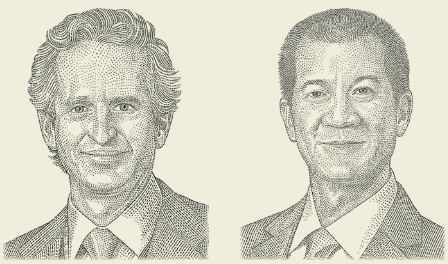


Clipper Fund

Update from Portfolio Managers

Christopher Davis and Danton Goei

CLIPPER FUND℠

Clipper Fund

Annual Review 2019

Summary

- Clipper Fund achieved a double digit 10-year annualized return ending 2018, despite generating a negative return in 2018.[1]
- Over the most recent three, five and 10 year periods, a $10,000 investment in the Fund grew to $11,849, $13,590, and $33,091 respectively.[1]
- We have identified great opportunities in areas perceived as risky such as leading financials, durable industrial businesses, and internet giants.
- We are avoiding many of today's most popular and overvalued companies that investors consider safe but may face the prospect of future dividend cuts and falling profits in the years ahead.
- Recent price declines have created the opportunity to add to our Portfolio of extraordinary and durable businesses at bargain prices that represent what we believe is a discount to intrinsic value.

Average Annual Total Returns as of December 31, 2018

	1 Year	5 Years	10 Years
Clipper Fund	–12.92%	6.32%	12.70%

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 0.71%. 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. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. **1. Past performance is not a guarantee of future results.** Investments cannot be made directly in an index.

Clipper Fund

Annual Review 2019

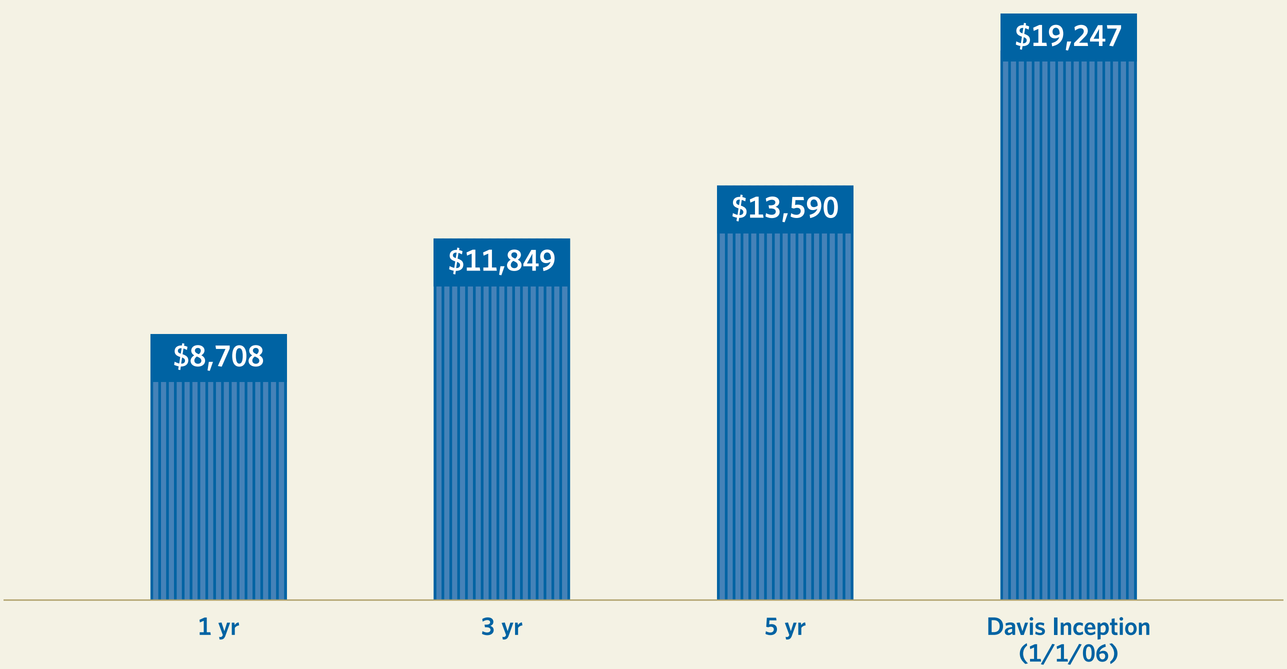
Results of Our Investment Discipline

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

Having outperformed its benchmark and producing positive absolute results for the five years prior to the beginning of 2018, the Fund got off to a good start and in fact led the market through the middle of July 2018. From July through year-end, however, Clipper Fund results meaningfully lagged, generating a loss of approximately –15%. Even including this disappointing short-term result, a $10,000 investment in Clipper Fund would have more than tripled in value over the last 10 years. As shown in the chart below, the value of an initial $10,000 investment has increased in all periods of more than one year since we were entrusted with the fund's management in 2006. While we still have ground to make up on a relative basis, the Fund's returns in the last decade rank it in the top 30% of all large cap funds. Our confidence in our time-tested approach is reflected by our investment of more than $125 million in Clipper Fund alongside our shareholders.[2]

Having beaten the market for the last five years through the middle of July 2018, our relative and absolute returns turned sharply negative.[3] While short-term changes rarely mean much, often information can be gleaned by examining the

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



Source: Lipper. Clipper Fund is classified as Large Cap Core. Lipper Total Return Rankings for Large-Cap Core Funds as of December 31, 2018 are: Rank/Number of funds: 1 Year, 712/738; 5 Year, 406/567; 10 Year, 132/443. ***The performance presented represents past performance and is not a guarantee of future results.*** *Total return assumes reinvestment of dividends and capital gain distributions. See endnotes for additional disclosure.*

2. This includes Davis Advisors, the Davis family, our employees, and Fund Directors. As of 12/31/18. **3. Past performance is not a guarantee of future results.**

underlying market dynamics during such periods. In this case, our analysis is reassuring. Specifically, the recent pullback has corresponded with a sharp increase in investor fear and uncertainty. As a result, investors have flocked to so-called low volatility stocks such as consumer goods companies and utilities, which have historically been safe havens, while selling companies that historically have been more volatile such as banks, technology companies, industrial companies, and selected international holdings in which Clipper Fund invests. The key word here, however, is "historically." As Warren Buffett once said, "If history books were the key to riches, the Forbes 400 would consist of librarians."

Although companies in historically less volatile sectors such as consumer products, health care and utilities seem safe looking backwards because of their long history of dividend payments and stable results, our analysis indicates many of these companies are significantly overpriced and, in many cases, may face the prospect of future dividend cuts and falling profits. For example, over the last five years, the top 10 holdings of the Standard and Poor's Low Volatility Index have increased their total debt almost 50% and yet grown revenue only 1.3% per year. Amazingly, the market currently values this toxic combination of no growth and high leverage at a rich 24 times estimated earnings, a 30% premium to the overall market. This data makes clear where investors feel safe they are often taking risk.

In contrast, investors have been dumping shares of companies they perceive as risky. This perception may be based on the company having a relatively short operating history such as certain technology leaders like Google, the company having declined a great deal in the last recession such as large banks like Wells Fargo and JPMorgan, or because the company is headquartered outside the United States at a time when U.S. trade policy is hostile.[4] In all cases, these perceptions are based on the past, not the present or the future. As a result, the selling pressure has driven down the prices of many companies Clipper Fund owns that we believe are far better positioned than the low volatility stocks investors are buying. For example, during the same five-year period that so-called safe haven stocks increased their total debt nearly 50%, only one of Clipper Fund's top 10 holdings, United Technologies, increased its total debt; four more holdings have no net debt at all; and the remaining five holdings actually strengthened rather than weakened their balance sheets.[5] Moreover, these 10 companies grew at far greater rates than the safe haven stocks and are projected to grow faster for years to come. We believe the chance to own such companies at lower valuations should pay off handsomely in the years ahead.

In short, if yesterday's safe havens represent tomorrow's risks, we believe our carefully selected portfolio companies should be tomorrow's wealth builders. As a result, although periods of relative underperformance are never welcome, the dynamics that caused our recent decline seem poised to reverse in the months and years ahead.

Turning from the general to the specific, we are especially excited by the opportunities we see in four areas.

First, select financial companies are priced based on investors' fear the history of the financial crisis is about to repeat. What many investors are forgetting is that some of the companies we own not only survived the financial crisis, but also took advantage of the demise of many of their competitors to expand their market share significantly and broaden their competitive advantages. Today's financial leaders are not only more dominant, they are also stronger and better capitalized than at any time in the last 50 years. Looking ahead, we expect steadily rising dividends,

4. 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. 5.** Holdings are subject to change.

increasing share repurchases and reliable earnings to gradually change investor perceptions. As a result, our high-quality financial holdings could be revalued upward and take the place of today's dividend darlings.

Second, we are excited by the opportunity to own a handful of what we believe are the best industrial businesses and conglomerates in the world such as United Technologies, Berkshire Hathaway, and Safran. With investors skittish about the global economy, these companies have sold off far more than their business economics and competitive positions warrant. We would gladly take their long-term growth prospects over many of the so-called safe havens businesses that currently face shifting consumer preferences, falling margins and leveraged balance sheets.

Third, we own a class of companies that are still relatively young but that we expect to become the blue chips of tomorrow. While nervous investors cling to yesterday's blue chips including well-known consumer brands, utilities, and media giants, they fail to recognize the enormous and permanent shifts in the underlying business landscape brought about by these emerging global leaders. For example, within the next few years, Amazon is expected to become the world's largest retailer,[6] people are expected to spend more time on the internet than watching TV,[7] and information utilities like Google and Amazon Web Services should be as central to the economy as phone companies and other utilities that we consider yesterday's blue chips but not tomorrow's.

Finally, we seek opportunities in companies currently in the headlines for negative short-term results or other reasons because the structure and incentives of many money management firms make them reluctant to invest in companies their clients might consider controversial. After all, when clients read in the newspaper about a company plagued by scandal, the last thing they want to see when they open their investment report is their expert money manager has purchased the scandal-plagued company they just read about. As a result, many investment managers either will not look at companies that are under a cloud or, if they had previously purchased the shares, will sell the entire position at discounted prices. The problem with this approach is their decision has nothing to do with the economics of or prospects for the company in question, but instead is focused on short-term client perceptions.

As a result, shares in durable companies tainted by scandal can often represent buying opportunities that we refer to as headline risk investments.[8] In evaluating these investments, our research focuses not on the past but on the future, asking whether the problems that have come to light can be fixed and if so whether the decline in share price represents a buying opportunity. Buying shares when a company is in the headlines for unfavorable reasons is never easy and in no way reflects minimizing a company's past mistakes. But organizations like people can learn from their mistakes and often emerge stronger. We believe our willingness to look beyond the headlines can lead to fantastic opportunities. Although there are no certainties, our analysis indicates that several companies currently under a cloud will emerge from recent scandals as better companies and that recent selling has been overdone. As a result, we added to our holdings of Facebook during this period and initiated a new position in General Electric (GE).

6. Source: https://www.cnbc.com/2018/05/15/amazons-us-sales-to-match-walmarts-within-three-years-jp-morgan-predicts.html
7. Source: https://www.recode.net/2018/6/8/17441288/internet-time-spent-tv-zenith-data-media **8.** The Fund may invest in a company when the company becomes the center of controversy after receiving adverse media attention concerning its operations, long-term prospects, management, or for other reasons. While Davis Advisors researches companies subject to such contingencies, it cannot be correct every time, and the company's stock may never recover or may become worthless.

With more than $125 million of our own money invested alongside clients, our primary concern is making smart investment decisions rather than reacting to short-term investor perceptions.[9] Because our firm's employee incentives drive an investment culture rather than a sales culture, our willingness to invest in controversial companies should come as no surprise. While investing in companies with headline risk can unsettle clients in the short term, such a discipline reflects our alignment of interest with our shareholders over the long term. This alignment is an uncommon advantage given that 88% of all funds are overseen by managers who have less than $1 million invested alongside their clients.

In sum, although not currently popular, the companies that make up Clipper Fund are both more durable and more attractively priced than many market darlings that are currently perceived as safe havens. Because we expect our Portfolio companies, particularly select leading financials, global industrials, internet giants, and a select few companies currently weighed down by negative headlines to post stronger than average results in the years ahead while many of today's favorites including popular consumer and healthcare companies face falling margins and even dividend cuts, we believe we are well positioned to grow wealth on both a relative and an absolute basis in the years ahead.

Although our investment discipline has not always been rewarded by the market over shorter periods, our proven active management approach has created wealth for our shareholders in the long run. Looking ahead, we are confident that by standing apart from the crowd, keeping expenses low, investing alongside our shareholders, and ignoring short-term fads, we will build on these results in the years and decades ahead. ■

Recent Market Volatility Is Not Unusual

While the market's recent price decline has left many investors unsettled, this increase in market volatility and stock price corrections reflect a return to normal market conditions rather than something unusual. In fact, what was truly unusual was the post financial crisis period of near zero interest rates and the market distortions they created. Although volatility and corrections are unpleasant, they are normal aspects of the stock market and, over the long term, create opportunities for investors able to look beyond the negative headlines.

In large part because of the distortions created after the financial crisis with essentially zero interest rates, quantitative easing, and government asset purchases, volatility among almost all asset classes from stocks, bonds, real estate, private equity, and venture capital investments has been extraordinarily and unsustainably low and investors have grown accustomed to only rising prices.

Based on long-term history, a double-digit market correction occurs in roughly half of all years and a 20% correction on average every 635 days. Having gone more than 2,200 days without a 20% correction, we should not be unduly alarmed or surprised by the market's peak to trough decline of 19.4% in the second half of 2018. However, because such sudden declines can be unsettling, it is always helpful to put them in a longer term context. For example, faced with the blaring headlines that accompanied the fourth quarter market decline, investors could easily forget that over the last two years (including 2018!), the market is up more than 15%![10] As a result, trying to invest based on timing a correction has been a loser's game.

9. This includes Davis Advisors, the Davis family, our employees and Fund Directors. As of 12/31/18. **10.** The market is represented by the S&P 500 Index. This represents the time period from 12/31/16 to 12/31/18. **Past performance is not a guarantee of future results.**

While we do not know if we are in the early stages of a substantial correction or whether we are simply returning to a period of more normal volatility, we do know substantial corrections are a normal part of the landscape. We also know with the media as an amplifier and the headlines blaring, investors will overreact. Here is a sample of headlines blaring just from recent weeks: "Market Rout," "Stocks Plunge" and "Carnage Continues." Reading such headlines, investors would hardly guess the market only declined about 5% in 2018, is up more than 15% in the last two years, 50% in the last five years and more than 200% in the last decade.

This increase in volatility may also be amplified by the increasing popularity of so-called momentum investing. In recent years, many quantitative funds have used a stock's momentum as a key factor in determining its attractiveness as an investment. This approach suggests the more an investment goes up in price the more attractive it becomes. Conversely, the more an investment declines in price, the less attractive it becomes. The trouble with investing based on this backward-looking approach is that it flies in the face of common sense. Because a share of stock represents an ownership interest in a business and because the value of any business (or any asset for that matter) is simply the present value of all of the cash the business will generate in the future, paying a higher price will lower rather than raise future returns. To understand why, simply imagine a business that reliably earns $100,000 per year is purchased for $1 million, thus creating a 10% return on investment for the buyer. If a series of buyers are each willing to pay a successively higher and higher price for this business, the expected return for each would be lower. Although such a chain can continue for a long time with the ever-rising price attracting more attention and potential buyers to take their place at the end of the line, the ultimate return will still be determined by the relationship of the earnings generated divided by the price paid. In other words, sooner or later, the music stops, price and value converge, and the fool at the end of the line is left holding the bag. Investing in a way that is logically foolish simply because doing so has worked for some time seems like a recipe for disaster.

More important, momentum investing creates an opportunity for those who can remain steadfastly focused on value. For example, although Amazon remains one of our favorite companies, the stock became a favorite of momentum investors earlier this year resulting in the shares surging more than 70%. As a result, we were able to sell approximately 40% of our position at prices well above the current price. Conversely, when attractive companies have negative momentum, they often overshoot on the downside, creating an opportunity to add a sound business at an attractive price. Although time will tell, we believe some of our recent investments were made at bargain prices in part because of the panicked selling of momentum investors.

While the current environment may be more challenging on investor nerves, the return of greater volatility should not be feared as it creates opportunities for long-term investors. Although such an environment creates more noise and distortions in the short term as investors overreact and flock to former safe havens, over time it creates greater differentiation. While the prices of our Portfolio companies may have lagged in this period, the fundamentals have improved, especially when compared to today's market darlings. As a result, we see every reason for good results in the years ahead. ■

Conclusion

Clipper Fund achieved a double digit 10-year annualized return ending 2018, despite generating a negative return for the year 2018.[11]

On a relative basis, having outperformed the S&P 500 Index for the last five years through the middle of July of 2018, our lagging relative results since then seem more reflective of shifting market sentiment than declines in the earnings and intrinsic value of our Portfolio companies. In fact, a closer study of the data indicates far more risk in those companies currently outperforming because they are perceived as safe havens and significantly more opportunity in some of our largest holdings, which have lagged because they are perceived to be risky. In the years ahead, the companies we own should build wealth for the simple reason they combine stronger balance sheets, higher growth rates, more durable business models, and lower valuations. These companies are the backbone of Clipper Fund and position us for the prospect of stronger relative and absolute results in the years ahead.

As always, we recognize and expect the years ahead will include times of market corrections, disruptions and periods, like the second half of 2018, in which our results lag. 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. With more than $125 million invested in Clipper Fund alongside our shareholders,[12] we have every incentive and intention to build on this record in the years and decades ahead.

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

11. Past performance is not a guarantee of future results. 12. This includes Davis Advisors, the Davis family, our employees, and Fund Directors. As of 12/31/18.

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, 2018, the Fund had approximately 15.5% 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," "should," 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, 2018, the top ten holdings of Clipper Fund were: Alphabet Inc., 10.38%; Berkshire Hathaway Inc., Class A, 10.25%; Amazon.com, Inc., 6.57%; Bank of New York Mellon Corp., 6.51%; United Technologies Corp., 6.44%; Capital One Financial Corp., 6.01%; Wells Fargo & Co., 5.79%; Markel Corp., 5.61%; American Express Co., 4.28%; JPMorgan Chase & Co., 3.91%.

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.

Lipper Rankings. Clipper Fund is categorized by Lipper as Large-Cap Core. The rankings show where the Fund would place within an all Large-Cap universe. Total returns rankings are based on total return performance without accounting for a sales charge. **Past performance is not a guarantee of future results.**

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.

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, 2019, this material must be accompanied by a supplement containing performance and rating (ranking) 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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