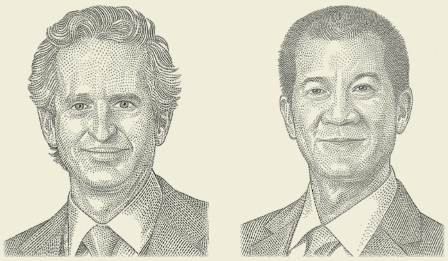


Clipper Fund

Update from Portfolio Managers

Christopher Davis and Danton Goei

CLIPPER FUND℠

Clipper Fund

Annual Review 2018

Summary

- In 2017, Clipper Fund returned 17.7%.[1]
- Clipper Fund has outperformed the S&P 500 Index for the last three and five years.[1]
- Over the most recent one, three and five year periods, a $10,000 investment in the Fund grew to $11,769, $14,482 and $20,945, respectively.[1]
- At a time when active investment strategies are out of favor, historical data indicates active managers may be poised for a rebound.
- Our Portfolio is positioned to take advantage of select opportunities in today's market including global leaders selling at bargain prices, dominant lesser known businesses in necessary economic niches, blue chips of tomorrow, and beneficiaries of short-term misperceptions.
- Our Portfolio is also positioned to avoid potential losses facing the index if the prices of an overvalued but widely owned group of companies we refer to as dividend darlings decline in the years ahead.

The average annual total returns for Clipper Fund for periods ending December 31, 2017 are: 1 year, 17.69%; 5 years, 15.94%; and 10 years, 6.71%. 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 0.72%. 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 that 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.*

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. **Past performance is not a guarantee of future results. 1. Past performance is not a guarantee of future results.** Investments cannot be made directly in an index.

Clipper Fund

Annual Review 2018

Results of Our Investment Discipline

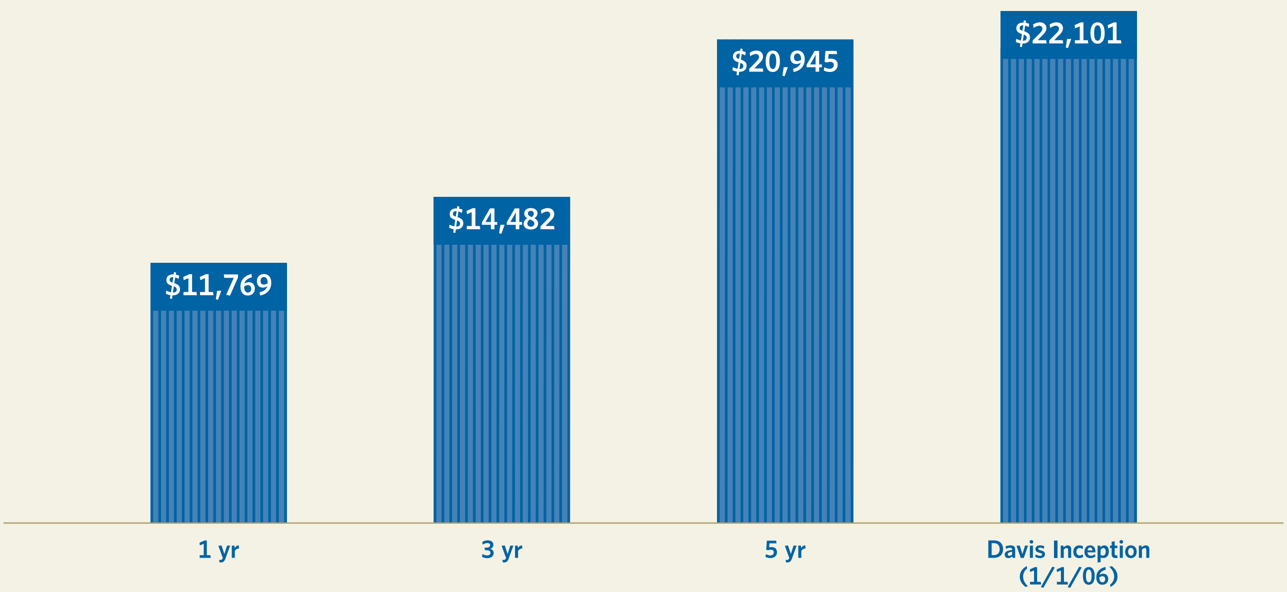
Our investment discipline has built wealth for shareholders over the long term.[2]

In 2017, Clipper Fund continued its long record of building shareholder wealth generating an absolute return of almost 18%. As shown in the chart below, the value of an initial $10,000 investment has increased in all periods shown since we assumed management of the Fund.

On a relative basis, our results have also beaten the market over the last five years. However, while the value of each dollar invested in Clipper Fund has more than doubled since we were entrusted with management of the Fund in January 2006, we still have ground to make up on a relative basis and intend to build on our improved results in the years ahead.[2] Our confidence in our time-tested approach is reflected by our investment of more than $145 million in Clipper Fund alongside our shareholders.[4]

While our disciplined investment approach will not always be rewarded by the market over shorter periods, this active management strategy has produced positive returns for Clipper shareholders in the one, five and 10 year periods, and relative outperformance over the last five years. The cornerstones of our discipline include rigorous research, focused investing, low expenses, alignment of interests, and a willingness to stand apart from the crowd. ■

Clipper Fund Has Grown Shareholder Wealth Over the Long Term[3]



2. Past performance is not a guarantee of future results. Investments cannot be made directly in an index. **3.** As of December 31, 2017. 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. **Past performance is not a guarantee of future results. 4.** As of December 31, 2017.

Why Now May Be a Good Time to Invest in an Actively Managed Fund like Clipper Fund

A Google search for "the death of active management" produces 1.8 million results. With more than $1 trillion flowing into passive funds and ETFs and $1.1 trillion removed from active managers over the last decade, the tide of investors shifting from active to passive investment strategies has become a tsunami.[5] This wave has been driven by the widespread acceptance of data showing the S&P 500 Index has outperformed the average active manager over the long term. While the data itself is true, the results are misleading in three important ways.

First, active and passive strategies have historically moved in a cycle. During parts of this cycle such as in the last decade or so, passive strategies have tended to outperform active management. However, during other parts of the cycle, even average active managers outperform the index, often for long periods of time. For example, the chart below tracks the percentage of large cap active managers that outperformed the S&P 500 Index over five-year time periods since 1975. The gold circles represent inflection points where the number of active managers outperforming the market began to increase. Underperformance of active strategies is near an all-time high. If the cycle were to continue, this may point to potential wisdom of moving toward active management.

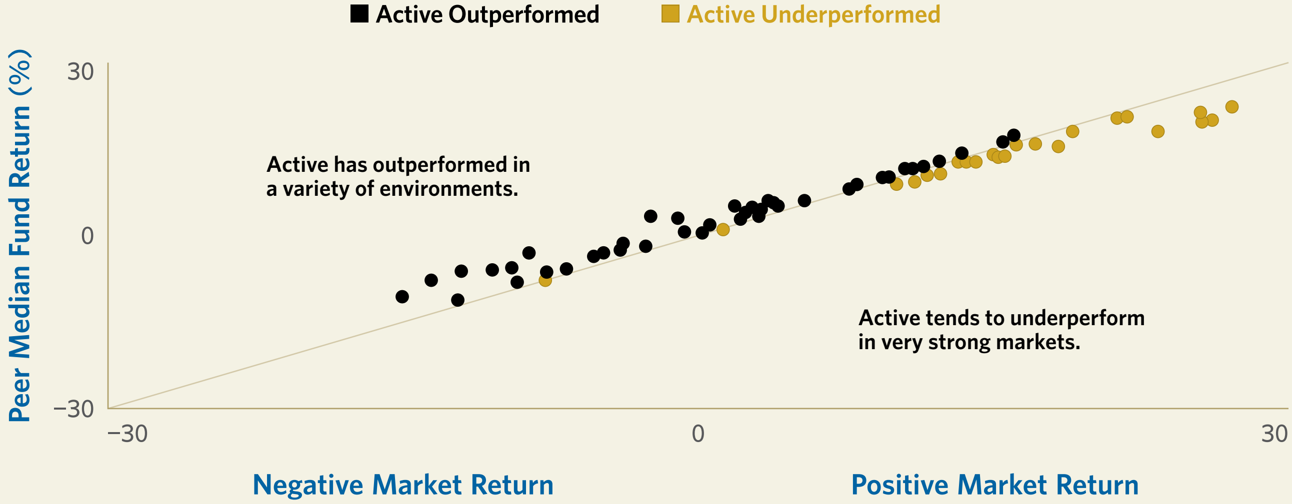
Historically, Active vs. Passive Has Been Cyclical
Active May Be Poised to Outperform[6]

Percentage of Large Cap Funds that Outperform S&P 500 Index

Second, while active managers have historically tended to underperform when the S&P 500 Index has galloped ahead, they have tended to outperform when market returns moderate. In the chart on the top of page 4, each dot above the line represents a period in which the average manager outperformed the index. As is clearly shown, the lower the market return, the more active managers outperform. While the direction of the market is unknowable in the short term, the fact the index has more than doubled in the last five years and the market has gone more than seven years without a 20% correction versus an historical average of two-and-a-half years leads us to expect more moderate returns in the years ahead. Active management could be poised for a period of relatively strong results compared to the index.

5. Source: Morningstar. U.S. domestic equity funds including open end index funds and ETFs. Date range: 1/1/07–12/31/17. **6.** Source: Morningstar Direct. Universe: Large Value, Large Blend and Large Growth. There is no guarantee that the number of active managers outperforming the market will continue to increase or that active and passive managers will continue to move in cycles.

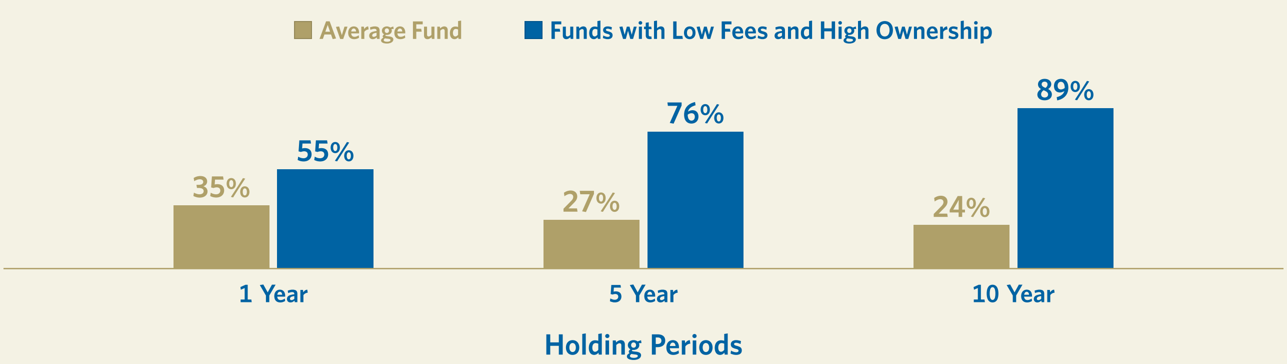
Active and Passive Outperform in Different Environments[7]



Finally, certain active funds have outperformed in the vast majority of rolling 10 year periods. As a result, while the data shows the *average* active manager has underperformed, investors need not choose an average manager. In fact, data suggests active managers with certain identifiable characteristics such as low fees, low turnover, proper incentives, an experienced team, and a differentiated portfolio have historically been far more likely to outperform both the index and the average active manager. For example, the chart below shows managers with low fees and a high investment in their own funds have outperformed in 89% of all rolling 10 year periods.

Funds with Low Fees and High Ownership Outperform the Index[8]

Percentage of Time Outperformed the S&P 500 Index



7. Sources: AMG Funds, Morningstar. Chart plots median actively managed large-cap funds, with manager tenure of greater than 10 years (longest-tenured portfolio manager), annualized three-year rolling returns (with a quarterly frequency) over the 20-year period ending March 31, 2016 against the S&P 500 Index returns. Black plot points indicate periods of outperformance and yellow plot points represent underperformance. The distance of the points from the diagonal line indicates the degree of over- or underperformance. The fund category used is the Morningstar large-cap fund universe, including growth, value and blend categories. Performance is net of fees. **Past performance is not a guarantee of future results. 8.** Source: Capital Group, based on Morningstar data. Based on monthly rolling periods from July 1996 to June 2016. Funds in the "Average Fund" group are those U.S. domestic equity funds in the Morningstar Large Value, Large Blend and Large Growth categories. "Funds with Low Fees and High Ownership" group are those U.S. domestic equity funds in the Morningstar Large Value, Large Blend and Large Growth categories filtered for the quartile with the lowest net expense ratios (NER) and the quartile with the highest manager ownership. U.S. index is S&P 500 Index. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. **Past performance is not a guarantee of future results.**

Putting these thoughts together, we believe the headwinds active managers have faced in recent years could well become tailwinds in the years ahead. If so, this would not be the first time the herd mentality proved wrong. After all, not so long ago everyone was buying residential real estate based on the then true but ultimately misleading fact single family real estate prices had never declined nationwide. We are further encouraged by data indicating identifiable factors such as relatively low expenses, alignment of interest and a willingness to look different from other investment managers, all of which are central to our firm's investment culture, have historically been durable hallmarks of long-term outperformance. ■

How is Clipper Fund Positioned to Take Advantage of Select Opportunities in Today's Market?

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

Global Leaders Trading at Bargain Prices—Some of the strongest and best-known companies in the world make up the largest portion of the Portfolio. This fact is nothing new. What is unusual though is short-term economic concerns over the past year reduced the share prices of a handful of global leaders such as Berkshire Hathaway, United Technologies, and American Express to bargain levels at a time of high valuations for the average company.[9] Buying top tier businesses at bargain prices is a value investor's dream.

Dominant Lesser-Known Businesses—Clipper Fund also invests in a group of lesser-known businesses that dominate dull but necessary niches in the global economy. Whether they participate in unglamorous industries or are headquartered in different countries, these businesses are not household names to U.S. investors. As a result, their shares often trade at a discount to better-known companies despite having the same qualities of market dominance and durability as the global leaders described above. Such companies include Johnson Control's leadership in fire and security, building controls, and car batteries; Liberty Global's strength in European cable TV and broadband; LafargeHolcim's dominance of the world cement industry; and Safran's leadership in jet engines (the company has been an equal but less well-known partner of General Electric for more than 30 years). These companies combine the relevance and resilience of blue chip businesses with below-average valuations.

Blue Chips of Tomorrow—Another theme is fast-moving companies that use innovation to disrupt the economics of larger but less agile competitors. Similar to evolution, capitalism is a process of constant change that rewards businesses that can adapt. Over the decades, we have seen many examples of today's disrupters emerge as tomorrow's blue chips. Several of Clipper Fund's core holdings reflect this dynamic. Amazon has not only revolutionized the retail business, but also the information and technology industry through Amazon Web Services (AWS). Alphabet (the parent company of Google) began by making the world's information accessible through the internet and emerged as the largest and most profitable advertising firm in the world, the brains behind the vast majority of all smart phones, a leader in internet video, and the emerging leader in artificial intelligence and self-driving cars.

9. Individual securities are discussed in this piece. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. The return of a security to the Fund will vary based on weighting and timing of purchase. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results.**

Beneficiaries of Short-Term Misperceptions— Short-sighted investors often avoid companies that face short-term problems, creating an opportunity for long-term investors willing to look beyond today's headlines. In banking, for example, memories of the financial crisis of 2008–2009 combined with subsequent anti-banking rhetoric and media coverage have blinded investors to the fact carefully selected banks are both cheap and safe, in our opinion. Contrary to popular perception, many top tier banks are not only reporting record earnings but are also far better capitalized than at any time in the last 50 years. While unloved now, we believe the leading financial companies we own will be big contributors to Clipper Fund's future returns as the reality of their strong economic fundamentals and rising dividends eclipse current investor perceptions.

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

All in all, the carefully selected businesses that make up Clipper Fund combine above-average resiliency and growth with below-average prices. ■

Where Do We See the Biggest Risks?

Being selective when choosing which companies to own can be a big driver of performance over the long term. However, choosing which companies not to own can be equally important. For example, in the early 2000s avoiding most of the overvalued tech and telecom darlings that collapsed when the internet bubble burst proved a prudent strategy. Although these bubbles seem obvious in retrospect, investing in such companies at the time often seems safe because their prices have gone up for so long and the press is filled with flattering reports. In other words, investors often feel safest when risks are greatest. From the 1990s internet mania to the 2007 housing boom, what looked like a sure thing at the time ended up a speculative bubble. When these bubbles burst, disciplined investors who resisted the siren song of the market darlings tend to outperform as the stocks they avoided drag down the averages.

Today, we see a bubble emerging in many popular dividend-paying stocks, often referred to as dividend darlings. Although many of these are well known and substantial companies, their prices have been bid up to bubble valuations by investors whose thirst for short-term income has blinded them to these companies' deteriorating fundamentals. For example, the 25 most widely held dividend paying stocks currently have a combined market capitalization of more than $4 trillion and trade at almost a 20% premium to the market. Such high valuations are usually reserved for companies that can grow faster than average.

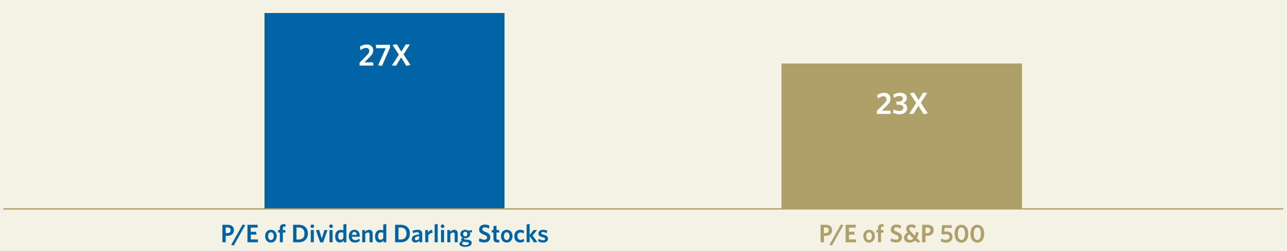
However, as the first chart below shows, these businesses have been shrinking not growing over the last five years. As a result, the companies have been able to maintain their earnings and dividends only by cutting costs, reducing investments in future growth (such as R&D and advertising) and increasing their payout ratio (the percentage of earnings that must be distributed to maintain the companies' dividends). Such trends are not sustainable. We believe investors like us with the discipline to avoid such popular but overvalued companies will be rewarded with improved relative returns as this dividend bubble deflates.

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

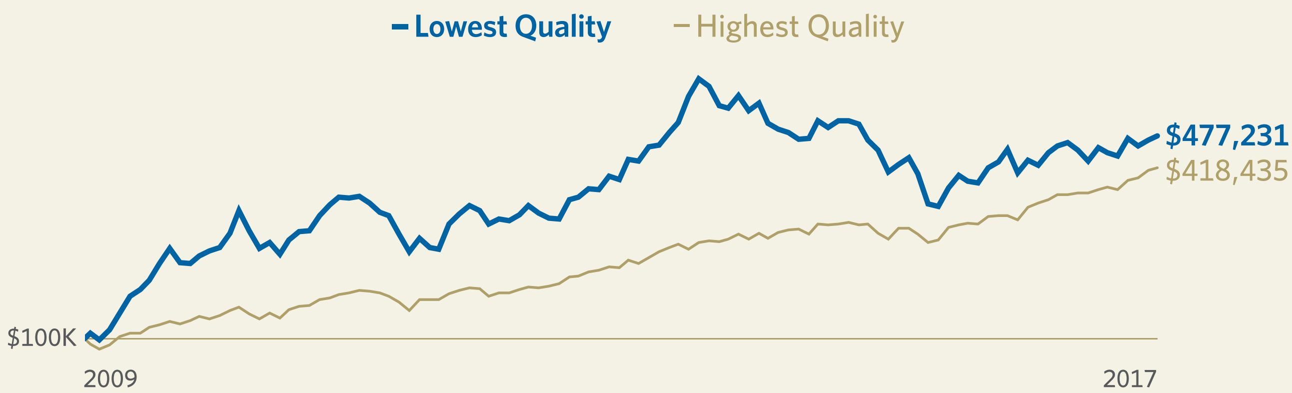
Dividend Darlings May Face Headwinds[10]

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

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



Low Quality Outperformed High Quality[11]



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

Conclusion

In 2017 and over the five and 10 year periods, Clipper Fund added to its long-term record of building wealth for investors. Over the last three and five year periods, Clipper Fund has also outperformed the passive indexes. A $10,000 investment in Clipper Fund when we began managing the Fund would now be worth $22,101.[12] While we have more than doubled the value of an investment made when were entrusted with management of Clipper Fund in January 2006, we still have ground to make up and will do our best to build on our outperformance over the last five years.

While the consensus wisdom currently favors passive investing, significant data shows active and passive strategies move in cycles. A review of these cycles indicates active investing may be poised for a period of relatively stronger returns particularly if market returns moderate in the years ahead. Furthermore, contrary to consensus thinking, a select group of active managers with characteristics such as low costs, an alignment of interests with their shareholders and differentiation have outperformed in the vast majority of all rolling ten year periods.

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

As always, we recognize and expect the years ahead will include times of market corrections and disruptions. While unpleasant, such periods are inevitable and generally create opportunities for investors with the judgment and experience to take advantage of them. In short, at a time when pundits and commentators are making the case experience and judgment do not matter and the best investors can hope for is an average result, we strongly disagree. We believe a carefully selected Portfolio of durable, well-managed businesses with competitive advantages, selling at a discount to true value and overseen by a seasoned team with a long track record of generating proven results will produce a better-than-average outcome. In investing, as in any other profession, skill matters. Since we assumed management of Clipper Fund in 2006, we have continued Clipper Funds long record of building wealth for our shareholders. With more than $145 million invested alongside our shareholders, we have every incentive and intention to build on this record in the years and decades ahead.[13]

We value the trust you have placed in us and look forward to continuing our investment journey together. ■

12. Past performance is not a guarantee of future results. 13. As of December 31, 2017.

This report is authorized for use by existing shareholders. A current Clipper 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, 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.

Objective and Risks. Clipper Fund'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: **common stock risk:** an adverse event may have a negative impact on a company and could result in a decline in the price of its common stock; **depositary receipts risk:** depositary receipts may trade at a discount (or premium) to the underlying security and may be less liquid than the underlying securities listed on an exchange; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; **financial services risk:** investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to systemic risk, regulatory actions, changes in interest rates, non-diversified loan portfolios, credit, and competition; **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 companies may be subject to greater risk as foreign economies may not be as strong or diversified; As of December 31, 2017, the Fund had approximately 13.8% of assets invested in foreign companies; foreign currency risk: the change in value of a foreign currency against the U.S. dollar will result in a change in the U.S. dollar value of securities denominated in that foreign currency; **headline risk:** the Fund may invest in a company when the company becomes the center of controversy. The company's stock may never recover or may become worthless; **large-capitalization companies risk:** companies with $10 billion or more in market capitalization generally experience slower rates of growth in earnings per share than do mid- and small-capitalization companies; **manager risk:** poor security selection may cause the Fund to underperform relevant benchmarks; **mid- and small-capitalization companies risk:** companies with less than $10 billion in market capitalization typically have more limited product lines, markets and financial resources than larger companies, and may trade less frequently and in more limited volume; and **stock market risk:** stock markets have periods of rising prices and periods of falling prices, including sharp declines. See the prospectus for a complete description of the principal risks.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of December 31, 2017, the top ten holdings of Clipper Fund were: Alphabet, 8.40%; Berkshire Hathaway–Class A, 7.99%; Amazon.com, 7.58%; Capital One Financial, 6.34%; United Technologies, 6.19%; Wells Fargo, 6.11%; Bank of New York Mellon, 5.97%; Markel, 4.94%; Johnson Controls International, 4.81%; Apache, 4.76%.

Clipper Fund has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in the prospectus. Holding percentages are subject to change. Visit clipperfund.com or call 800-432-2504 for the most current public portfolio holdings information.

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

The **S&P 500 Index** is an unmanaged index of 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, 2018, 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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