

FUND UPDATE

Selected American Shares (SLASX, SLADX) and Clipper (CFIMX)

CATEGORY: Larger-Cap Blend

MANAGERS: Chris Davis and Ken Feinberg

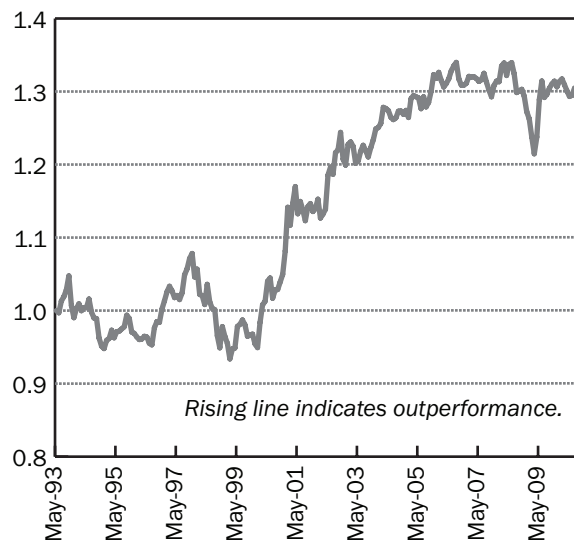
DATE OF INTERVIEW: 9/29/10

WITH: Chris Davis and Ken Feinberg

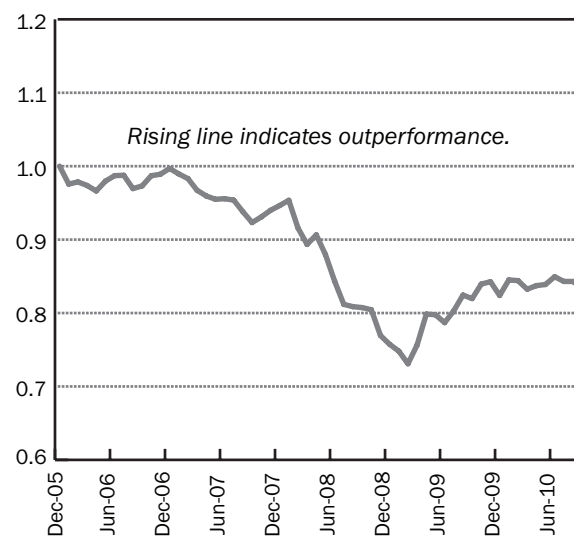
Davis and Feinberg don't believe anyone can predict macroeconomics, but they do believe that they can prepare for a number of environments based on understanding where we are today. To prepare for deflation, Davis and Feinberg look for companies with low debt, resilient cash flow, and global exposure. "What kills [a company] in deflation is debt and no exposure to places that are actually growing," explains Davis. "Think about a leveraged domestic Japanese company—it got killed. Now if that same company had a completely clean balance sheet and no debt and had a lot of exposure to the rest of the world, then the deflationary environment they operated in would not have been as significant a risk." On the other hand, Davis and Feinberg believe they need to prepare for the other extreme, as the team expects inflation to be higher in the next 10 years than it was over the past 10 years. In preparing for such an environment, the pair explains that they want companies with pricing power, assets that can appreciate relative to liabilities, and low capital intensity. Feinberg explains that if a company is very capital intensive, then the company's maintenance capital expenditures will grow faster than its depreciation, resulting in owner earnings that are lower than reported earnings. Ultimately, Davis and Feinberg believe they can profitably invest in companies that can protect against either scenario, including companies like **Johnson & Johnson**, **Procter & Gamble**, **Nestle**, or **Merck**.

Davis says they have always followed Merck, but intensified their focus on it as a result of the **Schering-Plough** merger in late 2009, because he says the former

Relative Strength: Selected American Shares vs. Vanguard 500 Index Fund



Relative Strength: Clipper vs. Vanguard 500 Index Fund



Schering-Plough portion of Merck's business has a big overseas revenue stream (28% of Merck's business is in emerging markets), a strong pipeline of new drugs, and little patent exposure. Davis contrasts this with companies like Pfizer that have a weak pipeline, significant

SAS returns shown/discussed are for Class S, with exception of the performance table and "4.8%" shown on page 3, which are Class D. Past performance is not a guarantee of future results.

Selected American Shares Top 10 Holdings (9/30/10)	
Costco	5.0%
American Express	4.5%
Wells Fargo	4.0%
EOG Resources	3.9%
CVS Caremark	3.6%
Loews	3.2%
Occidental Petroleum	3.2%
Merck	2.8%
Devon Energy	2.8%
Progressive	2.7%
Total	35.7%

Selected American Shares Top 10 Industry Weightings (9/30/10)	
Energy	15.1%
Diversified Financials	12.7%
Pharma & Health Care	11.7%
Insurance	10.1%
Food & Staples Retail	8.6%
Materials	7.4%
Food, Bev, & Tobacco	6.7%
Technology	6.0%
Banks	4.0%
Retail	3.0%

patent exposure, and a lot of domestic business (which means increased exposure to domestic health care legislation). However, he says that Pfizer sells for 6x to 7x earnings, while Merck sells for 10x earnings. While Davis acknowledges that Merck is trading at a significant premium to Pfizer, he believes it is still cheap in absolute terms. As for his assessment of management's capital allocation decisions,

Davis says, "I'm glad we didn't own Merck when they paid up for Schering-Plough," he says, "but once they did, we wanted to look at it with clean eyes [to assess] the likelihood of them doing another big acquisition." Ultimately he is unconcerned, as he notes that the Schering-Plough deal was Merck's only acquisition since 1954.

Speaking more generally about acquisitions, Davis and Feinberg say that once company managers gain confidence that we will see economic stability, there will likely be a lot more merger activity with companies paying hefty acquisition premiums, because cash is earning next to nothing today. Feinberg

explains, "We actually think in some ways that it's a risk, because when companies realize—as they now do—that any acquisition they make that has even a dollar's worth of earnings is probably accretive, that can really spur a wave of acquisition activity. That can be good for the market, but bad for shareholder returns long term." In fact, Davis and Feinberg tell us that they recently eliminated one company from the portfolio because they are concerned that management might overpay for a sizable acquisition.

Across all of the portfolio holdings, the team is now paying much more attention to where companies earn their money. While many large-cap companies have significant cash on the balance sheet, Davis and Feinberg are focused on where that cash is located, because cash earned overseas has to be taxed to be repatriated to the United States in order to reinvest in the business, acquire U.S. businesses, pay dividends, or buy back shares. Davis and Feinberg say that the average tax rate to repatriate the cash is 20%. Ultimately, this impacts the team's company analysis in two ways. First, when calculating the enterprise value of a firm, they tax-effect the cash, which effectively lowers the value of the firm. Second, this results in their

Clipper Top 10 Holdings (9/30/10)	
Costco	12.3%
Berkshire Hathaway	10.6%
American Express	8.9%
Canadian Natural Resources	7.9%
Harley-Davidson	7.0%
Oaktree Capital Group	6.8%
Loews	6.0%
Procter & Gamble	5.4%
Bank of New York Mellon	4.4%
RHJ International	4.0%
Total	73.3%

Clipper Top Five Industry Weightings (9/30/10)	
Diversified Financials	28.1%
Insurance	17.9%
Food & Staples Retail	15.4%
Energy	9.8%
Autos & Components	7.0%

Performance Table											
	YTD thru 10/31/10	Calendar-Year Returns					Trailing Returns*				
		2009	2008	2007	2006	2005	1-Yr	3-Yr	5-Yr	10-Yr	Since Incep.
Selected American Shares D	4.8%	32.1%	-39.2%	5.1%	15.6%	10.2%	8.6%	-7.0%	0.7%	--	2.8%
Vanguard 500 Index (INV)	7.7%	26.5%	-37.0%	5.4%	15.6%	4.8%	10.1%	-7.2%	0.6%	-0.5%	2.3%
Clipper	6.5%	37.6%	-49.6%	0.1%	15.3%	--	12.0%	-10.3%	-3.2	2.5	-3.6%
Vanguard 500 Index (INV)	7.7%	26.5%	-37.0%	5.4%	15.6%	4.8%	10.1%	-7.2%	0.6	-0.5	0.2%

*Selected American Shares D, compound annual returns through 9/30/10, inception 5/3/04. Clipper, compound annual returns through 9/30/10, Davis took over management on 1/1/06.

assuming a higher average tax rate going forward than what the company reports, which serves to lower their estimation of owner earnings going forward. Some companies in the portfolio that are particularly impacted by this issue include **Texas Instruments**, **Microsoft**, and insurance company **Aon**.

We also discussed the funds' financial stocks. Davis and Feinberg believe that politics has "triumphed over common sense" when it comes to financial regulation. They have incorporated scenarios into their analysis that they think are plausible as an outcome of the proposed "Basel III" rules. They know that required capital ratios will increase, but Feinberg says it seems the rules may be less stringent than originally expected. It also seems that companies might have until 2019 to get to where they need to be, even though he expects some companies want to get there sooner. While the new regulations are not yet finalized, Feinberg says that they may deter new entrants into the market and the incumbents will probably find ways to charge for things they didn't charge for before. In the end, he says it is possible that profit margins won't be impacted too much when all of these things net out. Ultimately, Feinberg does not expect the portfolio to be impacted much by the new regulations, because he says they don't own the primary banks that will be affected. Of the funds' financial stocks, he says that Wells Fargo would be the most exposed. But Feinberg says that **Wells Fargo** is a "very well-run bank" with conservative lending and accounting practices. Feinberg explains that the bank has improved its capital ratios. He adds, "They have already written off \$40 billion of loan losses from Wachovia, of which they've only experienced about \$20 billion." Feinberg adds that other portfolio holdings such as Bank of New York Mellon and Goldman Sachs will not be impacted much, because they do not make their money like traditional banks.

Litman/Gregory Opinion

For the year to date through October, Clipper is up 6.5% and Selected American Shares is up 4.8%, compared to a 7.7% gain for Vanguard 500 Index Fund. We are encouraged by the funds' strong performance over the last two years, particularly after Clipper's very disappointing returns the prior two years. The fund still has some ground to make up relative to the benchmark since Davis and Feinberg took over as portfolio managers in 2006. Selected has beaten the index by a significant margin over the longer term. Up until the 2008 bear market, Selected

had historically delivered superior downside risk relative to the S&P 500 (e.g., the fund's worst rolling one-, three- and five-year losses were better than the market's). As a result of the fund's underperformance during the market's recent plunge, that is no longer the case. However, Selected's consistency in outperforming the benchmark remains impressive. Over the past 10 years, it has beaten the benchmark in nearly 80% of rolling three-year periods and 74% of rolling 12-month periods.

During its relatively short life under Davis and Feinberg's management, Clipper has been slightly more volatile and has had significantly worse downside performance than Selected. Given that it is a highly concentrated portfolio, looking forward we would expect it to be more volatile than Selected but we would not assume it will necessarily have worse downside. And because we believe Davis and Feinberg can add value by focusing the portfolio in their 15 to 25 highest-conviction ideas and by using the flexibility afforded by Clipper's small asset base to its fullest advantage, we are optimistic that it will outperform Selected over the long term. We expect both funds to beat the market and we continue to recommend them highly in the Large-Cap Blend category. Our May 2008 Due Diligence Report provides more detail as to the reasons for our confidence in the funds. ●

—Melissa Wedel, CFA

Contact & Purchase Information

SELECTED AMERICAN SHARES

PHONE: 800-243-1575

WEB ADDRESS: <http://www.selectedfunds.com>

FUND	MIN. INITIAL	AVAILABILITY [†]	EXPENSES
Class D	\$10,000	S, A, F	0.61%
Class S	\$1,000	SIO, SO, AN, FN	0.94%

CLIPPER

PHONE: 800-432-2504

WEB ADDRESS: <http://www.clipperfund.com>

FUND	MIN. INITIAL	AVAILABILITY [†]	EXPENSES
Retail (CFIMX)	\$2,500	S, A, FN	0.76%

[†]Certain restrictions may apply. Please check with your broker/dealer for details.

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Annualized Total Returns as of September 30, 2010

Selected American Shares	1 Year	5 Years	10 Years
Class S	8.19%	0.38%	1.64%

The performance presented represents past performance and is not a guarantee of future results. Total return assumes reinvestment of dividends and capital gain distributions. 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. The total annual operating expense ratio may vary in future years. Returns and expenses for other classes of shares will vary. Current performance may be higher or lower than the performance quoted. For most recent month-end performance, visit selectedfunds.com or call 800-243-1575.

This reprint is authorized for use by existing Selected American Shares and Clipper Fund shareholders. A current Selected American Shares prospectus and Clipper Fund prospectus must accompany or precede this reprint if it is distributed to prospective shareholders. You should carefully consider the Funds' investment objectives, risks, fees, and expenses before investing. You may obtain prospectuses containing this and other information about the Funds by calling Selected Funds or Clipper Fund Shareholder Services at 800-243-1575 or 800-432-2504, respectively. Read the prospectuses carefully before you invest or send money.

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Selected American Shares' investment objective is capital growth and income. In the current market environment, we expect that income will be low. Clipper Fund's investment objective is long-term capital growth and capital preservation. The Funds invest primarily in equity securities issued by large companies with market capitalizations of at least \$10 billion. There can be no assurance that either Fund will achieve its objective. Some important risks of an investment in the Funds are: market risk: the market value of shares of common stock can change rapidly and unpredictably and have the potential for loss; company risk: equity securities represent ownership positions in companies. Over time, the market value of a common stock should reflect the success or failure of the company issuing the stock; focused portfolio risk (Clipper Fund): funds that invest in a limited number of companies may have more risk because changes in the value of a single security may have a more significant effect, either negative or positive, on the value of a funds total portfolio; financial services risk: investing a significant portion of assets in the financial services sector may cause a fund to be more volatile as securities within the financial services sector are more prone to regulatory action in the financial services industry, more sensitive to interest rate fluctuations, and are the target of increased competition; under \$10 billion market capitalization risk: small- and mid-size companies typically have more limited product lines, markets and financial resources than larger companies, and their securities may trade less frequently and in more limited volume than those of larger, more mature companies; fees and expenses risk: fees and expenses reduce the return which a shareholder may earn by investing in a fund; and foreign country risk: foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified, foreign political systems may not be as stable, and foreign financial reporting standards may not be as rigorous as they are in the United States. As of September 30, 2010, Selected American Shares had approximately 19.8 % of assets invested in foreign companies. As of September 30, 2010, Clipper Fund had approximately 14.0% of assets invested in foreign companies. See the prospectuses for a complete listing of the principal risks.

Rolling periods. Selected American Shares (Class S) has outperformed the Vanguard 500 Index Fund (investor class) in 81% of all three-year periods and 73% of all 12-month periods over the last 10 years. These percentages were calculated by comparing all three-year and 12-month periods, as of each month end from 10/1/00 – 9/30/10, to the Vanguard 500 Index Fund, with all dividends and capital gain distributions reinvested. For example, the Fund has outperformed the Vanguard 500 Index Fund in 81% of all 120 rolling three-year time periods from 10/1/00 through 9/30/10. The percentages shown reflect past results; past performance is not a guarantee of future results. There can be no guarantee that the Fund will continue to outperform the Vanguard 500 Index Fund in rolling periods in the future. The performance presented includes periods of bear markets when performance was negative. Equity markets are volatile and an investor may lose money. Returns for other share classes will vary.

The information provided in this material should not be considered a recommendation to buy, sell, or hold any particular security. As of September 30, 2010, Selected American Shares had invested the following percentages of its assets in the companies listed: Aon, 0.11%; Bank of New York Mellon, 2.57%; Goldman Sachs, 0.56%; Johnson & Johnson, 2.67%; Merck, 2.81%; Microsoft, 0.84%; Nestle, 0.18%; Pfizer, 1.95%; Procter & Gamble, 1.17%; Texas Instruments, 1.61%; Wells Fargo, 3.99%.

As of September 30, 2010, Clipper Fund had invested the following percentages of its assets in the companies listed: Goldman Sachs, 0.94%; Merck, 3.68%; Microsoft, 1.31%; Texas Instruments, 1.92%; Wells Fargo, 1.06%.

The Funds have adopted Portfolio Holdings Disclosure policies that govern the release of non-public portfolio holding information. This policy is described in the prospectuses. For Selected American Shares, visit selectedfunds.com or call 800-243-1575 for the most current public portfolio holdings information. For Clipper Fund, visit clipperfund.com or call 800-432-2504 for the most current public portfolio holdings information.

This reprint is not a solicitation for Vanguard 500 Index Fund, which seeks to track the performance of the S&P 500® Index.

Davis Selected Advisers, L.P., began managing Selected American Shares on May 1, 1993. Prior to that date, the Fund was managed by a different investment adviser.

Clipper Fund was managed from inception, February 29, 1984, until January 1, 2006 by another adviser. Davis Selected Advisers, L.P. took over management of the Fund on January 1, 2006.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its products and providing continuing support to clients and shareholders. For example, broker-dealers and other financial intermediaries may charge: sales commissions; distribution and service fees; and record-keeping fees. In addition, payments or reimbursements may be requested for: marketing support concerning Davis Advisors' products; placement on a list of offered products; access to sales meetings, sales representatives and management representatives; and participation in conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. Financial advisors should not consider Davis Advisors' payment(s) to a financial intermediary as a basis for recommending Davis Advisors.

Over the last five years, the high and low turnover ratio for Selected American Shares was 18% and 4%, respectively. Over the last five years, the high and low turnover ratio for Clipper Fund was 63% and 7%, respectively.

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. Investments cannot be made directly in an index.

After January 31, 2011, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Funds 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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