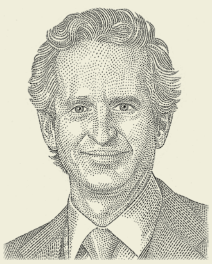
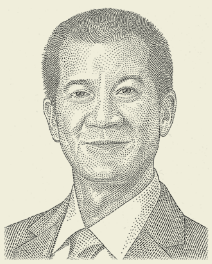
CF SEMI-ANNUAL REVIEW 2017





Clipper Fund

Update from Portfolio Managers

Christopher Davis and Danton Goei

CLIPPER FUND℠

Clipper Fund

Semi-Annual Review 2017

Summary

- For the one year period ending June 30, 2017, Clipper Fund returned 21.94% vs. 17.90% for the S&P 500 Index.[1]
- Over the most recent one, three and five year periods, a $10,000 investment grew to $12,194, $13,369 and $20,338 respectively, exceeding the S&P 500 Index in all periods.[1]
- Risks in today's market include companies with peak profit margins, long-term bonds and overvalued dividend darlings.[2]
- Opportunities in today's market include global leaders selling at bargain prices, blue chips of tomorrow and beneficiaries of short-term misperceptions.
- A true active management approach adds value over time and should have a place in every portfolio.

Average Annual Total Returns as of June 30, 2017

	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years
Clipper Fund	21.94%	10.16%	15.25%	5.44%	6.04%	8.02%
S&P 500 Index	17.90%	9.61%	14.63%	7.18%	8.34%	7.15%

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. 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, 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. 2.** While Davis Advisors attempts to manage risk there is no guarantee that an investor will not lose money. Equity markets are volatile and the investment return and principal value of an investment will vary.

Clipper Fund

Semi-Annual Review 2017

Results of Our Investment Discipline

Clipper Fund results have exceeded the S&P 500 over the latest one, three and five year periods.

Over the latest one, three and five year periods, Clipper Fund has built shareholder wealth at a strong absolute rate and achieved relative results that exceed the S&P 500 Index. While active management has fallen out of fashion in recent years, we believe experience and judgment are valuable strengths in portfolio management and are pleased our results over the last five years bear this out. 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. Our confidence in our time-tested approach is reflected by our investment of more than $130 million in Clipper Fund alongside our shareholders.[3]

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 all 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. ■

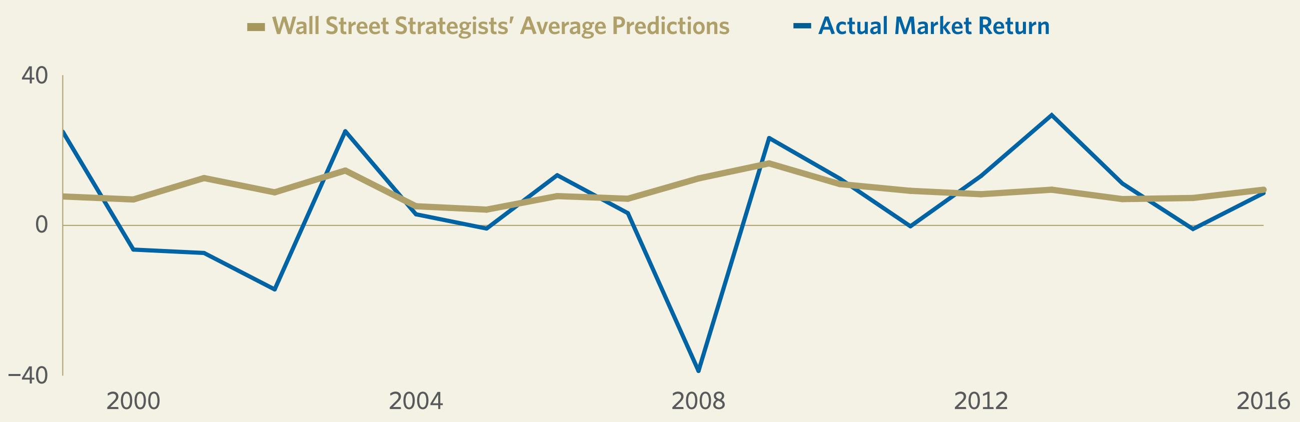
Investment Outlook

Avoid reacting to short-term forecasts; instead build a portfolio for the long term. Risks in today's market include companies with peak profit margins, long-term bonds and overvalued dividend darlings.

The iconoclastic economist John Kenneth Galbraith famously quipped the "primary function of economic forecasting is to make astrology look respectable." By contrasting the predictions of Wall Street's top strategists for annual stock market returns with what actually happened, the chart below shows the wisdom

The Short-Term Direction of the Market is Unknowable[4]

Yearly Percentage Return
1999–2016



3. As of June 30, 2017. **4.** Source: Wall Street Journal Publications. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, the S&P 500 Index was used exclusively. **Past performance is not a guarantee of future results.**

of Galbraith's insight. In some years, the predictions proved too optimistic and in others too pessimistic. But at no point, did the forecasts get it right.

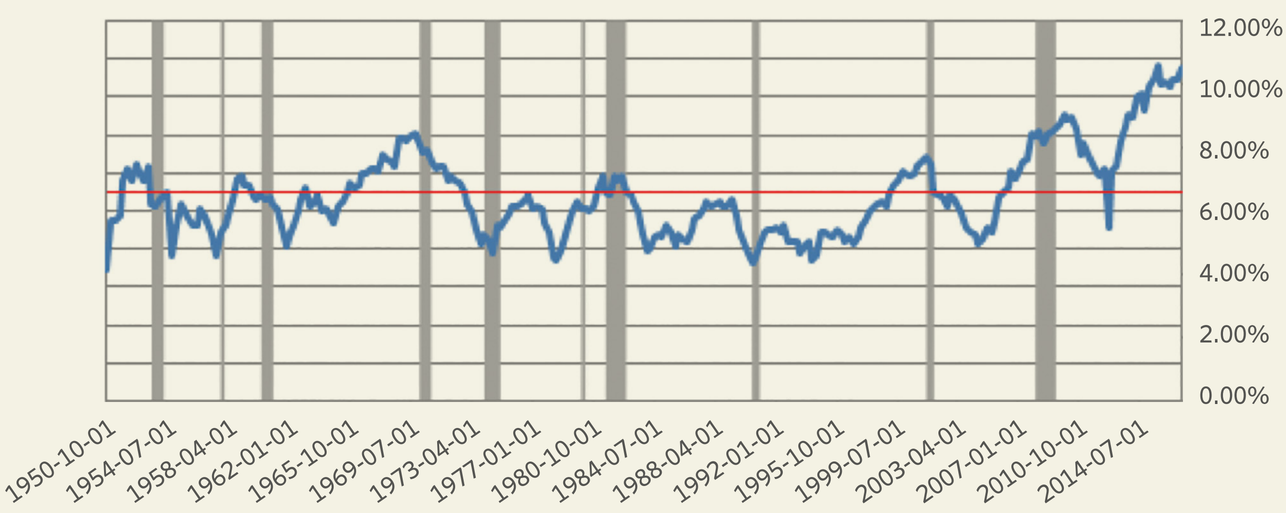
The same unpredictability applies to many short-term forecasts including those related to the direction of interest rates, currency moves, economic indicators, and geopolitical events. Instead of reacting to such useless forecasts, successful investors must be prepared for a wide range of possible outcomes. In this way, managing a portfolio for the long term is similar to building a ship for an ocean crossing. Because conditions may be unpredictable, investors must balance the strength needed to endure the inevitable storms with the speed required to reach their destination. By focusing on sensible preparation rather than worthless predictions we have built wealth for our investors over decades.

Since most sectors, economies, markets, and asset classes move through long cycles, the first step for investors is understanding where they are in the cycle. In the most favorable parts of cycles, prices tend toward bubbles as investors become euphoric. In the troughs of cycles, prices move toward bargain levels as investors become pessimistic. For long-term investors, cyclical peaks represent risk and cyclical troughs present opportunities.

Today, on the risk side of the equation, three areas appear to be approaching cyclical peaks. First, following more than eight years of economic expansion, corporate profit margins have reached an all-time high. This trend has provided a wonderful tailwind for the average company's earnings growth and stock price. The other side of this cycle could lead to lower earnings at many companies with their share prices likely to follow suit. Recognizing this risk, we have focused our Portfolio on carefully selected companies with a favorable outlook for profit margins while avoiding the majority of companies where we believe margin compression is more likely.

Second, despite some uptick over the last year, interest rates remain near 50 year lows. As a result, many investors have come to view bonds as "safe," forgetting that when interest rates eventually rise, bond prices will fall. In fact, a relatively modest 1% increase in interest rates would lop more than 20% off the price of a

Corporate Profit Margins[5]



5. http://z822j1x8tde3wuovlgo7ue15.wpengine.netdna-cdn.com/wp-content/uploads/2014/01/margins2.png long-term bond. As shown in the chart below, bond valuations today reflect considerable euphoria compared to stocks. As a result, stocks are likely to produce far better returns than bonds in the decades ahead.

Stocks Likely to Outperform Bonds[6]

	P/E	Yield	Growth
Bonds	40X	2.5%	0%
Stocks	18.5X	2.1%	3-5%

Third, within the stock market, investors have become infatuated by current dividend yield. As a result many of the so-called dividend darlings seem significantly overvalued. For example, the largest positions in the most widely held dividend mutual funds and exchange traded funds (ETFs) currently trade at a heady 25 times earnings while paying out 83% of earnings to cover their dividends. Shockingly, over the last five years, the revenue at these companies has actually declined at a rate of 1.2% per year. As with profit margins and interest rates, these dividend darlings seem to be approaching a cyclical extreme and therefore represent a risk we are careful to avoid in our Portfolio. ■

Portfolio Update

Opportunities include global leaders selling at bargain prices, blue chips of tomorrow and beneficiaries of short-term misperceptions.

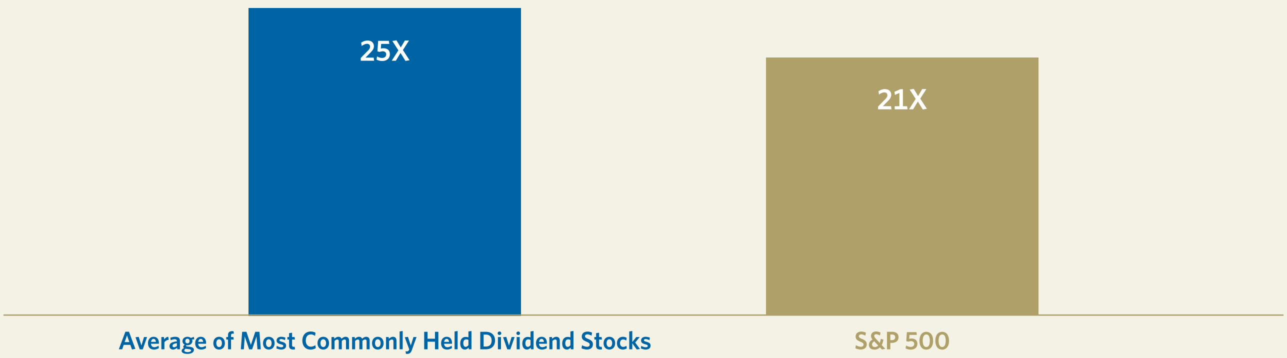
If risk lies in those areas of the market where companies are over-earning and overpriced then opportunity lies in those that are under-earning and underappreciated. We have identified four such opportunities in today's market.

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 and United Technologies to bargain levels at a time of high valuations for the average company.[8] Buying top tier businesses at bargain prices is a value investor's dream.

Dividend Darlings May Face Headwinds

Average P/E of 25 Most Commonly Held Dividend-Paying Stocks vs. P/E of S&P 500[7]

Payout Ratio of "Dividend Darlings" = 83%
5-Year Average Revenue Growth of Dividend Darlings = −1.2%



6. Source: Bloomberg. As of 1/21/17. Bonds Yield and P/E are represented by 10 Year Government Bond Yield and Stocks P/E are represented by S&P 500. P/E for stocks is forward 12 month estimate. **7.** Source: Morningstar Direct "Stock Intersection" Report as of 12/31/16. **Past performance is not a guarantee of future results. 8.** 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.**

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 earlier. Such companies include: Johnson Controls, a leader in fire protection and security, building controls, and car batteries, Liberty Global, one of Europe's largest broadband providers, LafargeHolcim, the world's largest cement producer, and Safran, a leader in jet engines (the company has been an equal but less well-known partner of GE for more than 30 years). These companies combine the relevance and resilience of blue chip companies 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 emerging 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.

CarMax and Didi Chuxing are two additional examples of innovators that have been just as disruptive in their industries. CarMax brings trust, choice and quality into the murky but enormous used car industry. Didi Chuxing introduced a ride hailing service similar to Uber in China only five years ago and has revolutionized the taxi and car service industry there, becoming the largest ride hailing service in the world. Investors in such disruptive leaders stand to benefit not just from the growth in these companies' underlying businesses, but also from their gradual inclusion in the ranks of blue chip stocks.

Beneficiaries of Short-Term Misperceptions—Short-sighted investors often avoid companies that have suffered though challenging periods, 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 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 eclipses current investor perceptions.

Similarly, investors have fled the energy sector in response to the dramatic (and unsustainable) collapse in oil prices. While oil prices are unknowable in the short term, they must exceed the cost of replacing reserves over time. This simple fact will 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, adding to existing holdings and initiating new investments. 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 that will allow them to increase production for decades to come. Holdings include Apache, Encana and Occidental Petroleum.

By focusing the Portfolio on these four areas of opportunities, we combine above-average resiliency and growth with below-average prices. Rather than trying to predict the unpredictable, this positioning prepares the Portfolio for a wide range of possible outcomes, balancing the strength needed to endure the inevitable storms with the growth required to reach our long-term goals. ■

Market Perspective

Active vs. passive: Has everything been said?

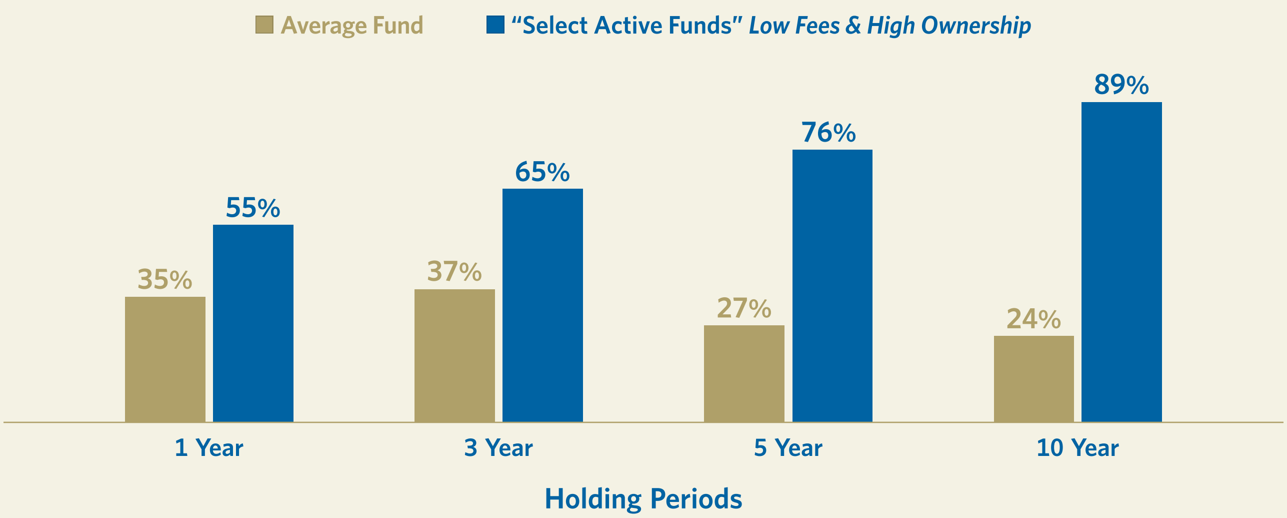
With regulatory encouragement, more than a trillion dollars has been switched from actively managed funds into passive index funds since 2007. Such huge fund flows create momentum, as more money is automatically invested in those stocks whose prices have already gone up. Unfortunately, momentum-based strategies lead to bubbles and bubbles eventually burst. Moreover, while passive investing may have beaten the *average* manager, a select few active managers have beaten the market over the long term. Clipper Fund, for example, managed by our predecessor James Gipson until 2005 and by Davis Advisors since, has beaten its benchmark since its inception in 1984.[9]

Based on our long experience, we would suggest there are certain quantifiable characteristics of successful active managers including lower than average fees, differentiation from the benchmark index (sometimes referred to as "active share"), low portfolio turnover, strong alignment of interests, experienced leadership, and a proven record. While conventional wisdom increasingly accepts that passive strategies are superior, the data is overwhelming that select active managers with the characteristics listed above can and have beaten the indexes over the long term. Data presented in the chart below, for example, shows that managers with low fees and high ownership in their own funds have outperformed in 89% of all rolling 10-year periods.

Finally, beyond the strong long-term performance of select active managers described above, certain market environments tend to favor passive managers while others favor active managers. These periods tend to move in long cycles and, contrary to conventional wisdom, during many five-year stretches even the average active manager outperforms the index.

A Closer Look at Successful Managers

"Select Active Funds" vs. Average Fund
Percentage of Time Outperformed the S&P 500[10]



9. Benchmark is the S&P 500 Index. **Past performance is not a guarantee of future results. 10.** Source: Capital Group, based on Morningstar data. Based on monthly rolling periods from July 1996 to June 2016. Funds in the "Average Fund" category are those U.S. domestic equity funds in the Morningstar Large Value, Large Blend and Large Growth categories. Funds in the "Select Active Funds" 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. 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.**

The chart below indicates that we are at a cyclical high for passive outperformance and that such highs have historically been followed by sharp reversals.

As with the investment risks described earlier, cyclical peaks tend to represent risk for long-term investors. Given this long-term cyclical pattern, we expect, with apologies to Mark Twain, the death of active management has been greatly exaggerated. ■

Conclusion

Healthy investor behavior is essential for achieving long-term investment goals. Market dips are inevitable. Avoid overreacting.

In order to build wealth over the long term, investors must do two things right. First, they must choose investments that will generate satisfactory results. Second, they must ensure their own behavior does not detract from these results.

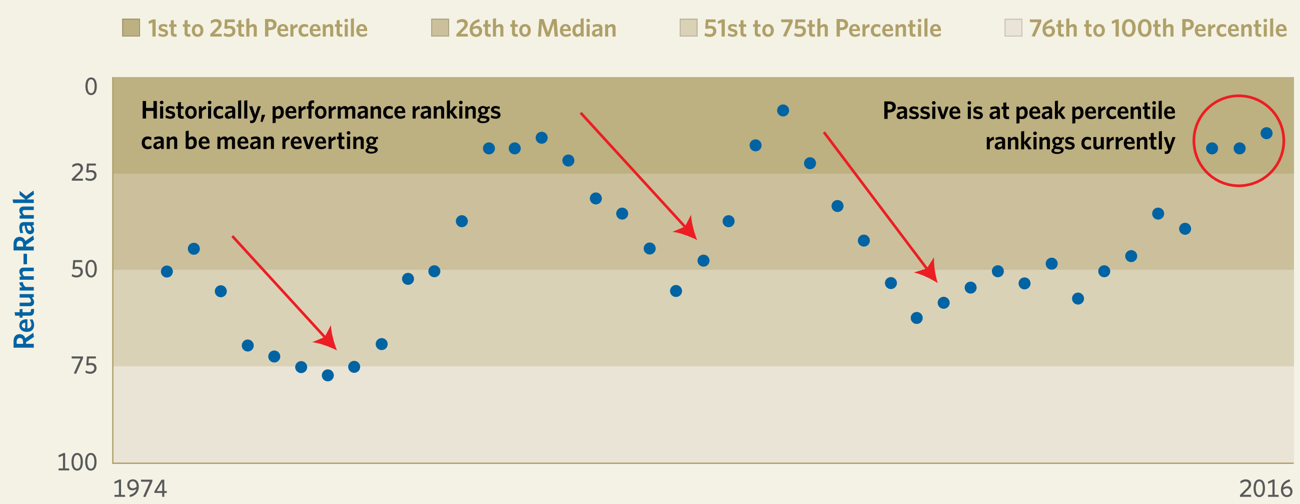
Up to this point, our discussion has focused on the reasons why our investments should generate good returns in the years ahead. In particular, we are avoiding the risks of peak profit margins, record low interest rates and overvalued dividend darlings while seizing the opportunities offered by global leaders selling at bargain prices, the blue chips of tomorrow and the beneficiaries of short-term misperceptions.

However, for investors to benefit from the wealth-building potential of these investments, they must also foster healthy investor behavior. Above all, they must have the conviction and discipline to stay the course when the headlines are bleak. This is nothing new. Since Clipper Fund was launched in 1984, an initial $10,000 has grown to more than $400,000. During the same period, the market suffered through three recessions, two major bear markets, a period of double-digit interest rates, two wars, the S&L crisis, the Russian default of 1998, the Internet bubble,

Active and Passive Move in Cycles

5-Year Rolling Results of S&P 500 Relative to All Large Cap Funds[11]

1974–2016



11. Source: Morningstar Direct. Universe includes: Large Value, Large Blend and Large Growth.

the 9/11 terrorist attacks, the housing collapse, and the financial crisis of 2007–2008. During each one of these difficult periods, investors who panicked by selling at depressed prices locked in permanent losses, while those that stayed the course built wealth in the recoveries that followed.

Recognizing market dips are an unpleasant but inevitable part of the investment landscape can help investors develop healthier investor behavior. For example, since 1928, the market has suffered a 10% dip every eight months on average and a 20% decline every two-and-a-half years. Despite the fact such dips are a recurring aspect of stock market performance, they are always accompanied by blaring headlines, shouting pundits, and panicked investors. Knowing we will inevitably face such periods in the years ahead, we have focused the Portfolio on businesses whose strength, resiliency and durability should enable them to weather any storm we are likely to face. This knowledge gives us the confidence to stay the course when others are panicking.

As we look to the future, our proven investment discipline, experienced team and the carefully selected companies that make up Clipper Fund put us in a strong position to extend our record of building wealth for our investors. We look forward to continuing our investment journey together. ■

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 June 30, 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 June 30, 2017, the top ten holdings of Clipper Fund were: Berkshire Hathaway–Class A, 7.3%; Alphabet, 7.1%; Amazon.com, 6.9%; United Technologies, 6.5%; Bank of New York Mellon, 6.2%; American Express, 6.0%; Wells Fargo, 6.0%; Markel, 5.1%; Johnson Controls International PLC, 4.9%; Apache, 4.7%.

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.

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.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its funds 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.

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.

Price/Earnings (P/E) Ratio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months' earnings per share. Portfolio totals are computed using an inverse harmonic methodology.

John Kenneth Galbraith is not associated in any way with Davis Selected Advisers, Davis Advisors or their affiliates.

After October 31, 2017, 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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