Clipper Fund
2012 Portfolio Manager Annual Commentary

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The chart below summarizes results through December 31, 2011 for the Clipper Fund. The credit for the Fund’s satisfactory results since inception belongs to our predecessor. The responsibility for the poor five year results rests entirely with us as we assumed management on January 1, 2006. On both a relative and absolute basis, these results are among the worst my partner Ken Charles Feinberg and I have had to report in our careers.

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 work to improve them. To this end, while longer term results signify more, it is heartening that results have improved in more recent periods and that the Fund’s one and three year returns now exceed the market. In fact, since its low point in March of 2009, the Fund is up about 119% versus 97% for the market’s. But we still have a long way to go. 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.

<table>
<thead>
<tr>
<th>Average Annual Total Returns</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>Inception (2/29/84)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clipper Fund</td>
<td>2.29%</td>
<td>17.33%</td>
<td>-4.01%</td>
<td>1.13%</td>
<td>11.15%</td>
</tr>
<tr>
<td>S&amp;P 500® Index</td>
<td>2.11%</td>
<td>14.11%</td>
<td>-0.25%</td>
<td>2.92%</td>
<td>10.46%</td>
</tr>
</tbody>
</table>

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.

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.

1As of December 31, 2011. 2Past performance is not a guarantee of future results. Cumulative return shown is for the period from 3/9/2009–12/31/2011. The market is represented by the S&P 500® Index. 3Clipper 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 and 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.
Results

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 that Clipper Fund’s results fall short of our standards and expectations. Instead, we want to provide our fellow shareholders with the reasons why we remain committed to our investment discipline and confident results in the years ahead should be much better.

Because we have only managed Clipper Fund since 2006, the only way we can provide a longer term context for our results is by referencing the investment records of the other more diversified mutual funds managed by our firm. However, before looking at these, we should point out that the other funds are more diversified and thus their records may not be directly comparable to Clipper Fund’s. Nevertheless, these results will at the very least help demonstrate that periods such as this are unprecedented in our own history.

For example, the Davis New York Venture Fund, a diversified mutual fund that our firm has managed since 1969 and that Ken and I have overseen for about 14 years and 16 years, respectively, has returned 11.47% per year after expenses since its inception versus 9.39% for the S&P 500® Index, a result we consider satisfactory on both a relative and absolute basis. Over this time, the Fund outperformed the market in 100% of all rolling 10 year periods.

In addition, the Fund outperformed in 76% of all rolling five year periods and, while this is a strong percentage, it also means the Fund underperformed in 24% of all five year periods. Bearing in mind that Davis New York Venture Fund is a diversified fund and thus not directly comparable to Clipper Fund, we would note that five years of lagging results, while disappointing, are not unprecedented or inconsistent with our long-term history. Also, although we do not know if it would have been true for Clipper Fund, in every case in which Davis New York Venture Fund trailed the market for a five year period, it exceeded the market in the following five years.

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.

<table>
<thead>
<tr>
<th>Average Annual Total Returns as of December 31, 2011</th>
<th>1 Year</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Davis New York Venture Fund Class A Shares</td>
<td>–9.30%</td>
<td>–3.30%</td>
<td>2.87%</td>
</tr>
<tr>
<td>with a maximum 4.75% sales charge</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

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.

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*Davis New York Venture Fund is sold under a separate prospectus. Past performance is not a guarantee of future results. There are material differences between Clipper Fund and Davis New York Venture Fund and this discussion is not meant to be a proxy for Clipper Fund. This discussion is provided to serve as a factual basis for the proposition that equity markets are volatile and over the long term it is very likely that an investor may experience shorter periods of underperformance. Class A shares without a sales charge. Past performance is not a guarantee of future results. See endnotes for a description of the S&P 500® Index and rolling returns. There is no guarantee that periods of underperformance will be followed by outperformance.*
For example, almost 60% of the top-performing funds over the past decade underperformed for at least a five year stretch during that decade of outperformance. 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. However, even under their excellent management, the Fund still underperformed in roughly half of all five year periods since its inception.

From these statistics it would seem that while this has been a very difficult and disappointing period, 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. While this historical data is somewhat reassuring, it does not make this period less disappointing.

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 12 rolling five year periods with Davis New York Venture Fund. It is difficult to put into words how frustrating it is to us that none of those periods of outperformance were enjoyed by Clipper shareholders.

Looking ahead, our disappointment about our results over the last five years does not diminish our optimism about the future. Moreover, this optimism is not based on the longer term historical data presented above but rather on our Portfolio as it stands today. In other words, while history presents a positive statistical picture, the most important basis for our optimism is the strong fundamentals and attractive valuations of the individual companies that make up Clipper Fund now.

**Portfolio Review**

As equity investors, we never forget that stocks represent ownership interests in real businesses like Wells Fargo, Costco, American Express, CVS Caremark, Microsoft, and Merck. Over the long term, the growing value of these businesses will determine our success, not the fluctuating prices of their stocks. As a result, while we recognize that the prices of the stocks we own have been disappointing over the last five years, the value of the underlying businesses has generally increased and continues to make progress. This is the most important reason we believe that patient investors who have stayed the course are doing better now and should continue to do so in the years ahead.

This critical point may be most easily understood by analogy. If instead of stocks, the Portfolio were made up of a broadly diversified array of rental apartment buildings, one useful metric we might report to clients would be the cash flow generated by collecting the rent on these properties relative to the price we paid for them. If, for example, one year ago we paid $100 million for a group of properties and since then these properties generated $7 million of cash flow after expenses, we would think of the Portfolio as earning a 7% return on our investment. If next year, the cash flow grows to $8 million, we would report that the return on the Portfolio had increased to 8%. In this

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6 Source: Davis Advisors. 193 managers from eVestment Alliance’s large cap universe whose 10 year average annualized performance ranked in the top quartile from January 1, 2001–December 31, 2010. Past performance is not a guarantee of future results. 7Past performance is not a guarantee of future results. 8Class A shares without a sales charge. Past performance is not a guarantee of future results.

9Individual 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.
example, the discussion of results would be based on the reality of cash flow, not estimates of what the Portfolio could be sold for on any given day.

Similarly, although our Portfolio is not made up of real estate, it is made up of ownership interests in businesses that like apartment buildings generate real cash flow and earnings every day. Today, we estimate the individually selected companies that make up the Clipper Fund are generating an owner earnings yield of 7%–8%. (Owner earnings is a measure of earnings that differs somewhat from generally accepted accounting principles 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 as well as including the costs of adequately funding pension liabilities, adding back depreciation, deducting maintenance capital spending, and so on.) More important, based on our analysis and projections, 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 gap between the price and value of the companies that make up Clipper Fund especially compelling. This above all else strengthens our belief that Clipper Fund’s relative results over the next five years should be more than satisfactory.10

Holdings and Mistakes
While the information above speaks to our view of the overall Portfolio, we always remember that the Portfolio is made up of specific, individual investments. With each investment, we determine a reasonable estimate of fair value based on our own, independent research and analysis. We shared our investment rationale for some of our larger holdings, including Costco, Wells Fargo, CVS Caremark, Canadian Natural Resources, and Microsoft, in our midyear 2011 report. Because we have not meaningfully changed our investment theses for these companies in the intervening months, we commend our midyear report to those looking for additional details about these individual holdings. (Please see the Commentary section of clipperfund.com to read this report.)

However, to paraphrase Tolstoy, while each of these “happy” investments is alike in that they all tend to be durable, well-run and well-regarded companies, each of our investment mistakes is unique and requires further explanation. As stewards of our clients’ savings, we firmly believe in the discipline of providing a review of our most significant mistakes and it is to these that we now turn.

Although the vast majority of our Portfolio companies made progress last year, developments at one of our largest holdings led us to reduce meaningfully our estimate of its intrinsic value. The reduction in our estimate of a company’s value is what makes us label an investment a mistake, not the fact that its stock price has declined. Unless investors make every purchase at the lowest price, their portfolios will likely show an unrealized loss on every position at some point. Mistakes occur in those cases where the lower stock price reflects a lower business value. In the worst cases, usually caused by some combination of leverage (e.g., Lehman Brothers, Fannie Mae, Freddie Mac), low-cost competition (e.g., General Motors), obsolescence (e.g., Kodak), or fraud (e.g., WorldCom, Enron), the company is unable to ever return to profitability and equity investors are essentially wiped out. While we avoided all the examples mentioned above, we like all investors, have our scars.

10While 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.
One of the largest detractors from last year’s results was our holding in Bank of New York Mellon, which we count as a mistake because we have meaningfully lowered our appraisal of the company’s fair value. However, unlike some of the examples mentioned above, we have no doubt about the bank’s durability or the fact that it will remain profitable. After all, this 233-year-old institution has endured despite panics, depressions, civil war, world wars, and more. More important, we believe that the stock price has declined more than the business value and thus we expect to earn back some of this loss in the years ahead.

In our estimation, this combination of short-term and long-term factors has reduced earnings by some 20%–25%. Because we expect at least a portion of these factors to eventually reverse, we have reduced our estimate of Bank of New York Mellon’s value somewhat less. Bank of New York Mellon’s stock price, however, fell more than 30% indicating a widespread belief that all of these factors represent permanent changes. While we think this pessimism is understandable given the bank’s poor record of execution in recent years, considerable evidence also indicates that the bank’s core businesses remain quite strong. For example, in 2011 the bank increased its assets under custody by 3%, its assets under management 8%, its deposits 37%, its loans 18%, and its capital 10%.

At today’s price, the company’s shares are valued at less than 10 times depressed profits that incorporate all the negative factors described above. We find this a particularly low valuation given that the company’s business model entails relatively little credit risk, obsolescence risk or balance sheet risk and that it can grow with relatively little incremental capital required. If some of the negative factors such as current interest rate spreads or today’s competitive environment improve, the stock could benefit not just from growing profitability but also from an upward revision of the company’s multiple to better reflect the durability and profitability of the underlying business. Although we recognize our mistake and have lowered our assessment of fair value, the fact that the shares now trade at a low multiple on depressed earnings leaves us optimistic that Bank of New York Mellon will add to our future returns and that we will earn back some of this loss in the years ahead.
Conclusion

One of the most important reasons that we spend time reviewing and trying to learn from our mistakes is to help us recognize and adapt to changing economics whether at the level of a specific company or the global economy. As Charles Darwin stated, "In the struggle for survival, the fittest win out...because they succeed in adapting themselves best to their environment" [emphasis added].

However, the requirement that successful investors adapt to a changing world does not mean that there are not unchanging investment principles. In fact, in 1934, Ben Graham and David Dodd compiled these core principles in a textbook called *Security Analysis*. This seminal work is now in its sixth edition and is still considered to be among the most important investment books ever written. One of its central concepts is the essential distinction between price and value, a distinction that is still overlooked by the public, the press, the pundits, and even the professionals. The proof of this lies in the fact that after more than a decade of falling stock prices, investors are more pessimistic than ever and continue to shift out of stocks. However, during this same decade, rising revenue, earnings, cash flow, and dividends have increased the value of the vast majority of companies. While investors remain glum, the combination of lower prices and higher value should lead to improved stock returns in the years ahead. It is no wonder that John Templeton famously observed, “Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.” While it may not be clear whether we are in a time of skepticism or pessimism, it is certain we are far from optimism or euphoria.

In addition to the prospect of higher market returns, the quality, valuation and growth prospects of the specific companies we own give us confidence that our relative returns should continue to improve in the years ahead. If our confidence proves justified, then returns in the decade ahead should be more than satisfactory. While we cannot promise this outcome, we can promise that we will do all in our power to achieve it.

As a final note, *Security Analysis* begins with a quote from the Roman poet Horace who wrote more than 2000 years ago, “Many shall be restored that now are fallen, and many shall fall that now are in honor.” At a time when our results have been below our standards and expectations, this simple epigram reminds us that such periods are inevitable and that by sticking to our investment discipline, learning from mistakes and adapting to changing times, we can look forward to better days ahead.

As we said at the beginning of this report, we are deeply disappointed in the unsatisfactory results of Clipper Fund 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. We are mindful of the trust you have placed in our firm and committed to continuing to improve returns in the years ahead. Thank you.
Before investing in Davis New York Venture Fund, you should carefully consider the Fund’s investment objective, risks, charges, and expenses. The prospectus contains this and other information about the Fund. You can obtain a current Davis New York Venture Fund prospectus by visiting davisfunds.com or calling 800-279-0279. Please read the prospectus carefully before investing or sending money.

This report is authorized for use by existing Clipper Fund 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: stock market risk; stock markets have periods of rising prices and periods of falling prices, including sharp declines; manager risk; poor security selection may cause the Fund to underperform relevant benchmarks; 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; 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; financial services risk: investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to problem affecting financial companies; and 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, 2011, the Fund had approximately 15.0% of assets invested in foreign companies. See the prospectus for a complete description of the principal risks.

Davis New York Venture Fund’s investment objective is long-term growth of capital. 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: stock market risk; stock markets have periods of rising prices and periods of falling prices, including sharp declines; manager risk; poor security selection may cause the Fund to underperform relevant benchmarks; 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; financial services risk: investing a significant portion of assets in the financial services sector may cause the Fund to be more sensitive to problem affecting financial companies; and 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, 2011, the Fund had approximately 17.5% of assets invested in foreign companies. 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, 2011, Clipper Fund had invested the following percentages of its assets in the companies listed: American Express, 10.47%; Bank of New York Mellon, 10.43%; Canadian Natural Resources, 8.75%; Costco, 6.77%; Merck, 2.66%; Microsoft, 2.16%; Wells Fargo, 2.16%.

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.

As of December 31, 2011, Davis New York Venture Fund had invested the following percentages of its assets in the companies listed: American Express, 5.13%; Bank of New York Mellon, 4.42%; Canadian Natural Resources, 3.05%; Costco, 4.55%; CVS Caremark, 5.34%; Merck, 2.14%; Microsoft, 1.20%; Wells Fargo, 5.71%.
Davis New York Venture 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 davisfunds.com or call 800-279-0279 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.

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

**Rolling Returns.** Davis New York Venture Fund’s average annual total returns for Class A shares were compared against the returns of the S&P 500® Index as of December 31 of each year for all time periods shown from 1969 through 2011. 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 time period. 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 are based on 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.

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.

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, 2012, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

**Shares of the Clipper Fund and the Davis New York Venture 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.**