
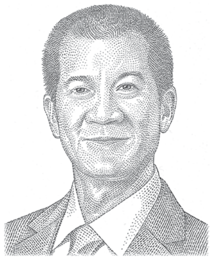

**SPECIAL UPDATE**

From Portfolio Managers **Chris Davis and Danton Goei**

# Clipper Fund

### To Our Advisors, Clients and Friends,

For more than 50 years, we at Davis Advisors have served as stewards and fiduciaries for our clients' savings. In doing so, our goal is to help them achieve their financial aspirations, whether a comfortable retirement, a child's education, a dream home, or gifts to charity. At this challenging time, our first thoughts are for their safety and well-being.

We also want to make clear that our firm and client portfolios seek to weather any kind of financial storm, including this one. While past performance does not guarantee future results, over the decades, we have withstood countless market dislocations, natural disasters, and other unforeseeable calamities, from the oil embargo and stagflation to the S&L crisis, 9/11, and the Great Recession. Rest assured, we are well-prepared at every level for the storm at hand. Our firm is financially strong and extremely liquid. Our portfolios are filled with well-capitalized, durable businesses that we believe have the potential to ride out this period with their franchises and earnings power intact. We have the best research team we have ever had and have been diligently evaluating every individual company across our portfolios. We are in regular contact with corporate management teams around the globe. We have a robust and time-tested business-continuity plan and will continue to provide clients and advisors with the first-class support they have come to expect from us, in good times and bad.

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. This is not a recommendation to buy, sell or hold any specific security. **There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.**

## Investment Thoughts

To build generational wealth, successful long-term investors must have the discipline to keep their emotions in check. In normal times, such discipline is not difficult. However, in times of fear, prices gyrate wildly, headlines blare bad news, and panic trumps rationality. In such extreme periods, self-discipline becomes both more difficult and more essential.

Today, with the market, the economy, and country in the grip of panic, rationality and perspective are more important than ever. The purpose of this note is not to make short-term predictions regarding spread of the COVID-19 virus nor on the timing of its containment. Instead, our goal is to provide a longer-term perspective that can serve as a framework for navigating the turbulence and uncertainty of the current environment. Armed with such a framework, investors will be prepared to unemotionally distinguish between the short-term volatility and potential long-term opportunities presented in the current market.

As human beings, we do not welcome times of fear and panic. However, as investors, we welcome the lower prices such emotions produce. While we are in a volatile period and do not know what the future will look like, today, many wonderful businesses are trading at a discount to their intrinsic value. The opportunity to buy such businesses at such prices is both rare and potentially valuable.

After more than 50 years of successful investing, we can think of no better advice for navigating today's market than the timeless words of our founder, Shelby Davis, who famously said, "You make most of your money in a bear market. You just don't realize it at the time." With many high-quality, durable businesses trading more than 50% below the prices they traded at just a few months ago, investors have the opportunity to make decisions today that may build wealth tomorrow.

## Short-Term Predictions Versus Long-Term Probabilities

Today, investors are bombarded by a wide range of short-term predictions regarding the course of the current pandemic over the next 3–12 months, though we would suggest that the containment of the virus in countries such as South Korea, Singapore, and China should lead us to question the most extreme predictions, which seem more based on fear-mongering and publicity than data and analysis. While the wide range of short-term predictions may be unsettling, longer-term probabilities fall into a much tighter range. Though there is limited knowledge and uncertainty about the impact of the disease, as we get out 12–24 months, it is possible that the virus will have run its course, a vaccine will be available, and, as a result of the lessons learned from this first modern pandemic, we should be far better prepared for future pandemics. In other words, while we don't know the precise timing, we do believe this period of uncertainty will come to an end, infection rates will fall, venues will reopen, businesses restart, and normal life resume. As a result, while there may be a powerful emotional cost, we believe there may be little lasting economic cost.

## Portfolio Update

With the short-term cloudy but the long-term clearer, we have analyzed our Portfolio through three lenses to distinguish which companies to avoid, which to hold, and which to buy.

First, investors should avoid those companies whose business model or precarious financial structure create the risk that they may not be able to survive short-term dislocation. In particular, industries with high fixed costs, plummeting revenue, and high levels of debt are especially vulnerable. While it is likely that many of these will receive some sort of government support to get them through the short term, the availability of such aid is uncertain, and its terms may be punitive. While we recognize that a favorable intervention could lead to a snap back in the shares of some of these companies, buying before the terms are made clear is a speculative gamble, not a long-term investment.

Second, investors should recognize that for some companies, the current environment may have a favorable short-term impact. Today, for example, services such as online shopping, video conferencing, distance learning, streaming entertainment, and gaming are seeing sharp increases in usage. In many cases, the share prices of such companies have bucked negative trends and risen while the rest of the market has fallen. For long-term investors, the challenge is to distinguish between those companies for whom this effect is likely to reverse as life gets back to normal and those for whom the effect is more likely to be sustained. The former can be a good source of funds in the current environment, while the latter may be long-term holds.

Third, and most importantly, investors must analyze those companies for which a steep, short-term decline in economic activity is an unpleasant but manageable reality. Here, the investment opportunities may be the greatest for the simple reason that investors are more concerned with short-term uncertainty than long-term durability. Whether it is high-quality global industrial companies, like United Technologies or Berkshire Hathaway, or well-capitalized financial leaders, such as Wells Fargo, Capital One, and US Bancorp, share prices of select durable businesses can now be purchased at 50–70% off. In stores, shoppers are quick to respond to such dramatic sales by buying more. In the stock market, emotional investors are more likely to sell or remain on the sidelines. By focusing on facts rather than emotions, rational long-term investors can build wealth for tomorrow by buying these valuable companies at a discount to their intrinsic value. However, it is important to remember that there is no guarantee these share prices will appreciate in the future.

## Conclusion

Over 50 years of successful investing, we at Davis Advisors have weathered many storms and crises by being rational when others were fearful. Whether it was the bear market of the 1970s, early 2000s, or the financial crisis, buying after significant price declines have historically rewarded long-term investors who could keep their emotions in check. Although each period differed in its peculiarities, all share a similar pattern to what we see today. Fearful investors sell after prices have gone down, waiting on the sidelines until 'things feel better.' Rational investors buy after prices have gone down, recognizing that prices have the potential to be higher when 'things feel better.' In every case, fearmongers argued that this time was different and that a recovery would never come. And, in every case, our society, our economy, the market, and our portfolios proved resilient, recovered, and went on to new heights. We believe today is no different. Investors who can keep their emotions in check may once again have the opportunity to buy durable and resilient businesses at a discount to their intrinsic value and pursue generational wealth over the long term.

As stewards of our clients' savings, our job is to make rational, long-term decisions and remain dispassionate at all times. However, we are also human beings who understand the stress that fear places on our families, friends and communities. While we know that a period of recovery and healing will follow this difficult stretch, we sincerely hope that, until then, you remain safe and healthy. We thank you for the trust you have placed with us.

*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.

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.

**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 3/31/20, the Fund had approximately 15.1% of net 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.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 3/31/20, the top ten holdings of Clipper Fund were: Alphabet, 12.88%; Berkshire Hathaway, 8.77%; Amazon.com, 7.89%; United Technologies, 6.30%; Markel, 5.92%; Bank of New York Mellon, 5.49%; New Oriental Education & Technology, 5.27%; Facebook, 4.93%; Capital One Financial, 4.72%; Wells Fargo, 4.53%.

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, Wilshire, 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.

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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