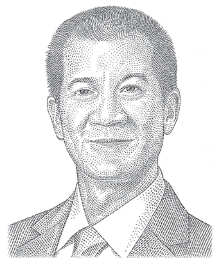



Update from Portfolio Managers

Chris Davis and Danton Goei

Clipper Fund

Annual Review 2020

Summary

- Clipper Fund increased shareholder wealth by 29.6% in 2019 and has compounded at more than 12% per year for the last 10 years.
- Over the most recent one-, three-, five- and 10-year periods, a $10,000 investment in the Fund grew to $12,963, $13,286, $16,349, and $31,176 respectively.
- The Fund's holdings can be characterized by three traits: selective, attractive growth, and undervalued. *Selective:* The Fund has only 27 holdings vs. the S&P 500 Index's 505 holdings. *Attractive Growth:* The Fund's holdings have an EPS Growth (5 years) of 21.0% vs. the S&P 500 Index's EPS Growth (5 years) of 17.1%. *Undervalued:* The Fund's holdings have a P/E (forward) of 17.1x vs. the S&P 500 Index's P/E (forward) of 20.0x.
- Portfolio holdings include select opportunities in durable industrial businesses, dominant Internet platforms that we consider the blue chips of tomorrow, resilient and undervalued financial companies, and durable businesses under short-term clouds both in the U.S. and internationally.
- Selectivity allows us to reject many of today's most popular and overvalued companies perceived by investors as safe but that may face the prospect of dividend cuts and falling profits in the years ahead.
- As a result, we believe that the Fund is well-positioned to build wealth and outperform its benchmark over the long term.

The average annual total returns for Clipper Fund for periods ending December 31, 2019 are: 1 year, 29.63%; 5 years, 10.33%; and 10 years, 12.04%. 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.*

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. All fund performance discussions within this piece are as of 12/31/19 unless otherwise noted. This is not a recommendation to buy, sell or hold any specific security. **Past performance is not a guarantee of future results. The Attractive Growth and Undervalued reference in this piece relates to underlying characteristics of the portfolio holdings. There is no guarantee that the Fund performance will be positive as equity markets are volatile and an investor may lose money.**

Results of Our Investment Discipline

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

In 2019, Clipper Fund increased shareholder wealth by almost 30%. These results cap off a decade of double-digit annualized returns.

Although the credit belongs to our predecessor, Clipper Fund has also outperformed the S&P 500 Index since its inception in 1984. ■

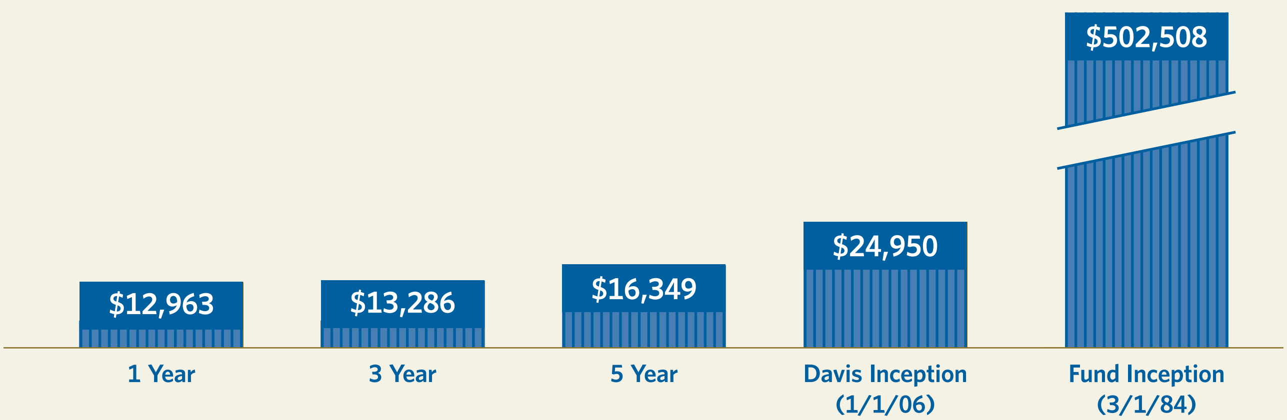
Portfolio Update

The portfolio's holdings embody three characteristics that position the Fund to build wealth and add to our long-term record of outperformance in the years ahead. As shown in the chart below, the portfolio is *selective*, has *attractive growth*, and is *undervalued*.

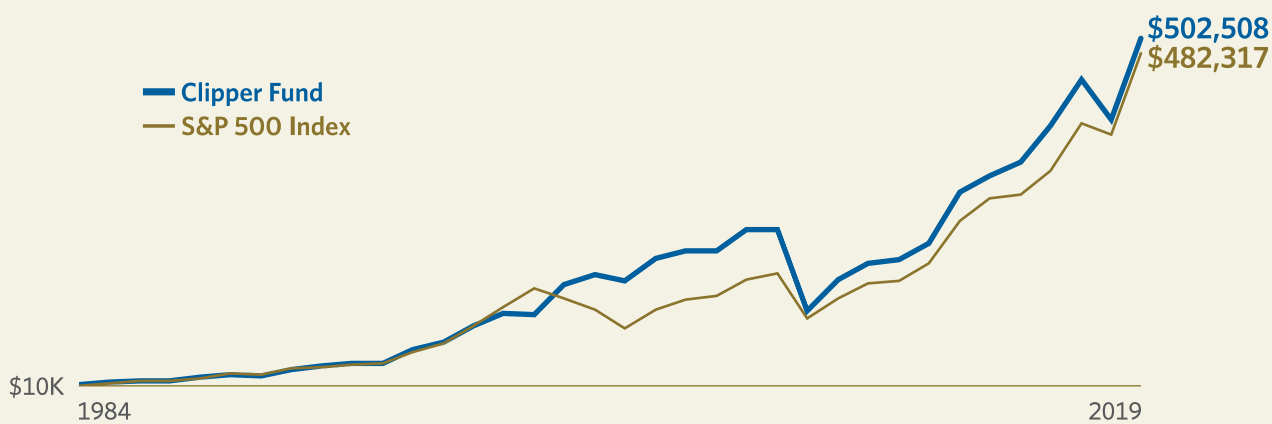
Selective, Attractive Growth, Undervalued

	Fund	Index
Holdings	27	505
EPS Growth (5 Year)	21.0%	17.1%
P/E (Forward)	17.1x	20.0x

Clipper Fund Has Grown Shareholder Wealth Over the Long Term[1]



Compounding Shareholder Wealth



1. Based on a hypothetical $10,000 investment in the Fund. As of 12/31/19.

Selective

The portfolio's selectivity means that we invest in fewer than one out of every 20 companies included in the S&P 500 Index. Just as with the best universities or best companies, the ability to select from a large pool of applicants creates the opportunity to select only the most exceptional candidates and reject those that are average or worse. While universities focus on characteristics like test scores and grade-point averages and potential employers focus on references, skills, and experience, our selectivity seeks out those business characteristics that can turn long-term investments into compounding machines that build generational wealth. As a result, we look for durable, growing businesses that can be purchased at attractive valuations and reject businesses that generate low returns, are stagnant, overvalued, overleveraged, or competitively disadvantaged.

Our analysis of which companies are advantaged or disadvantaged often runs counter to consensus opinion for the simple reason that our research focuses on the future rather than the past. For example, today, many investors and pundits favor so-called low volatility stocks, such as consumer goods, health care, real estate, and utilities, in large part because such companies often have a long history of steady growth and high dividends. Although companies in historically less volatile sectors such as these seem safe looking backwards, our analysis indicates that the business fundamentals of many of these companies have deteriorated. As a result, their shares are significantly overpriced and, in many cases, may face the prospect of future dividend cuts and falling profits.

For example, the top 10 holdings of the popular S&P 500 Low Volatility Index have increased their debt 43% in the last five years while only growing revenue at a rate of 2.2%. Despite such troubling fundamentals, these companies currently trade at a forward P/E of almost 24x, a significant premium to the market average. More broadly, sectors such as utilities, real estate, and consumer staples are up three to four times as much as the market since August 2018. Such steep price increases in the face of lackluster business results may indicate that a short-term bubble has developed in these historically safe sectors. Fortunately, our selective approach allows us to reject such companies while funds that passively mirror the S&P 500 Index are forced to invest in them. In this environment, the ability to selectively reject certain companies and sectors from our portfolio may prove just as valuable as the ability to selectively invest in others.

Attractive Growth

The chart on the top of page 2 also highlights that our portfolio companies have grown profits more than 21% per year over the last five years, almost 4% per year faster than the S&P 500 Index average.

While above-average growth alone does not make a successful investment, all things being equal, profitable growth is a strong indication that a company is winning in its markets, selling more goods and services, attracting more customers, and creating more value for shareholders. Put simply, companies that grow profitably over the long term are more valuable than companies that don't.

While growth over any one- or two-year period doesn't signify, long-term profit growth can drive wealth creation. To understand why, imagine that you paid $10 million to buy a small apartment building that generates $500,000 of income after all expenses and maintenance, a starting earnings yield of 5% on your purchase price. If, ten years later, that income had grown to $2 million, a 20% earnings yield on your original purchase price, you would be wealthier both because of the annual cash the building generates and also because a buyer would be willing to pay much more for a building that generates higher annual profits. In Clipper Fund, we are looking for businesses that can increase their profits, and thus our earnings yield, for decades to come. For example, we are pleased that core holdings, including Wells Fargo, Capital One, and Google generate annual operating profits that exceed 15% of our original purchase price, while American Express, Berkshire Hathaway and

JPMorgan generate annual operating profits that exceed 20% of our original purchase price. At a time when stock prices can gyrate wildly, a focus on the steady growth in earnings yield can be a useful and calming reminder. Such growing profits are a key component to building generational wealth.

Undervalued

Because growth can be an indicator of value creation, companies with above-average profit growth usually trade at above-average valuations. Happily, "usually" does not mean always. As the chart on the top of page 2 shows, our careful selection process has allowed us to build a portfolio of faster-growing companies that are actually undervalued compared to the S&P 500 Index. Specifically, over the last five years, the average company in the S&P 500 Index has grown earnings at 17.1% per year and today trades at 20.0 times next year's earnings. In contrast, the select companies of Clipper Fund have grown earnings per share at a stunning 21.0% and yet trade at a price of only 17.1 times earnings.

This is a rare combination of higher growth at below average valuations. Furthermore, these select companies also have achieved this growth without assuming the risk of more debt. Unlike the popular so-called safe haven companies described above that increased their debt 43% over the last five years, only one of Clipper Fund's top 10 holdings, United Technologies, increased its total debt during this period, while four more holdings have no net debt at all, and the remaining five holdings actually strengthened rather than weakened their balance sheets.

In short, selectivity allows us to reject overvalued and unattractive companies and build a portfolio of companies with above-average growth trading at below-average prices. This combination of higher growth at lower valuations should drive returns and create wealth for our shareholders in the years and decades to come. ■

Investment Opportunities

In searching the world for the best investment opportunities, we seek durable, growing companies, run by capable and honest executives, whose shares trade at an attractive valuation. Today, we are finding the best combination of these attributes in four areas of the market.

First, macroeconomic prognostications and concerns have created an opportunity to own a handful of industrial leaders at bargain prices due to concerns that their earnings could decline in an economic downturn. Because such businesses are influenced by the economic cycle, they are often labeled as "cyclical." Consequently, their prices tend to trade down when investors are anticipating (rightly or wrongly) a recession. Such patterns create opportunity not because recessions won't happen (they will!), but because such companies have a proven record of generating strong growth over the long term. Thus, when shares get depressed, they often present an opportunity to buy long-term growth at a bargain price.

As Warren Buffett, CEO of Berkshire Hathaway, itself an excellent example of a growth company disguised as a cyclical company, famously said, "(We) would much rather earn a lumpy 15% than a smooth 12%." In addition to Berkshire Hathaway, our holdings in companies such as United Technologies, Intel and Ferguson plc all represent examples of wonderful growth companies trading at attractive cyclical valuations. Although their earnings may be lumpy in the short term, these industrial leaders have outstanding business economics and strong competitive positions. While such companies are perceived as cyclical, we would gladly take their long-term growth prospects and competitive positions over many of the so-called safe haven businesses that currently face shifting consumer preferences, falling margins, and over-leveraged balance sheets.

Second, with memories of the Great Recession still vivid and worries for the next recession shaping expectations, select financial companies are often priced based on fear rather than fact. In considering this sector, many investors are forgetting that the companies we own not only survived the financial crisis, but also took advantage of many of their competitors' demise to expand their market share significantly and broaden their competitive advantages.

Today's financial leaders are not only more dominant; they are also, in our opinion, stronger and better capitalized than at any time in the last 50 years. Looking ahead, we expect steadily rising dividends, increasing share repurchases, and reliable earnings to gradually reshape investor perceptions. As a result, our high-quality financial holdings could be revalued upward and take the place of today's dividend darlings.

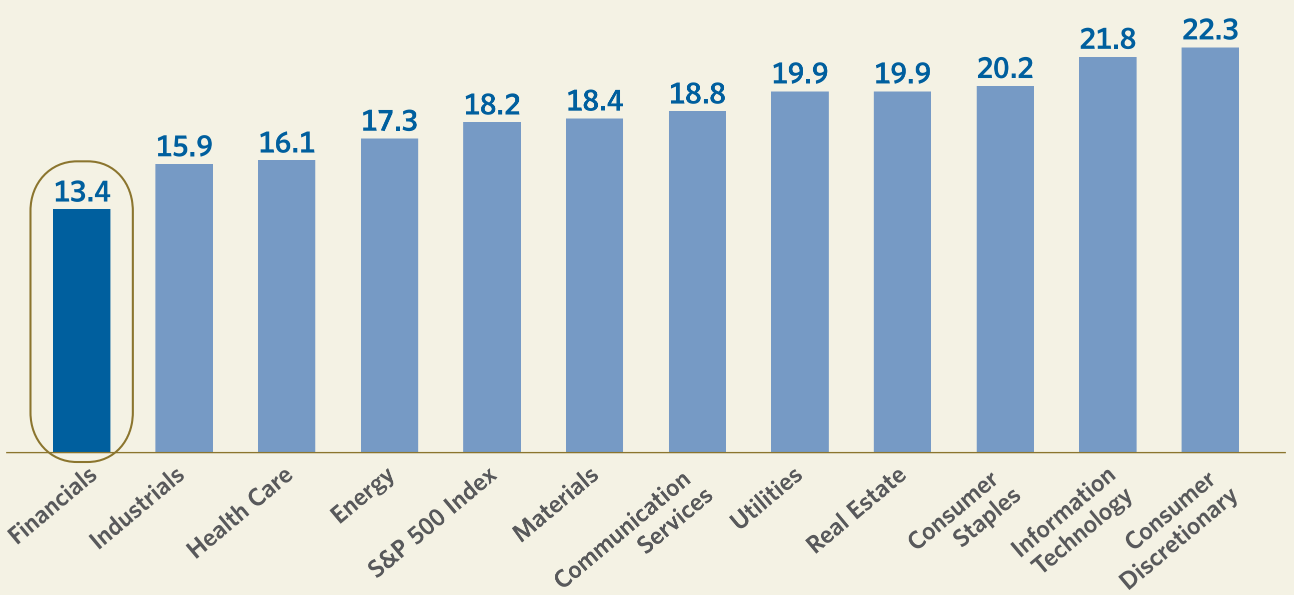
As the chart below shows, financials are currently the cheapest sector in the S&P 500 Index, allowing plenty of room for upward revision, as investors come to recognize the durability and reliability of these financial leaders.

Third, we own a class of relatively young companies that have built technology platforms with huge scale advantages that should allow them 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.

As we wrote in our 2018 year-end report, "... within the next few years, Amazon is expected to become the world's largest retailer,[2] people are expected to spend more time on the Internet than watching TV,[3]

Today Financials Are the Most Attractively Priced Sector[4]

(S&P 500 Index P/E Multiples)



2. Source: https://www.cnbc.com/2018/05/15/amazons-us-sales-to-match-walmarts-within-three-years-jp-morgan-predicts.html
3. Source: https://www.recode.net/2018/6/8/17441288/internet-time-spent-tv-zenith-data-media
4. Source: Standard & Poor's, Thomson Financial, FactSet, Credit Suisse. The chart shows Forward P/E ratios which are the aggregate of the Forward P/E ratios of the S&P 500 Index's holdings. The ratio is not a forecast of performance and is calculated for each security by dividing the current ending price of the stock by a forecast of its projected Earnings Per Share (EPS).

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."

Fourth (and, in part, related to this discussion about the technology platforms mentioned above), adverse headlines, public scrutiny, and regulatory/legal fears often create opportunities to buy superior businesses when they are under a cloud. Whether it was American Express during the so-called salad oil scandal, tobacco companies in the 1990s, select banks during the financial crisis, health insurers in the early days of the Obama administration, or Microsoft during its anti-trust hearings, negative news stories (often associated with some real or perceived misbehavior) and harsh political scrutiny can lead investors to dump the shares of otherwise strong companies regardless of price. 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 that their expert money manager has purchased the scandal-plagued company they just read about. As a result, many investment managers either will not consider companies under a cloud or, if they had previously purchased the shares, will liquidate the entire position at discounted prices.

The problem with this approach is their decision has nothing to do with the economics of the company in question or its prospects, 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. 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 minimizes 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.

Today, we see opportunities in three areas characterized by short-term headline risk. First, several of the Internet platforms described above, particularly Facebook, as well as one of our largest financial holdings, Wells Fargo, face just such scrutiny. While a number of criticisms are valid, we do not expect the resulting legal and regulatory actions to permanently and substantially impair these companies' business models and economics.

Second, on a global basis, headline risk can taint whole countries. For example, investors have fled from China in the face of blaring headlines about the trade war with the United States. However, while tensions between the United States and China have unquestionably grown, the Chinese economy continues to outpace the United States, with the lion's share of that growth originating from the enormous increase of China's middle class. As a result, we have focused our investments only on those companies that benefit from the growth of the Chinese consumer.[5] In particular, Alibaba Group, Tencent (which we own through Naspers and Prosus), Didi Chuxing, AIA Insurance and New Oriental Education & Technology have dominant and growing positions in online commerce, entertainment, payment systems, ride sharing, life insurance and education, and yet sell at steep discounts to comparable U.S.-based companies.

Third, important concerns about climate change have lead many investors to dump shares in energy producers despite the fact that fossil fuels are and will remain a vital and valuable natural resource for decades to come. Here, our focus is on low-cost producers with cheap, long-lived reserves, like Apache. ■

5. As of 12/31/19 the Fund had approximately 10.13% of assets invested in Chinese companies. Securities from emerging markets may be subject to increased volatility and pricing anomalies resulting from governmental influence, a lack of publicly available information and/or political and social instability. Settlements of trades may be subject to greater delays so that the Fund might not receive the proceeds of a sale of a security on a timely basis.

Conclusion

Legendary professor, author, and investor Benjamin Graham famously noted: "In the short run, the market is a voting machine but in the long run, it is a weighing machine." As we enter an election year, investors would do well to bear Graham's aphorism in mind. After all, politicians of all stripes have learned it is more effective to appeal to emotions such as fear and anger than to articulate well-reasoned and thoughtful policy positions. Consequently, we should expect that 2020 will be a year of incendiary rhetoric, sensational headlines, and negative advertising. To navigate such "noisy" times, successful investors must keep emotions in check and focus relentlessly on the underlying fundamentals of the businesses they own. While prices can fluctuate with emotions, value is created by earnings. Now, as always, our research centers on identifying value, not predicting price.

Specifically, the holdings of Clipper Fund can be characterized by three traits: selective, attractive growth, and undervalued. Today, we see particular opportunity in the strong growth and attractive valuation of select leading industrial leaders, durable financials, Internet platforms, and a handful of companies currently weighed down by negative headlines. The combination of higher growth and lower valuations position us to grow wealth on both a relative and an absolute basis over the long term.

Beyond attractive growth prospects and reasonable valuations, these carefully selected businesses are also characterized by durability, resiliency, and adaptability. Such attributes allow our companies and the portfolio as a whole to adapt to changing times, a critical component of long-term success.

With more than $165 million of our own money invested alongside clients, our interests are aligned, and our conviction is more than just words.[6] 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.

Although our investment discipline has not always been rewarded by the market over shorter periods, our proven active management approach has built wealth for our shareholders in all periods after all fees.

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

6. As of 12/31/19. Includes Davis Advisors, the Davis family, our employees, and Fund directors.

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 12/31/19, the Fund had approximately 15.1% 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 12/31/19, the top ten holdings of Clipper Fund were: Alphabet Inc., 11.29%; Berkshire Hathaway Inc., 9.61%; United Technologies Corp., 7.17%; Capital One Financial Corp., 6.91%; Amazon.com, Inc., 6.83%; Bank of New York Mellon Corp., 5.88%; Wells Fargo & Co., 5.71%; New Oriental Education & Technology, 5.26%; Markel Corp., 5.22%; and Facebook Inc., 4.34%.

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, 2/29/84, until 12/31/05 by another Adviser. Davis Selected Advisers, L.P. took over management of the Fund on 1/1/06.

Forward Price/Earnings (Forward P/E) Ratio is a stock's current price divided by the company's forecasted earnings for the following 12 months. The values for the portfolio and index are the weighted average of the p/e ratios of the stocks in the portfolio or index.

Five-Year EPS Growth Rate is the average annualized earning per share growth for a company over the past five years. The values for the portfolio and index are the weighted average of the five-year EPS Growth Rates of the stocks in the portfolio or index.

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. The **S&P 500 Low Volatility Index** measures performance of the 100 least volatile stocks in the S&P 500. The index benchmarks low volatility or low variance strategies for the U.S. stock market. Constituents are weighted relative to the inverse of their corresponding volatility, with the least volatile stocks receiving the highest weights. Investments cannot be made directly in an index.

After 4/30/20, 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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