
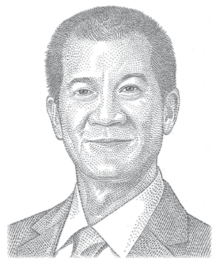

Update from Portfolio Managers

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Davis Select U.S. Equity ETF (DUSA)

Annual Review 2020

Summary

- Davis Select U.S. Equity ETF increased shareholder wealth by more than 30% in 2019.
- The Fund's holdings can be characterized by three traits: selective, attractive growth, and undervalued. Selective: The Fund has 24 holdings vs. the S&P 500 Index's 505 holdings. Attractive Growth: The Fund's holdings have a five year EPS growth rate of 25.2% vs. the S&P 500 Index of 17.1%. Undervalued: The Fund's holdings have a 1 year forward P/E of 17.3x vs. the S&P 500 Index's P/E of 20.0x.
- Portfolio holdings include select opportunities in durable industrial businesses, dominant internet platforms that we consider the blue chips of tomorrow, resilient and undervalued financial companies, and durable businesses under short-term clouds.
- Selectivity allows us to omit many of today's most popular and overvalued companies perceived by investors as safe but that may face the prospect of dividend cuts and falling profits in the years ahead.
- As a result, we believe DUSA is well-positioned to build wealth and outperform its benchmark over the long term.

The average annual total returns for Davis Select U.S. Equity ETF periods ending December 31, 2019 are: NAV Price, 1 Year, 30.39%; Inception (1/11/17), 10.44%. Market Price, 1 Year, 30.50%; Inception (1/11/17), 10.47%. 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 0.63%. 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 of Our Investment Discipline

Our investment discipline has built wealth for shareholders over the long term.

In 2019, DUSA increased shareholder wealth by more than 30%.

Portfolio Update

DUSA's holdings embody three characteristics that position the ETF to build wealth and add to our long-term record of outperformance in the years ahead. As shown in the chart below, the portfolio is *selective*, has attractive *growth*, and is *undervalued*.

Selective, Attractive Growth, Undervalued

	Fund	Index
Holdings	24	505
EPS Growth (5 Year)	25.2%	17.1%
P/E (Forward)	17.3x	20.0x

Selective

DUSA's selectivity means that we invest in fewer than one out of every 20 companies included in the S&P 500 Index. Just as with the best universities or best companies, the ability to select from a large pool of applicants creates the opportunity to select only the most exceptional candidates and reject those that are average or worse. While universities focus on characteristics like test scores and grade-point averages and potential employers focus on references, skills, and experience, our selectivity seeks out those business characteristics that can turn long-term investments into compounding machines that build generational wealth. As a result, we look for durable, growing businesses that can be purchased at attractive valuations and reject businesses that generate low returns, are stagnant, overvalued, overleveraged, or competitively disadvantaged.

Our analysis of which companies are advantaged or disadvantaged often runs counter to consensus opinion for the simple reason that our research focuses on the future rather than the past. For example, today, many investors and pundits favor so-called low volatility stocks, such as consumer goods, health care, real estate, and utilities, in large part because such companies often have a long history of steady growth and high dividends. Although companies in historically less volatile sectors such as these seem safe, looking backwards, our analysis indicates that the business fundamentals of many of these companies have deteriorated. As a result, their shares are significantly overpriced and, in many cases, may face the prospect of future dividend cuts and falling profits.

For example, the top 10 holdings of the popular S&P 500 Low Volatility Index have increased their debt 43% in the last five years while only growing revenue at a rate of 2.2%. Despite such troubling fundamentals, these companies currently trade at a forward P/E of almost 24x, a significant premium to the market average. More broadly, sectors such as utilities, real estate, and consumer staples are up three to four times as much as the market since August 2018. Such steep price increases in the face of lackluster business results may indicate that a short-term bubble has developed in these historically safe sectors. Fortunately, our selective approach allows us to reject such companies while funds that passively mirror the S&P 500 Index are forced to invest in them. In this environment, the ability to selectively reject certain companies and sectors from our portfolio may prove just as valuable as the ability to selectively invest in others.

Attractive Growth

The chart on page 2 highlights that companies in DUSA have grown profits more than 25% per year over the last five years, 8% faster than the S&P 500 Index average.

While above-average growth alone does not make a successful investment, all things being equal, profitable growth is a strong indication that a company is winning in its markets, selling more goods and services, attracting more customers, and creating more value for shareholders. Put simply, companies that grow profitably over the long term are more valuable than companies that don't.

Growth over any one- or two-year period doesn't necessarily signify long-term profit growth. Imagine that you paid $10 million to buy a small apartment building that generates $500,000 of income after all expenses and maintenance, a starting earnings yield of 5% on your purchase price. If, ten years later, that income had grown to $2 million, a 20% earnings yield on your original purchase price, you would be wealthier both because of the annual cash the building generates and also because a buyer would be willing to pay much more for a building that generates higher annual profits. In DUSA, we are looking for businesses that can increase their profits, and thus our earnings yield, for decades to come. For example, we are pleased that core holdings, including Wells Fargo, Capital One, and Google generate annual operating profits that exceed 15% of our original purchase price, while American Express, Berkshire Hathaway and JPMorgan generate annual operating profits that exceed 20% of our original purchase price. At a time when stock prices can gyrate wildly, a focus on the steady growth in earnings yield can be a useful and calming reminder. Such growing profits are a key component to building generational wealth.

Undervalued

Because growth can be an indicator of value creation, companies with above-average profit growth usually trade at above-average valuations. Happily, "usually" does not mean always. As the chart on page 2 shows, our careful selection process has allowed us to build a portfolio of faster-growing companies that are actually undervalued compared to the S&P 500 Index. Specifically, over the last five years, the average company in the S&P 500 Index has grown earnings at 17.1% per year and today trades at 20.0 times next year's earnings. In contrast, the select companies of DUSA have grown earnings per share at a stunning 25.2% and yet trade at a price of only 17.3 times earnings.

This is a rare combination of higher growth at below average valuations. Furthermore, these select companies also have achieved this growth without assuming the risk of more debt. Unlike the popular so-called safe haven companies described above that increased their debt 43% over the last five years, only one of DUSA's top 10 holdings, United Technologies, increased its total debt during this period, while four more holdings have no net debt at all, and the remaining five holdings actually strengthened rather than weakened their balance sheets.

In short, selectivity allows us to reject overvalued and unattractive companies and build a portfolio of companies with above-average growth trading at below-average prices. This combination of higher growth at lower valuations should drive returns and create wealth for our shareholders in the years and decades to come. ■

Investment Opportunities

In searching the world for the best investment opportunities, we seek durable, growing companies, run by capable and honest executives, whose shares trade at an attractive valuation. Today, we are finding the best combination of these attributes in four areas of the market.

Headlines and market sentiment have created an opportunity to own a handful of industrial leaders at bargain prices due to concerns that their earnings could decline in an economic downturn. Because such businesses are influenced by the economic cycle, they are often labeled as "cyclical." Consequently, their prices tend to trade down when investors are anticipating (rightly or wrongly) a recession. Such patterns create opportunity not because recessions won't happen (they will!), but because such companies have a proven record of generating strong growth over the long term. Thus, when shares get depressed, they often present an opportunity to buy long-term growth at a bargain price.

As Warren Buffett, CEO of Berkshire Hathaway, itself an excellent example of a growth company disguised as a cyclical company, famously said, "(We) would much rather earn a lumpy 15% than a smooth 12%." In addition to Berkshire Hathaway, our holdings in companies such as United Technologies, Intel and Ferguson all represent examples of wonderful growth companies trading at attractive cyclical valuations. Although their earnings may be lumpy in the short term, these industrial leaders have outstanding business economics and strong competitive positions. While such companies are perceived as cyclical, we would gladly take their long-term growth prospects and competitive positions over many of the so-called safe haven businesses that currently face shifting consumer preferences, falling margins, and over-leveraged balance sheets.

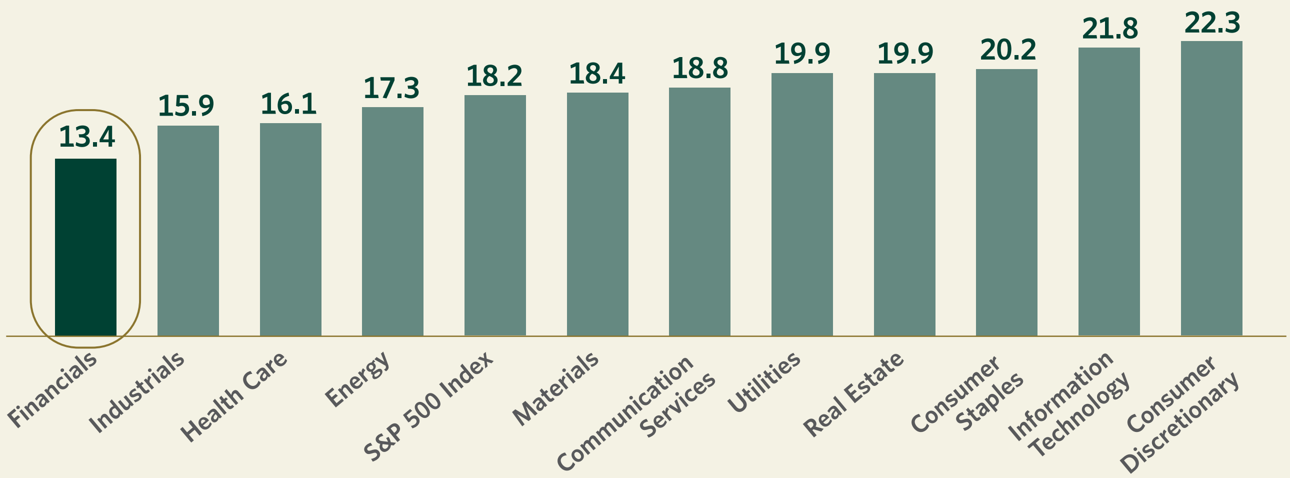
With memories of the Great Recession still vivid and worries for the next recession shaping expectations, select financial companies are often priced based on fear rather than fact. In considering this sector, many investors may not realize that the companies we own not only survived the financial crisis, but also took advantage of many of their competitors' demise to expand their market share significantly and broaden their competitive advantages.

Today's financial leaders are not only more dominant; they are also, in our opinion, stronger and better capitalized than at any time in the last 50 years. Looking ahead, we expect steadily rising dividends, increasing share repurchases, and reliable earnings to gradually reshape investor perceptions. As a result, our high-quality financial holdings could be revalued upward and take the place of today's dividend darlings.

As the chart below shows, financials are currently the cheapest sector in the S&P 500 Index, allowing plenty of room for upward revision, as investors come to recognize the durability and reliability of these financial leaders.

Today Financials Are the Most Attractively Priced Sector[1]

(S&P 500 Index P/E Multiples)



1. Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse. The chart shows Forward P/E ratios which are the aggregate of the Forward P/E ratios of the S&P 500 Index's holdings. The ratio is not a forecast of performance and is calculated for each security by dividing the current ending price of the stock by a forecast of its projected Earnings Per Share (EPS).

DUSA also holds a class of relatively young companies that have built technology platforms with huge scale advantages that should allow them to become the blue chips of tomorrow. While nervous investors cling to yesterday's blue chips, including well-known consumer brands, utilities, and media giants, they may not recognize the enormous and permanent shifts in the underlying business landscape brought about by these emerging global leaders.

As we wrote in our 2018 year-end report, "... within the next few years, Amazon is expected to become the world's largest retailer,[2] people are expected to spend more time on the Internet than watching TV,[3] and information utilities like Google and Amazon Web Services should be as central to the economy as phone companies and other utilities that we consider yesterday's blue chips, but not tomorrow's."

Adverse headlines, public scrutiny, and regulatory/legal fears often create opportunities to buy superior businesses when they are under a cloud. Whether it was American Express during the so-called salad oil scandal, tobacco companies in the 1990s, select banks during the financial crisis, health insurers in the early days of the Obama administration, or Microsoft during its anti-trust hearings, negative news stories (often associated with some real or perceived misbehavior) and harsh political scrutiny can lead investors to dump the shares of otherwise strong companies regardless of price. After all, when clients read in the newspaper about a company plagued by scandal, the last thing they want to see when they open their investment report is that their expert money manager has purchased the scandal-plagued company they just read about. As a result, many investment managers either will not consider companies under a cloud or, if they had previously purchased the shares, will liquidate the entire position at discounted prices.

The problem with this approach is their decision has nothing to do with the economics of the company in question or its prospects, but instead is focused on short-term client perceptions. As a result, shares in durable companies tainted by scandal can often represent buying opportunities that we refer to as headline risk investments. In evaluating these investments, our research focuses not on the past but on the future, asking whether the problems that have come to light can be fixed, and if so, whether the decline in share price represents a buying opportunity.

Buying shares when a company is in the headlines for unfavorable reasons is never easy, and in no way minimizes a company's past mistakes. But organizations, like people, can learn from their mistakes and often emerge stronger. We believe our willingness to look beyond the headlines can lead to fantastic opportunities.

Today, we see opportunities in three areas characterized by short-term headline risk. Several of the Internet platforms described above, particularly Facebook, as well as one of our largest financial holdings, Wells Fargo, face just such scrutiny. While a number of criticisms are valid, we do not expect the resulting legal and regulatory actions to permanently and substantially impair these companies' business models and economics.

On a global basis, headline risk can taint whole countries. For example, investors have fled from China in the face of blaring headlines about the trade war with the United States. However, while tensions between the United States and China have unquestionably grown, the Chinese economy continues to outpace the United States, with the lion's share of that growth originating from the enormous increase of China's middle class. As a result, we have focused our investments only on those companies that benefit from the growth of the Chinese consumer.[4] In particular, Alibaba Group,

2. Source: https://www.cnbc.com/2018/05/15/amazons-us-sales-to-match-walmarts-within-three-years-jp-morgan-predicts.html
3. Source: https://www.recode.net/2018/6/8/17441288/internet-time-spent-tv-zenith-data-media
4. As of 12/31/19 the Fund had approximately 8.59% of assets invested in Chinese companies. Securities from emerging markets may be subject to increased volatility and pricing anomalies resulting from governmental influence, a lack of publicly available information and/or political and social instability. Settlements of trades may be subject to greater delays so that the Fund might not receive the proceeds of a sale of a security on a timely basis.

Tencent (which we own through Naspers), AIA Insurance and New Oriental Education & Technology have dominant and growing positions in online commerce, entertainment, payment systems, ride sharing, life insurance and education, and yet sell at steep discounts to comparable U.S.-based companies.

Important concerns about climate change have lead many investors to dump shares in energy producers despite the fact that fossil fuels are and will remain a vital and valuable natural resource for decades to come. Here, our focus is on low-cost producers with cheap, long-lived reserves, like Apache. ■

Conclusion

Legendary professor, author, and investor Benjamin Graham famously noted: "In the short run, the market is a voting machine but in the long run, it is a weighing machine." As we enter an election year, investors would do well to bear Graham's perspective in mind. After all, politicians of all stripes have learned it is more effective to appeal to emotions such as fear and anger than to articulate well-reasoned and thoughtful policy positions.

Consequently, we should expect that 2020 will be a year of rhetoric, sensational headlines, and negative advertising. To navigate such "noisy" times, successful investors must keep emotions in check and focus relentlessly on the underlying fundamentals of the businesses they own. While prices can fluctuate with emotions, value is created by earnings. Now, as always, our research centers on identifying value, not predicting price.

Specifically, the holdings of DUSA can be characterized by three traits: selective, attractive growth, and undervalued. Today, we see particular opportunity in the strong growth and attractive valuation of select leading industrial leaders, durable financials, Internet platforms, and a handful of companies currently weighed down by negative headlines. The combination of higher growth and lower valuations position us to grow wealth on both a relative and an absolute basis over the long term.

Beyond attractive growth prospects and reasonable valuations, these carefully selected businesses are also characterized by durability, resiliency, and adaptability. Such attributes allow our companies and the portfolio as a whole to adapt to changing times, a critical component of long-term success.

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.

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; 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:** 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 12/31/19, the top ten holdings of Davis Select U.S. Equity ETF were: Alphabet, 10.25%; Berkshire Hathaway, 10.14%; Amazon.com, 9.00%; United Technologies, 7.17%; Capital One Financial, 6.93%; New Oriental Education & Technology, 6.30%; Wells Fargo, 4.83%; JPMorgan Chase, 4.70%; American Express, 4.23%; and U.S. Bancorp, 4.23%.

The **Forward P/E ratio** is the aggregate of the Forward P/E ratios of the holdings. The ratio is not a forecast of performance and is calculated for each security by dividing the current ending price of the stock by a forecast of its projected Earnings Per Share (EPS). **Historical 5 Year EPS Growth** represents the annualized rate of net-income-per-share growth over the trailing five-year period for the stocks held by the Portfolio.

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 Low Volatility Index** measures performance of the 100 least volatile stocks in the S&P 500. The index benchmarks low volatility or low variance strategies for the U.S. stock market. Constituents are weighted relative to the inverse of their corresponding volatility, with the least volatile stocks receiving the highest weights. 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 ETFs 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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