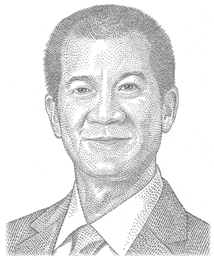


Update from Portfolio Managers

Christopher Davis and Danton Goei

Clipper Fund

Semi-Annual Review 2019

Summary

- Clipper Fund increased shareholder wealth by almost 17% in the first half of 2019 and has compounded at double-digit rates for the last 10 years.
- Over the most recent three, five and 10 year periods, a $10,000 investment in the Fund grew to $13,672, $14,990, and $36,073 respectively.
- The Fund's holdings can be characterized by three characteristics: selective, attractive growth potential and undervalued. *Selective:* The Fund has 28 holdings vs. the S&P 500 Index's 505 holdings. *Attractive growth:* the Fund's holdings have grown earnings per share at 20.7% vs. the S&P 500 Index's 16.4% over the last five years. *Undervalued:* The Fund's holdings are valued at a P/E ratio of 15.5x vs. the S&P 500 Index's P/E ratio of 17.9x.
- Portfolio holdings include select opportunities in leading financials, durable industrial businesses, dominant Internet platforms, 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 what we think are overvalued companies perceived by investors as safe but that may face the prospect of future dividend cuts and falling profits in the years ahead.
- As a result, we believe the Fund is well-positioned to build wealth and outperform over the long term.
- At a time when actively managed investment strategies are out of favor, historical data indicates actively managed funds may be poised for a rebound.

The average annual total returns for Clipper Fund for periods ending June 30, 2019, are: 1 year, −0.64%; 5 years, 8.43%; and 10 years, 13.68%. 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.*

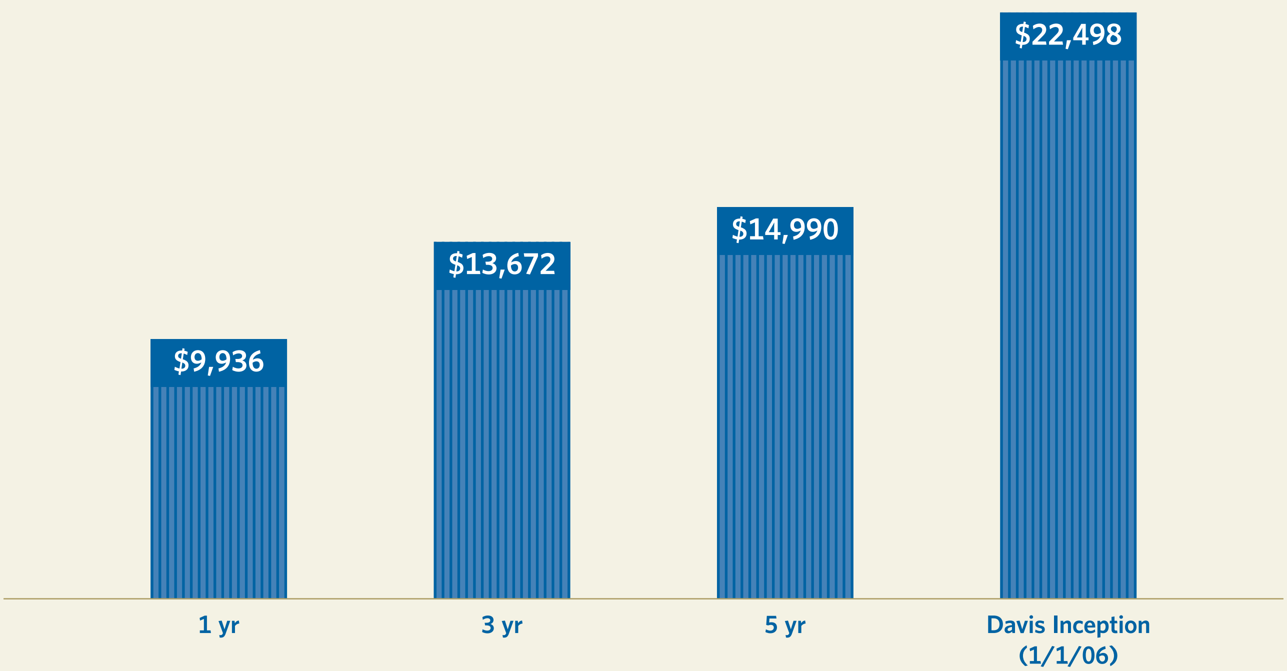
This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. Equity markets are volatile and an investor may lose money. All fund performance discussions within this piece are as of 6/30/19 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.

Thus far in 2019, Clipper Fund has increased shareholder wealth by almost 17%, more than making up the ground from 2018's selloff. These results are capped off by a double-digit annualized return 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 41% of all large cap funds. Our confidence in our time-tested approach is reflected by our investment of more than $150 million in Clipper Fund alongside our shareholders.[1] ■

Clipper Fund Has Grown Shareholder Wealth Over the Long Term[2]



1. As of 6/30/19. Includes Davis Advisors, the Davis Family, our employees and fund directors. **2.** Based on a hypothetical $10,000 investment in the Fund.

Portfolio Update

The Portfolio's holdings embody three characteristics that position the Fund to build wealth in the years ahead. As shown in the table below, the portfolio is *selective*, and is comprised of securities that have *attractive growth potential* and are *undervalued* relative to other securities.

Undervalued, Attractive Growth, Selective

	Fund	Index
P/E (Forward)	15.5x	17.9x
EPS Growth (5 Year)	20.7%	16.4%
Holdings	28	505

The Portfolio's selectivity means that we invest in approximately one out of every 20 companies included in the S&P 500 Index. Just as with the best universities or the most desirable employers, the ability to carefully choose from a large pool of possible candidates is a great advantage. Put differently, you can't achieve an above-average result by admitting average students, hiring average employees or owning average companies. In this light, the ability to reject what we think are unattractive or overvalued candidates is a critical advantage of selectivity.

For example, over the last several years, investors have flocked to so-called low volatility stocks, such as consumer goods companies and utilities, in large part because of their long history of steady growth and high dividends. The key word here, however, is "history." 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.

As we noted in our annual report, "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." While funds that passively mirror the S&P 500 Index are forced to invest in such companies, our selective approach allows us to reject them.

This table also highlights that our portfolio companies have grown earnings faster than the holdings of the S&P 500 Index. 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.

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 P/E (Forward) line 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 S&P 500 Index has grown earnings at 16.4% per year and today trades at almost 18 times next year's earnings. In contrast, the select companies of the Clipper Fund have grown earnings per share at a stunning 20.7% and yet trade at the relative bargain price of only 15.5 times next years earnings.

This rare combination of higher growth at lower prices is a value investor's dream. Furthermore, these select companies also have achieved this growth without assuming the risk of increasing leverage. Unlike the popular so-called safe haven companies described earlier that increased their debt 50% over the last five years, only one of the Clipper Fund's top 10 holdings, United Technologies, increased its leverage during this period, while two holdings have no net debt at all.

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 has the potential to 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.

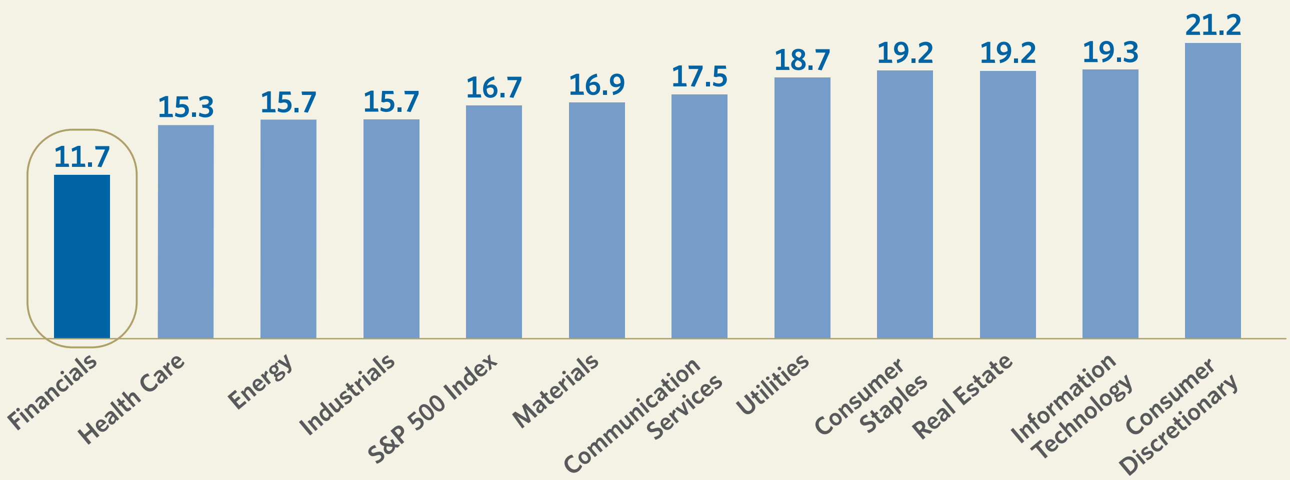
First, with memories of the Great Recession still vivid and worries for the next recession shaping expectations, select financial companies are priced based on fear rather than fact. In considering this sector, many investors are forgetting that the companies we own not only survived the financial crisis, 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 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 memories of the financial crisis fade and investors come to recognize the durability and reliability of these financial leaders.

Second, a handful of industrial leaders are trading at what we feel are bargain prices due to concerns that their earnings could decline in an economic downturn. Because such businesses are influenced

Today Financials Are the Most Attractively Priced Sector
(S&P 500 Index P/E Multiples)



Source: Credit Suisse. As of 6/30/19.

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 and Ferguson PLC represent examples of wonderful growth companies trading at attractive cyclical valuations. Although their earnings may be lumpy in the short term, in our opinion, 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 over many of the so-called safe haven businesses that currently face shifting consumer preferences, falling margins and leveraged balance sheets.

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, people are expected to spend more time on the Internet than watching TV, 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 earlier), 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, 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. 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, several of the Internet platforms described earlier, 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.

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. In particular, Alibaba Group, Tencent (which we own through Naspers), Didi Chuxing, and New Oriental Education & Technology have dominant and growing positions in online commerce, entertainment, payment systems, ride sharing, and education, and yet sell at steep discounts to comparable U.S.-based companies. As with our investments in Facebook and Wells Fargo, we believe negative headlines and investor sentiment have created the opportunity to buy these dominant companies at steeply discounted prices. ■

Conclusion

Today, Clipper Fund's holdings can be characterized by three characteristics: selective, attractive growth potential and undervalued.[3] Specifically, the strong attractive growth and attractive valuation of select leading financials, global industrials, Internet giants and a handful of companies currently weighed down by negative headlines here and in Asia position us to grow wealth on both a relative and an absolute basis in the years ahead.

With more than $150 million of our own money invested alongside clients, our interests are aligned, and our conviction is more than just words.[4] 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.

Our primary goal in managing the Clipper Fund is to build wealth for those who have entrusted us with their savings. We are gratified that we have achieved this goal in all periods of our management. We also are determined to achieve results that exceed those of the benchmark S&P 500. Thus far in our management, we have fallen short in this goal, though we have made up a great deal of ground since the financial crisis. We believe the durability, attractive growth and valuations of the 25 carefully selected companies that constitute the Clipper Fund position us to fire on both cylinders in the years and decades ahead.

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

3. These characteristics are demonstrated in the table on page 3 of this material. **4.** As of 6/30/19. 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 6/30/19, the Fund had approximately 14.5% 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 6/30/19, the top ten holdings of Clipper Fund were: Alphabet Inc., 9.62%; Berkshire Hathaway Inc., 9.50%; Amazon.com, Inc., 7.38%; United Technologies Corp., 7.02%; Capital One Financial Corp., 6.42%; Bank of New York Mellon Corp., 5.44%; Wells Fargo & Co., 5.30%; Markel Corp., 5.25%; American Express Co., 4.94%; New Oriental Education & Tech. 4.41%.

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 Statement of Additional Information. 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.

The **Forward P/E ratio** is the aggregate of the Forward P/E ratios of the 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). **Historical 5 Year EPS Growth** represents the annualized rate of net-income-per-share growth over the trailing five-year period for the stocks held by the Portfolio.

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 10/31/19, 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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