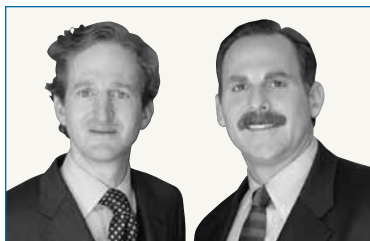




Clipper Fund

An Update from Christopher C. Davis and Kenneth Charles Feinberg
Portfolio Managers



An Update from
Christopher C. Davis and Kenneth C. Feinberg
Portfolio Managers
 Annual Review 2010

The chart below summarizes results through December 31, 2010 for the Clipper Fund. The credit for the Fund's satisfactory results since inception as well as over the last 10 years belongs to our predecessor. The responsibility for the poor five year results rests entirely with us as we assumed management on January 1, 2006. These results are poor on both an absolute and a relative basis and fall well short of our standards and expectations. While it is heartening that Fund results have exceeded the S&P 500® Index over the last two years, returning nearly 58% versus 46% for the Index, there is still a great deal of ground to make up.¹

With more than \$70 million of our own money invested in Clipper Fund alongside shareholders, we, our colleagues and our families share the cost of these unsatisfactory results and have every incentive to keep the Fund on this improved track. Nothing we say in the pages ahead is meant to excuse or minimize the poor results under our stewardship. We are committed to Clipper Fund and believe over a long period of time the fact that it is concentrated and, as a relatively small fund, opportunistic should be advantages.²

Average Annual Total Returns as of December 31, 2010	1 Year	5 Years	10 Years	Inception (2/29/84)
Clipper Fund	14.77%	-1.68%	1.89%	11.48%
S&P 500® Index	15.06%	2.29%	1.41%	10.78%

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 as of the most recent prospectus was 0.76%. The total annual operating expense ratio may vary in future years. Current performance may be higher or lower than the performance quoted. For most recent month-end performance, visit clipperfund.com or call 800-432-2504. The Fund received favorable class action settlements from companies which it no longer owns. These settlements had a material impact on the investment performance of the Fund in 2009. This was a one-time event that is unlikely to be repeated. Clipper Fund was managed from inception, February 29, 1984, until December 31, 2005 by another Adviser. Davis Selected Advisers, L.P. took over management of the Fund on January 1, 2006.

This report includes candid statements and observations regarding investment strategies, individual securities, 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. Past performance is not a guarantee of future results.

¹Past performance is not a guarantee of future results. ²Clipper Fund is non-diversified and, therefore, is allowed to focus its investments in fewer companies than a fund that is required to diversify its portfolio. The Fund may be subject to greater volatility and risk, as the Fund's investment performance, both good and bad, is expected to reflect the economic performance of the few companies on which the Fund focuses.

Turning from past results to future outlook, there is strong reason to believe this last decade of poor absolute stock returns will lead to much better returns in the years ahead. Furthermore, based on the prospects for and valuations of the companies we own in Clipper Fund, we believe our relative performance should improve as well. Although we cannot promise such an outcome, the combination of higher stock prices and improved relative results would produce very satisfactory returns for the coming decade. Should this happen, the fact the Fund's realized and unrealized losses equal almost 26% of its net asset value will make it highly tax efficient. In the pages ahead, we will outline the reasons why we are so positive about the outlook for equities in general and Clipper Fund in particular.

Following our practice, we have structured this report as a series of responses to the questions we are most frequently asked by shareholders, with a particular emphasis on our outlook for improved absolute and relative returns. The report begins with more general questions about the market followed by an in-depth look at Clipper Fund's results and prospects. As always, we will include a review of our mistakes as well as our successes. We would also remind you we will once again hold our shareholder gathering on March 31, 2011 at 9:30 a.m. (P.D.T.) at the Peninsula Hotel in Los Angeles.

Q: Why should the next 10 years be better for stock investors than the last?

A: Outside the world of finance, the difference between price and value is well understood and best captured in the wise saying, "Price is what you pay. Value is what you get." However, in finance, price and value are treated as synonyms. It is almost a matter of faith, not to mention new accounting standards, that the most appropriate measure of an asset's value is its current market price.

The trouble with this system is price and value are not the same thing. The price of an asset is whatever people are willing to buy and sell it for at a given instant. Because price is set by people, who are necessarily fallible and emotional, it can be subject to all sorts of influences beyond the pure economic characteristics of the underlying asset. In certain cases, the influence of emotions like euphoria and panic can become so dominant prices become irrational—just consider the bubble prices of Internet stocks in 2000 or the panic prices of many stocks during the depths of the financial crisis.

On the other hand, the value of an asset is simply the total amount of cash it will generate over its life discounted to the present. This amount is determined by reality not emotion.

Average Annual Total Returns as of December 31, 2010	1 Year	5 Years	10 Years
Clipper Fund			
Return Before Taxes	14.77%	-1.68%	1.89%
Return After Taxes on Distributions	14.59	-2.44	1.05
Returns after Taxes on Distributions and Sale of Fund Shares	9.83	-1.33	1.47

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. See endnotes for additional disclosure.

To consider a simple example, imagine a rental property that reliably produces income of \$50,000 after all expenses each year. At the peak of the real estate bubble, a buyer might have paid more than \$1 million for such a property, accepting a return of only 5%. In the depths of the crisis that followed, it might have been difficult to get \$500,000, which would give a buyer more than a 10% return. Although the price of the property in this example may have dropped in half reflecting the changing mood of buyer and seller, the value of the property remains unchanged reflecting the stability of the underlying cash flows.

Similarly, because stock prices at any given time are determined by fallible and emotional human beings, they also tend to reflect the mood of buyers and sellers. On the other hand, because stock values are determined by the cash flows of real operating businesses, they are unaffected by changing sentiments. Examining stock market data from January 2000 through today provides a stark example of the difference between the price and value of stocks. At the start of the year 2000, the price of the stock market as measured by the S&P 500® Index was almost \$1,500 per share. This \$1,500 price gave investors ownership interests in companies that produced about \$50 of earnings per share and about \$38 of free cash flow per share as well as paying about \$17 in dividends per share. Therefore, a buyer was accepting an earnings yield of 3%, a free cash flow yield of 3% and a dividend yield of 1%.

Today, the earnings of the companies that make up this Index are about \$76 per share, more than 50% higher than in January 2000. The free cash flow of these companies is now about \$100

per share, almost three times higher, and dividends should be around \$25 per share, approximately 50% higher. Because these companies are producing more earnings, cash flow and dividends, it seems obvious the value of their stocks is much higher today than in 2000. But just as in the above example of rental property, price does not necessarily track value. During this same period of increasing value, the changing mood of investors from the optimism of 2000 to the pessimism of today has led to falling prices, with the stock market actually trading for 15% less than it did at the start of the period. No wonder Sir John Templeton once noted, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria." After all, in times of pessimism and skepticism such as we have experienced over the past two years, prices are likely to be lower than value, making stocks a bargain. In times of optimism and euphoria, prices are likely to exceed value, making stocks expensive.

Q: Are bonds or cash safer alternatives?³

A: During the same period in which stock values have improved while stock prices have fallen, the opposite has been true for many other asset classes. For example, for nearly 30 years, the value of bonds (measured by their cash flow or coupons) has fallen while their prices have risen. This is a risky combination and, though the timing may be uncertain, it seems certain some combination of optimism and euphoria is incorporated in bond prices, presaging the likely demise of the long bull market in bonds. My grandfather Shelby Cullom Davis referred to bonds as "certificates of confiscation." His dislike of bonds stemmed

³Common stocks, bonds and cash are subject to different risks and rewards. Future economic events may favor one investment type over another.

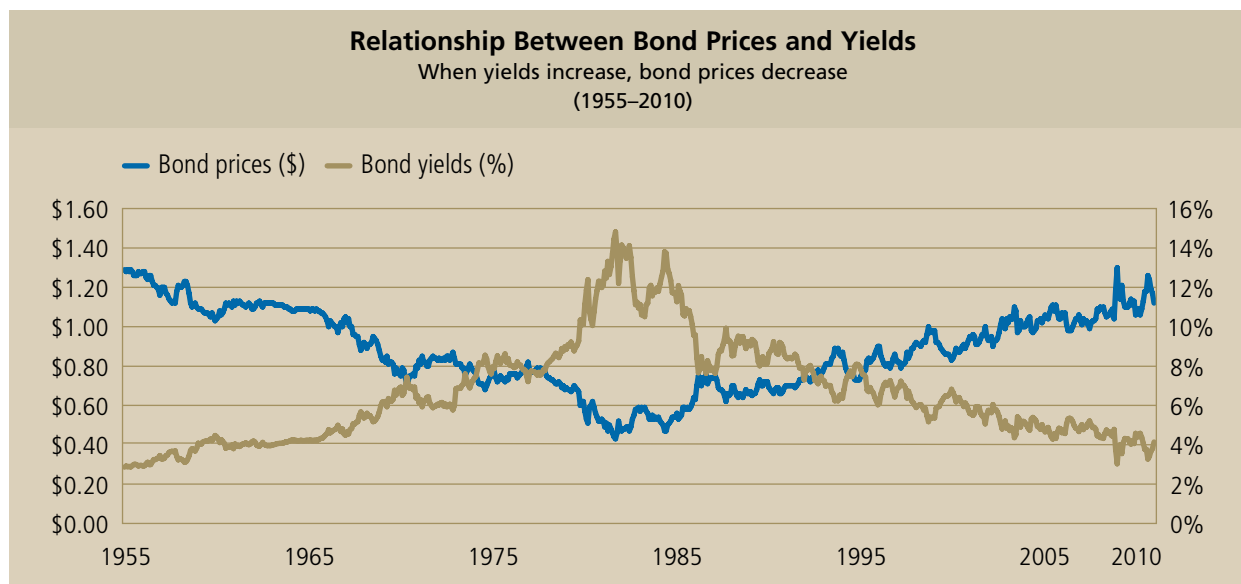
from the fact that for almost three decades ending in 1982, investors in bonds lost money on an inflation-adjusted basis. As the chart below shows, beginning with the very low interest rates of the mid 1950s and ending with the high interest rates of the early 1980s, bonds were a terrible investment. Since then, interest rates have fallen steadily and once again are now close to the levels that began that disastrous period. While it is impossible to predict the short-term direction of interest rates, we believe it is almost certain the long-term direction will be up. To use Jim Grant's phrase, at today's prices, bonds represent "return-free risk."

For investors fearful of falling stock or bond prices, holding cash might seem like the safest alternative. While it is true the price of a dollar never fluctuates, it is also true and far more important the value of a dollar does change over time. Unfortunately, this change is virtually always in the same direction: down!

Thinking about this in personal terms, after visiting with my 103-year-old grandmother, I was struck by the fact that just in the course of her life, the value of a dollar has dropped 96% on an inflation-adjusted basis.⁴ If risk is defined as permanent loss of value, then holding cash over any long period of time may be one of the riskiest investments of all.

Q: Why should the relative performance of Clipper Fund improve?

A: During a period of such disappointing relative results, any attempt to put these results in context risks sounding evasive or defensive. Our goal is not to avoid taking responsibility for the fact Clipper Fund's results fall short of our standards and expectations. Instead, we want to provide our fellow shareholders with the reasons we remain committed to our investment discipline and believe results in the years ahead should be much better.



Source: Morningstar. Bond prices and yields are represented by the 20 year constant maturity U.S. Government Bond. **Past performance is no guarantee of future results.**

⁴Source: Estimated Consumer Price Index series provided by the Federal Reserve Bank of Minneapolis. http://www.minneapolisfed.org/community_education/teacher/calc/hist1800.cfm (January 28, 2011).

A useful way to begin the analysis is by reviewing the longer term investment record of another more diversified mutual fund managed by our firm and asking whether periods such as this are unprecedented. Before addressing this question, however, we must point out that because we have only managed Clipper Fund since January 1, 2006 and because the other fund we have managed longer is more diversified their records are not directly comparable. We present this data as an illustration of past periods of poor results rather than as a statement of how Clipper Fund would have fared during those periods. With that caveat, the Davis New York Venture Fund, a diversified mutual fund our firm has managed since 1969, has returned 11.89% per year after expenses since its inception versus 9.57% for the S&P 500® Index during that same time period, a result we consider satisfactory on both a relative and absolute basis.⁵ Over this time, the Fund outperformed the market in 100% of all 10 year periods.⁵ In addition, the Fund outperformed in 78% of all five year periods and, while this is a strong percentage, it also means the Fund underperformed in 22% of all five year periods.⁵ Bearing in mind the Davis New York Venture Fund is

a diversified fund and thus not directly comparable with Clipper Fund, we would note that five years of lagging results, while disappointing, are not unprecedented or inconsistent with our long-term history. Although we do not know if this would have been true for Clipper Fund, in every case in which our more diversified Fund trailed the market for a five year period, it exceeded the market in the following five years.⁵

If we extend this analysis of our own history to the record of other managers that have generated good long-term results, a similar pattern emerges. For example, almost 70% of the top-performing funds over the past decade underperformed for at least a five year stretch during that decade of outperformance.⁶ To use an example closer to home, our predecessors in managing Clipper Fund built an outstanding long-term record from the time they started the Fund in 1984 until they stepped down in 2005, outperforming the market by almost 2% per year for more than 20 years.⁷ However, even under their excellent management, the Fund still underperformed in roughly half of all five year periods since its inception.⁸

Average Annual Total Returns as of December 31, 2010	1 Year	5 Years	10 Years
Davis New York Venture Fund Class A Shares with a maximum 4.75% sales charge	6.80%	0.44%	2.13%

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 for Class A shares as of the most recent prospectus was 0.89%. 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 davisfunds.com or call 800-279-0279.

⁵Class A shares, not including a sales charge. Inception was 2/17/69. See endnotes for a description of rolling performance. **Past performance is not a guarantee of future results.** ⁶Source: eVestment Alliance. 192 managers from eVestment Alliance's large cap universe whose 10 year annualized performance ranked in the top quartile from January 1, 2001–December 31, 2010. ⁷**Past performance is not a guarantee of future results.** ⁸Clipper Fund underperformed the S&P 500® Index in 8 of 17 five year periods from inception (2/29/84) through 12/31/05.

While this has been a very difficult and disappointing period, from these statistics it would seem such a stretch of underperformance is not unprecedented for us as managers, unexpected in comparison with other managers we admire or unusual in Clipper Fund's own history.

Finally, while it is no solace to Clipper shareholders and while Clipper as a more concentrated fund would have been run differently, our management team did outperform the market in 10 of the last 11 five year periods with the other more diversified equity fund mentioned above.⁹ It is difficult to put into words how maddening it is to us that none of those periods of outperformance was enjoyed by Clipper shareholders.

Q: Can you discuss the types of investments owned in the Portfolio?

A: By far the most important reason we believe the next five years should be better than the last lies in the economic characteristics and valuations of the companies that make up Clipper Fund.¹⁰ Bearing in the mind the risk of overgeneralizing, especially given John Train's observation that "investing is the art of the specific," the Portfolio today can roughly be divided into three categories. The first is made up of companies that are under a cloud whose reputations and valuations have suffered because of management missteps, lackluster execution or worse than expected results. Although subjective, this category would include companies such as Harley-Davidson,

Bank of New York Mellon, Hewlett-Packard, CVS Caremark, and ConocoPhillips. Because these companies are currently unpopular, their shares can be purchased at low valuations. Moreover, in each case, we have reason to believe the fundamentals will improve and the companies will regain some of their lost luster. If this happens, shareholders can benefit from both improved earnings and an improved multiple of earnings, a compounding effect my grandfather referred to as "the double play."

A second category is made up of companies whose relatively small size, complexity or illiquidity means their stocks are poorly understood or followed by relatively few. In this subjective category, we would include companies like Oaktree Capital, RHJ International, SKBHC Holdings, and even Loews Corporation. Although each of these companies is run by owner operators with proven records of success, they tend to be relatively illiquid or not well known and thus not attractive to many large investors. In the years ahead, we hope to show that one of the advantages of Clipper Fund's relatively small size is the opportunity to take meaningful positions in such companies.

The third category makes up the majority of Fund assets. Companies in this largest and most important category might well be characterized as world leaders. This category includes some of the highest quality companies we have ever owned. We believe a significant percentage of them are best-of-breed across a range of different industries. Think of American

⁹Class A shares, not including a sales charge. See endnotes for a description of rolling performance. **Past performance is not a guarantee of future results.** ¹⁰Individual 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 or sell any specific security. **Past performance is not a guarantee of future results.**

Express, Wells Fargo and Goldman Sachs in financial services; Costco in retailing; Procter & Gamble in consumer products; Merck and Roche in health care; Diageo and Coca-Cola in beverages; Canadian Natural Resources in energy; Berkshire Hathaway in insurance (and many other industries); and Microsoft and Texas Instruments in technology. These companies tend to have deeper moats, stronger balance sheets and often more pricing power or lower costs than their competitors. Many also have broad product portfolios and wide geographic diversity that gives them exposure to higher growth economies around the world. These attributes helped many of these companies deliver strong business results straight through the worst economic downturn since the Great Depression. A number of our holdings, including Merck, Coca-Cola, Wells Fargo, and Berkshire Hathaway, actually took advantage of the financial crisis by making opportunistic acquisitions and others such as Texas Instruments and Microsoft repurchased a meaningful amount of their outstanding shares at distressed prices.

However, the economic characteristics of these leading companies are only half the reason we are so optimistic about future returns. The other half of the equation is valuation. Because the stock market works like a pari-mutuel system, businesses with such wonderful characteristics will tend to trade at high valuations, which in turn can make them poor investments. While above average valuations may be appropriate for above average businesses, they decrease the likelihood investors will earn an excess return. As expected, during most periods, investors who

wanted the safety and security of owning some of the world's most durable businesses had to give up some return by paying higher than average valuations. Such valuations reached bubble levels in the Nifty Fifty era of the early 1970s and again in the late 1990s when many such global leaders had dividend yields of less than 1% and traded at more than 30 times earnings.

However, since then, there has been a dramatic reversal. An interesting way to look at this reversal is to use the top 100 companies in the S&P 500® Index as a proxy for the sorts of companies we own. In a recent report, our friend Robert Hagstrom of Legg Mason highlighted the fact that over the last 11 years, while the S&P 100® Index declined 11.2%, the S&P SmallCap 600® Index and the S&P MidCap 400® Index actually gained an astonishing 134%.¹¹ He concludes, "By almost any historical measurement, the drubbing big-cap stocks have endured in both duration and magnitude is unprecedented." The huge difference in trailing returns has led to big changes in valuations. According to Robert, the MidCap and SmallCap Indexes trade at 22 times and 28 times trailing earnings while the S&P 100® Index trades at approximately 15 times trailing earnings.

While the valuation of the index of very large companies is attractive, the valuation of the individually selected companies that make up this portion of Clipper Fund is even more attractive as these holdings are currently priced around 12 times our estimate of this year's owner earnings. Owner earnings is a measure of earnings that differs somewhat from

¹¹Robert Hagstrom, Legg Mason Capital Management Growth Trust, 4Q10/Legg Mason Funds/Product Commentary, 1/11.

generally accepted accounting principles (GAAP) in ways that we believe make it a more accurate measure of economic versus accounting reality. For example, in determining owner earnings, we normalize tax rates and credit costs, add back historic depreciation while deducting maintenance capital spending, deduct the costs of adequately funding pension liabilities, and so on.

With low valuation as the final piece of the puzzle, we would conclude this largest portion of Clipper Fund's portfolio currently exhibits a rare combination of (1) lower than average risk, as measured by our companies' balance sheet strength, competitive position and low risk of obsolescence;¹² (2) durable, long-term growth prospects as indicated by their product portfolios, geographic diversity and attractive returns on retained equity; and (3) low valuations as indicated by the fact they are priced at a substantial discount to our estimated range of fair value. In our view, this is the perfect combination in an uncertain environment that may include anything from a robust economic recovery to another economic or financial crisis.

Putting all three categories together, Ken and I feel the gap between the prices of companies held in Clipper Fund and their relative value is as wide as we have seen. In aggregate, based on our analysis and projections, we estimate our companies on average are currently priced at somewhere between 9.5-11.5 times our estimate of the owner earnings they should generate two to three years from now. Looked at another way, we estimate the companies held in Clipper Fund on average should generate an earnings

yield of 8.5%-10.5% by 2013. In a world where corporate bonds of such companies yield between 3%-6%, we find the valuation of these world class companies exceptionally attractive. This above all else strengthens our belief that Clipper Fund's relative results over the next five years should be more than satisfactory.

If our confidence proves justified, then the combination of higher stock market returns and better relative results could well make the next decade a very good one for our investors. Although we cannot promise this outcome, we are certainly committed to it and will do all in our power to achieve it.

Q: What were your biggest mistakes?

A: During the financial crisis, the mistakes of investors (including us) were dramatic and obvious. While we avoided many of them, our losses in AIG and Merrill Lynch were substantial and permanent and were responsible for the vast majority of our underperformance over the last five years. We have written at length about these mistakes in earlier reports and commend them to your attention. (Please see the "Fund Literature" section of clipperfund.com to read these reports.)

We are now almost two years past the depths of the financial crisis. Clipper Fund is up 120% from its low on March 5, 2009 while the market is up 91%.¹³ Despite this recovery, we still have substantial ground to make up. Furthermore, while a 120% gain is gratifying, we could have done better. For example, as we have written in past reports, it is likely that the largest mistakes we made in recent years will never show up in

¹²While Davis Advisors attempts to manage risk there is no guarantee that an investor will not lose money. ¹³Period discussed is from 3/5/09-12/31/10. The market is represented by the S&P 500® Index. **Past performance is not a guarantee of future results.**

our financial statements. This is not because we are glossing over them, but rather because they were mistakes of omission. In other words, our costliest mistakes during this financial crisis may well be the investments we failed to make when others were panicking. Wells Fargo, for example, traded roughly as low as \$8 per share and American Express as low as \$10. Had we added just 2.3% of the Fund to each position, we would have more than made up the cumulative losses we suffered in AIG. Such mistakes of omission are rarely discussed and yet, as the example above shows, they can be just as costly to long-term returns.

Although we do not usually comment on shorter term results, some have asked whether the fact the Fund did not own many of the more leveraged, speculative or cyclical companies that led the market in 2010 was also a mistake of omission. The short answer is we do not believe so. As discussed earlier in this report, we strongly believe high quality companies with durable growth prospects and relatively low business and financial risk represent the most compelling opportunity in the market today. That does not mean the stocks of these companies will always outperform. In fact, it is likely these stocks could underperform those that are more leveraged or speculative in nature should the economic recovery gain steam and the world avoid major crises. However, the last several years should have taught all investors that portfolios should be built to weather downturns as well as participate in good times. In short, while companies like Procter & Gamble, Berkshire Hathaway, Coca-Cola,

and Roche may lag more leveraged, cyclical or speculative companies in a robust recovery, we are confident they will prove to be satisfactory investments over the long term.

Q: Concluding thoughts

A: To end where we began with the difference between price and value, Oscar Wilde famously said a cynic “knows the price of everything and the value of nothing.” Since the start of this new millennium, the prices of America’s leading stocks have fallen reflecting a pervasive sense of pessimism and even cynicism. Yet, the value of America’s leading corporations has increased just as it has in every decade of the last century reflecting the growth in corporate earnings, cash flows and dividends. This increase in value in turn stems from the inventiveness, ingenuity, innovation, and capabilities that are unleashed in a free-market system. Despite a pervasive sense of pessimism, the march of progress has not come to a stop because real estate prices have declined and stocks are mired in a bear market. An introductory note to Matt Ridley’s wonderful new book, *The Rational Optimist*, opens with a startling statement: “Life is getting better—and at an accelerating rate.” It continues, “Food availability, income, and life span are up; disease, child mortality, and violence are down—all across the globe. Though the world is far from perfect, necessities and luxuries alike are getting cheaper; population growth is slowing; Africa is following Asia out of poverty; the Internet, the mobile phone, and container shipping are enriching people’s lives as never before.”¹⁴ Although cynicism is currently fashionable, these facts are undeniable.

¹⁴Matt Ridley, *The Rational Optimist: How Prosperity Evolves* (New York: HarperCollins Publishers, 2010), publisher book description.

Clipper Fund is full of companies that have grown in value by contributing to this progress. For example, over the last several decades biotech and pharmaceutical companies like Merck and Roche have produced almost miraculous cures to diseases that have plagued humanity for centuries. Innovative energy companies like Canadian Natural Resources have developed the ability to separate vast quantities of crude oil from the tar sands of northern Canada. Nontraditional retailers like Costco have eliminated layers of costs and inefficiency in the way goods are distributed to consumers, saving their customers billions. Technology companies like Texas Instruments and Microsoft have changed the way information is accessed, processed and communicated. Insurers like GEICO (a subsidiary of Berkshire Hathaway) have continued to grow by providing better service at a lower cost. And the list goes on.

Even though the value created by such companies is enormous, investing in their stocks, particularly after more than a decade of poor returns, feels very risky to many. However, risk is a reality not just for these companies but for all companies and indeed for all investments and all asset classes, from real estate to equities to cash to bonds to gold. In fact, usually when investors think they are taking the least risk is when they are most vulnerable. For example, it is easy to imagine an investor in the late 1940s who had suffered through the stock market crash, Great Depression and World War II clinging to the safety of bonds only to watch their value fall in the decades ahead. Another example is the gold bugs of the early

1980s who clung to the safety of gold after its price had soared along with inflation in the 1970s, only to watch the price of gold fall for the next 20 years. Then came NASDAQ investors in 2000 who felt they could not lose and, most recently, homebuyers in 2007 who were convinced the price of a single family home could never decline. In every case, investors felt safest buying whatever had already gone up and avoiding as too risky whatever had gone down.

Today, investors feel safest holding cash, bonds or gold. We could not disagree more strongly. More than a decade of falling prices and rising values has made stocks a bargain. Moreover, as we select the companies that make up Clipper Fund, we are amazed many of the world's leading companies like those described above are selling at a discount to the averages. These companies have both the durability and resilience to weather the inevitable shocks as well as the intelligence, innovation and adaptability to participate in and contribute to the march of progress. Based on this rare combination of reduced risk, durable growth and discounted price, Ken and I feel rationally optimistic about Clipper Fund's prospects in the decades ahead.

As we said in the opening of this report, we are deeply disappointed in Clipper Fund's unsatisfactory results in its first five years under our management. We know we have ground to make up and, for the reasons outlined in this report, we have confidence we are moving in the right direction. But since actions speak louder than words, perhaps a better indicator

of our confidence is that during the last five years your portfolio managers, our firm and our families have increased the number of shares of Clipper Fund we own from roughly 724,000 to almost 1.2 million today. Although we cannot promise better results, we have at least put our money where our mouth is.

In sum, while the last five years have been difficult for equity investors in general, they have been especially hard for shareholders of Clipper Fund, as poor market returns were made worse by poor relative results. In this

report, we have tried to provide you with not just a report of the past but with facts and data that might give you confidence in the future. Even if shareholders conclude they no longer want to hold shares in Clipper Fund, we hope that this data will at least convince them to remain invested in equities.

For those who have chosen to remain with Clipper Fund during this difficult time, we are grateful for your patience, mindful of the trust you have placed in our firm and committed to improving returns in the years ahead. Thank you. ■



CLIPPER
FUND™

This material is authorized for use by existing Clipper Fund and Davis New York Venture Fund shareholders. A current Clipper Fund and Davis New York Venture Fund 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, fees, and expenses before investing. Read the prospectus carefully before you invest or send money.

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.

Clipper Fund's investment objective is long-term capital growth and capital preservation. Davis New York Venture Fund's investment objective is long-term growth of capital. There can be no assurance that either Fund will achieve its objective. The Funds invest primarily in equity securities issued by large companies with market capitalizations of at least \$10 billion. Some important risks of an investment in the Funds are: market risk (CF): the market value of shares of common stock can change rapidly and unpredictably and have the potential for loss; stock market risk (DNYVF): stock markets tend to move in cycles, with periods of rising prices and periods of falling prices, including the possibility of sharp declines; manager risk (DNYVF): poor security selection or focus on securities in a particular sector, category or group of companies may cause the Fund to underperform relevant benchmarks or other funds with a similar investment objective; company risk (CF): 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; common stock risk (DNYVF): common stock represents an ownership position in a company. An adverse event may have a negative impact on a company and could result in a decline in the price of its common stock. Common stocks are generally subordinate to an issuers' other securities including convertible and preferred securities; focused portfolio risk (CF): 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 Fund's total portfolio; financial services risk (CF, DNYVF): 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 (CF): 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 (CF, DNYVF): fees and expenses reduce the return which a shareholder may earn by investing in a fund; and foreign country risk (CF, DNYVF): 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 December 31, 2010, the Clipper Fund had approximately 16.3% of assets invested in foreign companies. As of December 31, 2010, the Davis New York Venture Fund had approximately 19.2% of assets invested in foreign companies. See the prospectus for a complete listing 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, 2010, Clipper Fund had invested the following percentages of its assets in the companies listed: American Express, 8.86%; Bank of New York Mellon, 4.88%; Berkshire Hathaway, 7.99%; Canadian Natural Resources, 9.64%; Coca-Cola, 2.01%; ConocoPhillips, 2.15%; Costco Wholesale, 12.73%; CVS Caremark, 3.44%; Diageo, 0.68%; Goldman Sachs, 1.07%; Harley-Davidson, 8.13%; Hewlett-Packard, 2.49%; Loews Corp., 6.01%; Merck, 3.52%; Microsoft, 1.46%; Oaktree Capital, 6.87%; Procter & Gamble, 4.88%; RHJ International, 3.48%; Roche, 0.84%; SKBHC Holdings, 0.31%; Texas Instruments, 2.25%; Wells Fargo, 1.27%.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of December 31, 2010, Davis New York Venture Fund had invested the following percentages of its assets in the companies listed: American Express, 4.06%; Bank of New York Mellon, 3.84%; Berkshire Hathaway, 2.27%; Canadian Natural Resources, 2.96%; Coca-Cola, 1.99%; Costco Wholesale, 4.12%; CVS Caremark, 3.41%; Diageo, 0.96%; Goldman Sachs, 0.54%; Harley-Davidson, 1.02%; Hewlett-Packard, 0.80%; Loews Corp., 2.90%; Merck, 2.86%; Microsoft, 1.22%; Procter & Gamble, 1.53%; Roche, 1.52%; Texas Instruments, 2.01%; Wells Fargo, 4.22%.

The Funds have adopted Portfolio Holdings Disclosure policies that govern the release of non-public portfolio holding information. These policies are described in the prospectuses. For Clipper Fund, visit clipperfund.com or call 800-432-2504 for the most current public portfolio holdings information. For Davis Funds, visit davisfunds.com or call 800-279-0279 for the most current public portfolio holdings information.

Rolling Periods. Davis New York Venture Fund's average annual total returns for Class A shares were compared against the returns earned by the S&P 500® Index as of December 31 of each of the rolling periods discussed from 1969 through 2010. The Fund's returns assume an investment in Class A shares on January 1 of each year with all dividends and capital gain distributions reinvested for the periods indicated. The returns are not adjusted for any sales charge that may be imposed. If a sales charge were imposed, the reported figures would be lower. The figures shown reflect past results; past performance is not a guarantee of future results. There can be no guarantee that the Fund will continue to deliver consistent investment performance. 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.

After-tax returns show the fund's annualized after-tax total return for the time period specified. After-tax returns with shares sold show the fund's annualized after-tax total return for the time period specified plus the tax effect of selling your shares at the end of the period. To determine these figures, distributions are treated as taxed at the maximum tax rate in effect at the time they were paid with the balance reinvested. The maximum rates are currently 35% for non-qualified dividend income and short-term capital gains distributions. Long-term capital gains and qualified dividends currently are taxed at a maximum 15% rate. The tax rate is applied to distributions prior to reinvestment and the after-tax portion is reinvested in the fund. State and local taxes are ignored.

Clipper Fund was managed from inception, February 29, 1984, until December 31, 2005 by another Adviser. Davis Selected Advisers, L.P. took over management of the Fund on January 1, 2006.

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

Over the last five years, the high and low turnover ratio for Clipper Fund was 63% and 3%, respectively. Over the last five years, the high and low turnover ratio for Davis New York Venture Fund was 16% and 5%, respectively.

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.

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 April 30, 2011, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Clipper Fund 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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