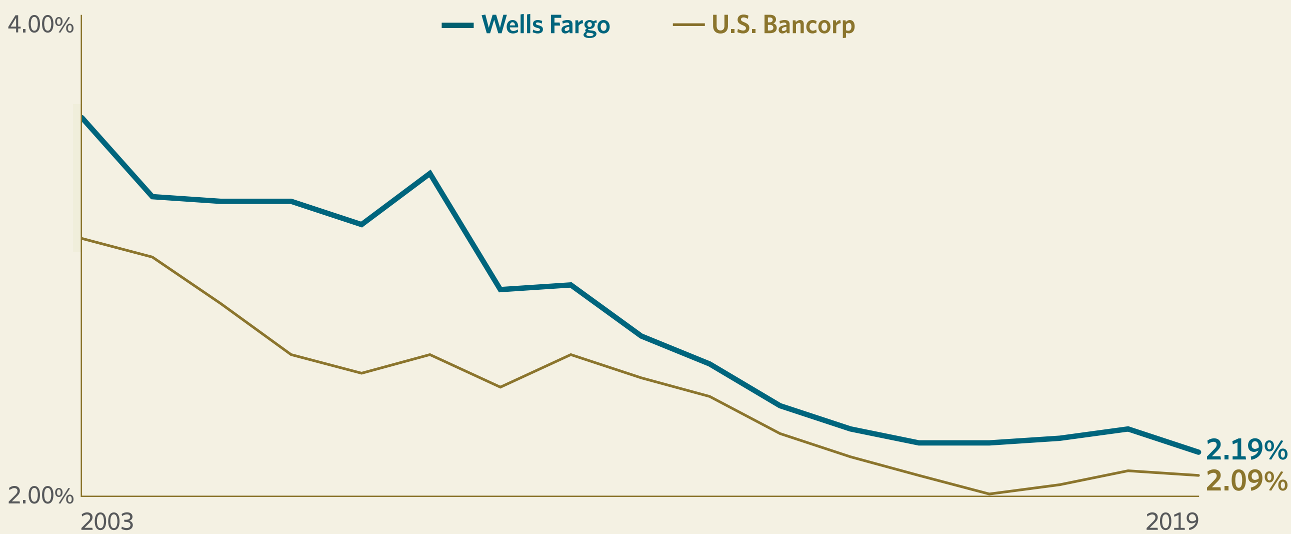
Conclusion

We believe that banks are well positioned with high capital ratios and low valuations, they are positioned to build wealth on average and over time for years, if not decades, to come.

We are excited by the investment prospects for the companies in Davis Select Financial ETF. Nothing provides a stronger indication of that than the fact that the Davis family and colleagues have invested in the Fund alongside our clients. We are gratified to be able to report strong long term results and grateful for the trust you have placed in us. ■

Interest Spreads[8]

(Net Interest Income/Loans & Deposits)



5. Net interest margin is the conventional metric to measure this. Changes in capital and liquidity requirements over time have contributed to larger balance sheets, but with very little impact on interest income. We think this is a cleaner metric to look at over longer time periods. **6.** Source: Company filings. **7.** This hypothetical example is for illustrative purposes only. Equity markets are volatile and an investor may lose money. **8.** Source: Company's earnings reports as filed with the SEC, Davis Advisors. As of 9/30/19.

This report is authorized for use by existing shareholders. A current Davis Select Financial 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 DFNL 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 Financial ETF's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. 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. 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; credit risk:** The issuer of a fixed income security (potentially even the U.S. Government) may be unable to make timely payments of interest and principal; **cybersecurity risk:** a cybersecurity breach may disrupt the business operations of the Fund or its service providers; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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; foreign country risk; foreign currency risk; headline risk;** interest rate sensitivity risk: interest rates may have a powerful influence on the earnings of financial institutions; **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 Financial ETF were: Capital One Financial Corp., 8.32%; U.S. Bancorp, 7.92%; Berkshire Hathaway Inc., 7.76%; JPMorgan Chase & Co., 5.59%; American Express Co., 5.36%; Wells Fargo & Co., 5.20%; Markel Corp., 5.08%; Bank of America Corp., 5.03%; Bank of New York Mellon Corp., 4.88%; and PNC Financial Services Group, 4.48%.

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, 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. 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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