Value Investor INSIGHT
The Leading Authority on Value Investing
March 31, 2021

New World Order

Davis Advisors' Danton Goei, Sobby Arora and Pierce Crosbie describe why they expect Asia – and particularly China – to be primary areas of investment focus for a long time, why they believe the rebound in financials has room to run, and why they think the market is mispricing DBS Group Holdings, Alibaba, New Oriental Education and Capital One.

INVESTOR INSIGHT

Danton Goei
Davis Advisors

Investment Focus: Seeks companies that are durable enough to ride out shorter-term headwinds and also well positioned to prosper from longer-term tailwinds.

One draw for Danton Goei when he joined Davis Advisors in 1998 was the firm's global mindset. "Davis managed only domestic funds at the time, but everyone on the research team was considered a global analyst," he says. "Chris Davis used to talk about attending conferences with his father specifically for companies in the U.S. Northeast or Midwest. He saw early on that distinctions between large domestic and international businesses would become similarly antiquated."

The Davis Global Fund that Goei now manages has earned a net annualized 8.6% return over the past 15 years, vs. 7.0% for the MSCI AC World Index. Today he sees upside in Asian banks, Chinese educational and Internet services, and what he calls "durable value" opportunities in the U.S.

Before asking how you're navigating today's market environment, describe briefly how you were navigating the environment now a year ago, as the pandemic crisis was hitting markets head on.

Danton Goei: We consider job number one in our analysis to assess the durability of a company's business, first with respect to the balance sheet and liquidity, but also with respect to the industry dynamics and business model. So given that this was a crisis that was all about durability, we generally felt quite well prepared and that we held companies we thought would be fully able to ride out the challenges ahead. Rather than playing defense, that allowed us to be more offensive in looking for newly created opportunities.

With all the volatility, we ended up mostly reallocating capital within our portfolio. We owned a number of companies that for understandable reasons held up quite well as the market turmoil hit – including Alphabet, Amazon, Facebook and Alibaba – and we sold roughly 25% of our stakes in them to invest in other holdings where we believed the businesses were more resilient than the market seemed to think. We shifted money into a number of financials like Wells Fargo [WFC] and Capital One [COF] in the U.S., and into international banks such as the Development Bank of Singapore [Singapore: DBS], Danske Bank in Denmark [Copenhagen: DANSKE] and DNB in Norway [Oslo: DNB].

Another example of the type of thing we were doing: We had owned United Technologies prior to its merger with Raytheon, which closed in early April of last year. As part of the merger both the Otis elevator and Carrier heating and ventilation businesses were spun off, and the share performance of each of those then diverged. The market seemed much more confident in the ability of the elevator business to hold up through the pandemic than it did in the heating and cooling business. We ended up selling our shares in Otis [OTIS], even though we think it's an excellent long-term business, and added to our position in Carrier [CARR]. Both stocks have done well, but Carrier had a lot further to come back and has done incrementally much better.

We have not been alone in our surprise at the speed and magnitude of the equity-market recovery, especially in light of what was actually going on with the pandemic and in the economy. If in January of last year you knew what was going to happen to economic growth, unemployment and corporate profits, it's very unlikely you would have concluded, "Oh, I think the market is going to be up 16% this year." That just reinforces for us the notion that it's impossible – for us at least – to predict what the markets are going to do in the short term. We're way better off focusing on what we believe companies can do in the long term.

You've identified some themes behind where you're finding opportunity in today's market. Talk about a few of those.

DG: One would be that we expect Asia, and China in particular, to be an area of investment focus for us over the next one to two decades. To provide some background in support of that, Asia accounts for 60% of the world's population and is forecast to contribute 60% of the world's economic growth over the next decade, in large part because 90% of the expected 2.4 billion new members of the global middle class will come from there. Asia's share of global GDP was around one-third in 2000, reached 40% in 2020, and is forecast to be 50% by 2040. The region is large already, and it continues to deliver above-average growth.

China is the driving force there. Its economy – forecast to pass the U.S. as the world's largest by 2028 – continues to evolve from an export-driven focus to more of a consumer-led one, and it has for 16 years in a row been the largest contributor to global growth. The biggest potential we see is in the consumer and services sectors, which account for roughly 55% of China's GDP today, but where there's still significant growth ahead as that number moves toward the 80% from consumer and services in the U.S. and around 70% for much of the developed world.

The wealth creation in China has been remarkable and we believe it will continue to materially outpace the rest of the world on that measure. Rising urbanization drives not only a growing middle class, but also a much larger affluent class. From 2012 through 2022, China's upper middle class is expected to grow from roughly 14% of urban households to 54%. The affluent class is expected to triple, to 9% of urban households. These wealthier consumers are served by world-class, entrepreneurial and increasingly innovative companies. Last year China surpassed the U.S. to have the most companies in the *Fortune* Global 500, with 124. That number was 10 in 2000.

Not that long ago U.S. investors would talk about investing internationally through Western multinationals like Nestle, Coca-Cola or Procter & Gamble, which were considered well positioned to sell to increasingly affluent global markets. That's still true to an extent, but we think the better opportunity is to identify rising national and regional champions that are sophisticated, fierce competitors and may be the multinationals of the future.

I remember more than 10 years ago visiting one of my Wharton classmates who was a top marketing executive for Coca-Cola in China, and he talked a lot about the intensity of the domestic competition and how quickly and well competitors responded to local tastes and consumer demand. If you're investing on a global basis, you need to know and understand those companies well.

ON OPPORTUNITY IN ASIA:

Better to identify rising national and regional champions that may be the multinationals of the future.

How in that endeavor are you processing the risks of ongoing trade and policy friction between China, the U.S., and the rest of the developed world?

DG: We're very cognizant of the strained relations between China and its trading partners, primarily the U.S. We're in competition with China and we don't agree on a number of fundamental economic and political issues. The road ahead won't be easy for any of the participants to navigate, but we're hopeful that the lines of communication remain open and that progress, however slow or halting, is made toward constructive solutions.

Broadly speaking, we believe the incentives for the Chinese government to promote economic growth remain quite strong. Some 550 million Chinese still live in rural regions and earn per-capita incomes that are roughly one-third of those in urban areas. Overall, per-capita incomes in China are only one-sixth of the levels in the U.S. Economic growth and rising employment are as crucial to China as ever – we don't believe policy makers there will lose sight of that.

Danton Goei

Fast Start

While he had yet to work in investment management at the time, it wasn't surprising that Danton Goei got plenty of interviews when he started looking for a job as an international equity analyst in 1998. A U.S. citizen of Chinese-Indonesian descent, he was born in Germany, grew up in France, earned an undergraduate degree in international economics from Georgetown and held an M.B.A. from Wharton. He spoke English, French and Mandarin, and had worked in technology sales for PC manufacturer Arche Technologies in Taiwan, as a Citicorp investment banker and as a consultant for Bain & Co.

One interview, with Chris Davis of Davis Advisors [*VII*, April 30, 2015], stood out. Davis was finishing up a phone call with top management at The New York Times Company, but waved Goei into his office to listen in on the remainder of the call. As things were wrapping up, Davis asked Goei if he had any questions for the company, which he then proceeded to ask. "It wasn't exactly the typical start to an interview," says Goei, "but we really just hit it off right away." He joined the firm soon thereafter and now co-manages portfolios with the vast majority of the firm's more than $25 billion in assets.

More from an industry-sector perspective, you've been pounding the table for some time for financials, particularly banks. Is that still an area of high interest?

DG: We've always as a firm found financials to be an attractive area. Shelby Davis, our founder, often called banks growth companies in disguise, with the potential to establish competitive advantages within their markets and earn high returns on invested capital. But there can be extended periods where the market seems to have little interest in them and bank stocks trade at very low multiples on far-from-peak earnings. We think generally that's been the case for some time now.

We don't believe that's appropriate for a number of reasons. Credit underwriting has generally been conservative and credit quality has rarely been better. Balance sheets are as strong as ever, with capital ratios double what they were prior to the financial crisis. This to us makes the shares of the best banks, as we like to say, vulnerable to good news. Earnings will benefit if loan losses from the pandemic are not as severe as expected. Earnings will also benefit if interest rates continue to increase from rock-bottom levels.

Our crystal ball on interest rates isn't any clearer than anyone else's, but the support for higher rates today is fairly strong. M2 money supply was up 26% last year and is expected to increase more than 12% this year, versus an average of 5.5% growth over the last decade. Expectations are high for a strong economic recovery following the recession of 2020. Falling unemployment and growing demand on top of the rise in money supply is conducive to higher inflationary expectations and higher interest rates. For banks, that should all translate into healthy earnings growth and improving valuation multiples on their stocks.

Following on both of the themes you've mentioned so far, describe your investment case for Singaporean bank holding company DBS Group [Singapore: D05].

DG: This has the same positive characteristics we're seeing in banks in many parts of the world, while also benefitting from operating in geographies with above-average growth in economic activity and wealth.

DBS is Singapore's largest bank, with a strong presence as well in Greater China, including Hong Kong and Taiwan, and a growing presence in India and Indonesia. The mix of business is tilted toward retail, with roughly 60% of earnings coming from consumer banking and wealth management, 30% from corporate banking, and the rest from more investment-banking types of activities.

We think the company has a number of competitive advantages. Its established and deep customer relationships translate into a significantly lower-cost funding base than its peers. It's a top-five bank in Asia for wealth management, which is a sticky, recurring-revenue business. It benefits on the institutional side from Singapore's reputation as a sophisticated financial and trading hub with a strong rule of law and competent regulatory oversight. The company has also been a leader in building out its digital-banking capabilities, which has allowed it to take consumer share not only in its home market, but also in markets where it's looking to grow.

Sobby Arora: Just to elaborate on Danton's last point, the digital effort is not just window dressing. Piyush Gupta has been

INVESTMENT SNAPSHOT

DBS Group Holdings
(Singapore: DO5)

Business: Singapore's largest bank, in the process of expanding its consumer, corporate and wealth-management franchises throughout Greater China, India and Indonesia.

Share Information
(@3/30/21, Exchange Rate: $1 = S$1.35):

Price	**S$29.00**
52-Week Range	S$17.82 – S$29.10
Dividend Yield	0.0%
Market Cap	S$73.49 billion

Financials (TTM):

Revenue	S$11.53 billion
Operating Profit Margin	46.6%
Net Profit Margin	41.0%

Valuation Metrics
(@3/30/21):

	DO5	S&P 500
P/E (TTM)	16.0	44.7
Forward P/E (Est.)	13.2	22.6

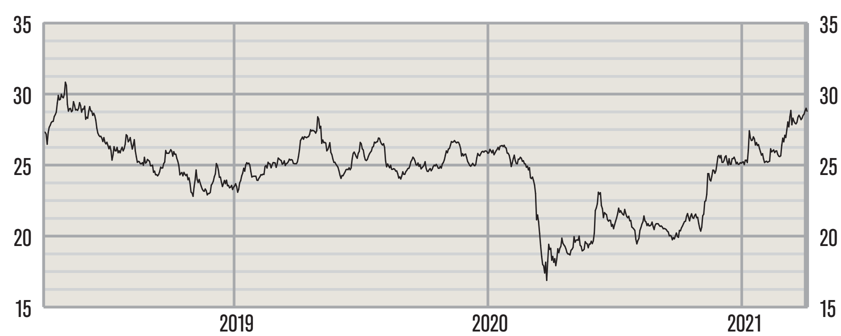
Largest Institutional Owners
(@12/31/20 or latest filing):

Company	% Owned
Temasek Holdings	29.8%
Maju Holdings	18.0%
Capital Research & Mgmt	5.0%
Vanguard Group	2.3%
BlackRock	2.0%

Short Interest (as of 3/15/21):

Shares Short/Float	n/a

DO5 PRICE HISTORY



THE BOTTOM LINE

From its lucrative base in Singapore, the company is well positioned to expand further in Asia and capitalize on the region's strong economic growth and wealth creation, says Danton Goei. From today's stock price he believes shareholder returns can at least match the company's estimated 10% annual earnings growth plus a roughly 4% dividend yield.

Sources: Company reports, other publicly available information

CEO since 2009 and throughout that period has emphasized building out cloud and digital-banking infrastructure and capability. It shows in innovations like creating a new digital exchange for trade custody of digital assets and currencies for private banking clients. The bank's mobile app for customers allows anyone to send remittance payments in 16 different currencies instantaneously.

In no small part because of its digital-banking chops, the company has an overall cost-to-income ratio in the low-40% range. That's five points lower than local peers and significantly better than a competitor like Standard Chartered, where the cost-to-income ratio is over 60%. We think this provides another significant competitive advantage, which should only grow as DBS scales in individual markets. In places like India and Indonesia, the vast majority of offerings for retail and small-business customers are digital-only.

How inexpensive do you consider the shares at a recent price of S$29?

SA: At the current price the stock trades at just over 12x this year's estimated earnings and around 1.6x tangible book value. That's not at all expensive for a company that we think can earn 15-16% returns on tangible equity in a more normal interest-rate environment and that can grow earnings on the order of 10% annually for years to come. (Excluding last year as an outlier, earnings over the prior ten years grew at a compound 11% per year.)

If we just benefit as shareholders from the earnings growth that would be an attractive return. On top of that, dividend restrictions will soon be lifted – at the dividend paid prior to the restrictions being put in place, the yield on today's share price would be over 4%.

DG: One last thing I'd mention here on the subject of corporate governance is that we like that Temasek, the sovereign wealth fund of Singapore, is an anchor investor here with a 30% stake. That backing by the government, essentially, we think in this case is a positive.

Turning to a specific Chinese idea, describe why you're high on New Oriental Education & Technology [NYSE ADR: EDU].

DG: This is an idea very much playing on the growth in consumption spending by a growing Chinese middle class. The company was started in 1993 by Michael Yu to teach English to 14 students in its first class, and now it's the leading for-profit education provider in China. The primary business is after-school tutoring, preparing students for the extremely rigorous high-school and college entrance exams. They have over 1,500 physical learning centers and a state-of-the-art online platform, which together serve around two million students at a time.

The Chinese are extremely focused on education and the acceptance rates to the top schools in China are much lower than the rates at comparable schools in the U.S. That fuels high demand for the extra schooling New Oriental provides, which is seen as a potential leg up for getting into the best schools. As disposable incomes increase and education becomes even more important as the Chinese economy shifts toward services from manufacturing, that

INVESTMENT SNAPSHOT

New Oriental Education & Technology
(NYSE ADR: EDU)

Business: Provides independent after-school educational programs currently serving two million students who are preparing for China's high school and college entrance exams.

Share Information (@3/30/21):

Price	**14.16**
52-Week Range	10.27 – 19.97
Dividend Yield	0.0%
Market Cap	$23.97 billion

Financials (TTM):

Revenue	$3.60 billion
Operating Profit Margin	6.8%
Net Profit Margin	10.5%

Valuation Metrics
(@3/30/21):

	EDU	S&P 500
P/E (TTM)	58.4	44.7
Forward P/E (Est.)	30.6	22.6

Largest Institutional Owners
(@12/31/20 or latest filing):

Company	% Owned
UBS Asset Mgmt	4.1%
Davis Advisors	3.7%
BlackRock	2.8%
Fidelity Mgmt & Research	2.6%
Vanguard Group	2.5%

Short Interest (as of 3/15/21):

Shares Short/Float	1.8%

THE BOTTOM LINE

Demand for the company's exam-prep services should show strong growth as China's middle class expands and the value of education in an increasingly knowledge-based economy rises, says Danton Goei. While the shares today aren't cheap, he says, they will appear much more so fairly quickly if the company's earnings grow at the rate he expects.

Sources: Company reports, other publicly available information

demand will only grow. Today roughly 40% of eligible students go for after-school tutoring in China, which is half the levels in South Korea and Japan where there are similar education systems.

We also think the company will continue to expand its share of the market. The vast majority of competitors are smaller regional or local companies that lack New Oriental's competitive advantages. It has the most respected brand, which is obviously important to customers and affords it pricing power. Its premium positioning allows it to attract the best teachers with salaries up to 20% above what competitors can pay. It leverages its scale to invest more in improving curriculum and the digital offering. We think it's kind of amazing that when the pandemic hit last year, they were able without missing a beat to shift all of their students online, making 2020 look like just another year for them. That wasn't the case for most of their competitors.

We're guessing one additional appeal here is that trade friction isn't really much of an issue?

DG: Yes. This is one of a number of companies in China we own that focus on domestic consumption, making them only marginally impacted by geopolitics and global trade friction. There have been times when bad news on U.S./China relations have hurt the stock prices of companies like New Oriental, which we've generally used as an opportunity to add to our positions.

The ADRs at a recent $14.20 don't appear particularly undiscovered. How are you looking at potential upside from here?

DG: The stock has pulled back recently, but the current valuation is still relatively high. If you subtract net cash from the current market value, the stock trades at 29x our earnings estimate for the fiscal year ending in May 2022. But we expect growth here to be very high, which can bring multiples down pretty rapidly. We think earnings can double within three years and that from a continued combination of market growth, capacity expansion, increased market share, pricing power and margin expansion that earnings can grow at 20-25% per year for some time. If we're right about all that, even if the multiple backs off somewhat from the current level, we would expect to still do very well in the stock.

ON "VALUE" IN THE U.S.:

We actually see a number of lower-multiple names today in the U.S. that we would consider quite risky.

Are there any particular risks you see on the regulatory or corporate-governance fronts?

DG: The company has no government ownership and Michael Yu is the largest shareholder with an 11.5% stake, which today is worth around $2.8 billion. He's been an excellent steward of the company's capital and keeps a reserved public profile. We're quite comfortable with the corporate governance.

There has been discussion of additional regulations being put on online education companies, which has appeared to weigh on the stock. Given that New Oriental in normal times teaches its students primarily in person, we don't see the things under discussion – even if some were put in place – having much impact on how the company operates.

There also is the outstanding issue of the law passed in the U.S. last December requiring Chinese companies whose ADRs trade here to comply with SEC and other audit requirements within the next three years or risk being delisted. We think that both sides ultimately want to find a reasonable solution and that they will. If they don't and the ADRs are delisted, New Oriental already has a secondary listing in Hong Kong and we'd just move our position there. Either way, we don't think it will have a real impact on how the shares are valued.

What do you think the market is getting wrong about Chinese e-commerce colossus Alibaba [BABA]?

DG: The company is best known as the e-commerce leader in China, where through its primary sites Taobao and Tmall it accounts for roughly 55% of all online sales. Its business model differs quite a bit from Amazon's in the U.S., in that it's purely a marketplace, where small and large third-party merchants sell their goods. Alibaba in e-commerce doesn't make its money from product sales or from listing fees, but instead through advertising from merchants promoting and showcasing their wares. Without cost of goods sold and expensive warehouses, the company's operating margins in e-commerce are over 60%. Amazon is now emphasizing advertising as well, but Alibaba has led with that from the beginning.

Another way the company has been innovative is in promoting more of a social aspect in its presentation, sort of like QVC in the U.S. where there's more narrative and story-telling involved in the shopping experience. It's not just going in and filling your basket with what's on your list and getting out, you can browse and window shop in a more engaging way and be exposed to other things you might find interesting.

One key driver of growth for the company is that while the e-commerce market in China is already the world's largest and accounts for 25% of all retail sales, the growth potential remains very strong. Part of that is a function of continued increases in disposable incomes, but it's also due to the fact that the physical retail infrastructure in the country is quite poor, especially outside of the biggest cities. Just as in many emerging economies where consumers skipped over landlines to use cellular phones, consumers in China develop habits to buy online earlier and more often. That dynamic should keep e-commerce in China growing incrementally faster than in other markets. Alibaba's e-commerce business is still growing at a roughly 20% annual rate.

The company does a lot of other things outside of e-commerce, but the one to highlight is cloud services, where it is the largest player in China and the fourth largest in the world, behind Amazon, Microsoft and Google. In the latest reported quarter that business grew its revenues by 50%, and we forecast it will have close to $9 billion in sales this year. Similar to what I mentioned with e-commerce, we think the growth in cloud services in China is also likely to be incrementally faster than in other markets. In the U.S., information-technology departments have for some time been built out and have become more sophisticated, but that's less the case in China. As a result, rather than maintain their own large IT infrastructures, companies in China are quicker to move directly to the cloud as their technology demands scale. Being the leader in that market is a great position to be in.

The financial-services business Ant Group, which is one-third owned by Alibaba, has had some regulatory issues of late. How does it fit into your thesis?

DG: Ant Group was started as a payment system to facilitate e-commerce transactions and has since grown into the largest mobile-payment system in China – under the Alipay brand – and has also become a big player in consumer lending and in offering money-market funds. As you mention, Ant had to pull its planned public offering last year at the government's direction, so now it's more difficult to say what it's worth.

With changes in regulations that have restricted certain parts of the business, primarily on the lending side, the valuation on Ant has come down from the $250 to $300 billion expected with the IPO. We currently value it at $150 billion overall, which means Alibaba's share is around $50 billion. That's obviously not nothing, but that's still only 8% of Alibaba's market cap. If we're off somewhat on our estimate of Ant's value, it's not that significant to our thesis for Alibaba.

Are there regulatory concerns for the company's traditional e-commerce business?

DG: Just as you hear in Europe and the U.S., there are concerns that the government might incrementally tighten its anti-monopoly regulations to in some ways rein in companies like Alibaba. It has had to adjust certain practices around exclusive supplier deals, for example. M&A could be a bit more difficult. But we don't expect any significant impact on the company's profitability or growth going forward. Its success hasn't been as a result of monopolistic practices, and in fact, the Chinese e-commerce market is more competitive than in the U.S. Alibaba has two very large competitors, JD.com and Pinduoduo, that have large market shares in their own rights.

The U.S. ADRs are off more than 25% from their 52-week high. How are you valuing the shares from today's price of around $229?

DG: We think the regulatory concerns and what has happened with Ant Group have weighed too heavily on the shares' valu-

INVESTMENT SNAPSHOT

Alibaba Group
(NYSE ADR: BABA)

Business: China's top e-commerce provider, through shopping sites such as Taobao and Tmall; other significant interests include those in cloud computing and consumer finance.

Share Information (@3/30/21):

Price	**229.25**
52-Week Range	185.04 – 319.32
Dividend Yield	0.0%
Market Cap	$603.17 billion

Financials (TTM):

Revenue	$98.84 billion
Operating Profit Margin	16.6%
Net Profit Margin	24.7%

Valuation Metrics
(@3/30/21):

	BABA	S&P 500
P/E (TTM)	26.4	44.7
Forward P/E (Est.)	19.3	22.6

Largest Institutional Owners
(@12/31/20 or latest filing):

Company	% Owned
T. Rowe Price	2.1%
BlackRock	2.1%
Vanguard Group	1.9%
State Street	1.3%
Baillie Gifford	0.9%

Short Interest (as of 3/15/21):

Shares Short/Float	1.6%

BABA PRICE HISTORY

THE BOTTOM LINE

Regulatory concerns have unduly weighed on the company's shares, says Danton Goei, to the point where backing into the valuation of its core Chinese e-commerce business indicates the market is valuing it at only 12x next year's estimated earnings. Ascribing a more appropriate value just to it, he says, would result in a share price of around $340.

Sources: Company reports, other publicly available information

ation. If you back out $67 billion of net cash, $105 billion in value we estimate for the cloud business, $50 billon in value for the Ant stake, and then eliminate the losses in growth initiatives like food delivery and e-commerce outside of China, we believe the core Chinese e-commerce business is being valued today by the market at only 14x this year's estimated earnings and 12x next year's. Remember, that's a business growing 20% per year that has 60% operating margins. If you put even a 25x multiple on next year's estimated e-commerce earnings, Alibaba's stock would trade at around $340, nearly 50% higher than today's level. We think that's quite a nice margin of safety for such a high-quality company.

In the U.S. you've argued that all value-priced stocks today are not equal. Describe what you mean by that.

DG: We actually see a number of lower-multiple names today that we consider quite risky. I don't mean to pick on it because it's generally a well-run company, but a good example would be a large traditional retailer like Kroger [KR] that has been more or less thriving through the pandemic. Its earnings per share jumped 50% in 2020, and while no one expects that to last, expectations over the next year or two are still relatively high for a business that in the five years prior to 2020 had seen little to no EPS growth. The stock today [at around $38] trades at around 11x last year's earnings and 12.5x this year's estimate.

We don't consider that a bargain. Consumer spending habits are likely to change fairly rapidly if the pandemic's impact continues to recede and people eat less at home. To the extent adoption of online grocery has accelerated, it's not clear to us that the Krogers of the world are the lead beneficiaries relative to companies like Amazon, Walmart and Target. Kroger and other supermarkets have also built up a lot of leverage as they've tried to consolidate the industry and invest in e-commerce. Kroger, for example, has $20 billion of debt on its balance sheet, not insignificant for a company with a $29 billion market cap. This is the type of idea we're seeing today in the U.S. where the valuation looks attractive, but we have a lot of questions about the actual durability of the business.

Can you offer up a representative example where the valuation looks attractive and you're also confident about the durability of the business?

DG: A good example of that today would be Capital One Financial [NYSE: COF]. An important part of the appeal here is the vulnerability to good news for banks that we've already discussed, but we also think the company has unique strengths that make its earnings power more durable than would be indicated by a stock trading at not much over 10x forward earnings.

We've admired the company for a long time and it's still run by the founder, Richard Fairbank. Roughly half of the business is credit cards, with the other half mostly a consumer bank with a particular emphasis on auto lending. They've been ahead of their time in the use of data analytics, which has generally helped them produce

INVESTMENT SNAPSHOT

Capital One
(NYSE: COF)

Business: Provider of branded and private-label credit cards as well as consumer and commercial banking services primarily in the U.S. Northeast, Middle Atlantic and South.

Share Information (@3/30/21):

Price	**128.56**
52-Week Range	39.90 – 134.70
Dividend Yield	1.2%
Market Cap	$57.76 billion

Financials (TTM):

Revenue	$18.26 billion
Operating Profit Margin	20.8%
Net Profit Margin	14.9%

Valuation Metrics
(@3/30/21):

	COF	S&P 500
P/E (TTM)	24.4	44.7
Forward P/E (Est.)	10.6	22.6

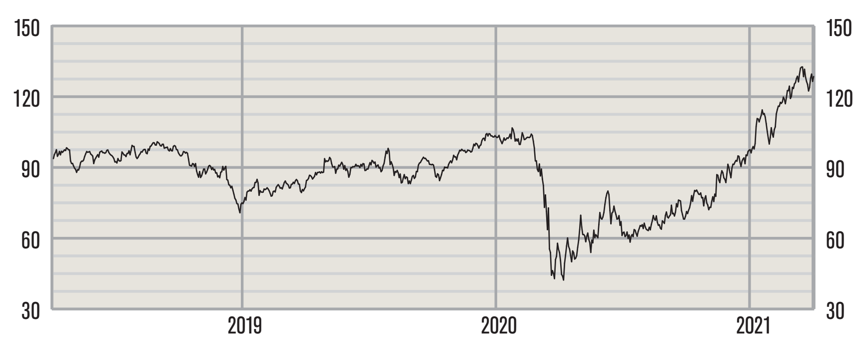
Largest Institutional Owners
(@12/31/20 or latest filing):

Company	% Owned
Dodge & Cox	10.9%
Vanguard Group	7.0%
Fidelity Mgmt & Research	5.3%
Capital Research & Mgmt	4.7%
State Street	4.2%

Short Interest (as of 3/15/21):

Shares Short/Float	1.3%

COF PRICE HISTORY



THE BOTTOM LINE

The company has been adapt at picking its spots in where and when to allocate lending capital, says Pierce Crosbie, and is "vulnerable to good news" with respect to ongoing credit quality and potentially higher interest rates. Employing various methods of valuation, he's expecting to earn at least a 10% IRR on the stock from today's bargain-priced level.

Sources: Company reports, other publicly available information

above-average growth in loan volumes with below-average credit losses.

Pierce Crosbie: What they've proven particularly good at is picking their spots in emphasizing or deemphasizing areas of focus based on where the competitive and credit cycles are. When and where competition is lower and prospective returns higher, they'll put the accelerator down and grow. When capital is plentiful and prospective returns lower, they'll pull back. They've developed considerable expertise as well in sub-prime, across their credit book.

One pandemic-related angle we haven't yet mentioned for a company like Capital One is that people paid down credit-card and other consumer debt at an accelerated pace last year, which led to a 17% decline in the company's book of credit-card loans and has been weighing on pre-provision earnings. At today's share price we think the market is capitalizing some of that near-term earnings shortfall, when in fact there's been no secular change in people's behavior and we'd expect as consumer spending picks up that growth in consumer unsecured borrowing will normalize as well.

How concerned are you for the credit-card business by the disruptive threats from payments companies like PayPal and Square, or from the spate of buy-now-pay-later credit providers that seem to be getting some traction in the market?

PC: The biggest-name potential disrupters in the payments space like PayPal, Square and Stripe have so far generally worked within the existing ecosystem, with end consumers still actually making their payments with a credit or debit card. As a result we really haven't seen much impact on Capital One from their increase in prominence. We recognize that could change, but for now we believe it's still a tall order to get consumers to move away from their credit and debit cards and give up the rewards and cash rebates they've grown accustomed to.

With respect to buy-now-pay-later competition, we think it may be more of an issue for certain types of products like a Peloton bike, where the company can build the cost of credit into the sticker price. It becomes a less compelling proposition for both merchants and customers as you move away from those high-ticket items. Again, it's something that bears watching, but over our investment horizon we don't see new competition from these types of players having a material impact on Capital One's core lending franchises.

ON PLAYING DEFENSE:

There are a number of things that we worry about without trying to predict when or if they might happen.

Capital One's stock is up 30% so far this year. How are you looking at the valuation and upside from here?

PC: Earnings have been messy around the pandemic, but we believe the company over the next two to three years can be generating $14 to $15 per share in normalized annual earnings. On that, the shares today trade at a less than a 9x P/E and only 1.6x tangible book value. That's too low for a company earning what we expect to be a 13-14% overall return on tangible equity.

We come at valuation in a variety of ways, but all of them point to our expecting to earn something on the order of a 10% IRR on the stock from today's price. That's without building in what would be good news on interest rates or much optimism that the market re-rates financials in any fundamental way.

You spoke earlier about how rising inflationary expectations and interest rates could benefit your bank stocks. Are you worried about the broader impact on stocks that rising interest rates might have?

DG: We always say that there are a number of things we worry about without trying to predict when or if they might happen. One would be if the most highly valued growth and momentum stocks that have been driving the market continue to reverse course, that could be painful for the market overall. We for the most part aren't players in those stocks, where the valuations often don't make any sense to us. We also think if the momentum trade declines in importance that could be a real opportunity for active stock pickers to add value on a relative basis and protect capital.

To your question, rising interest rates due to inflation would also likely be harmful to the overall market. As we've said, for some equities like financials this could be positive. I would also say that we as a research team are very focused today on pricing power. How you fare in an environment where your costs are rising outside of your control will depend a lot on the control you have over the prices you can charge. That's always important to us, but given the prospect of inflation we've really doubled down on that. VII

The average annual total returns for Davis Global Fund's Class A shares for periods ending March 31, 2021, including a maximum 4.75% sales charge, are: 1 year, 61.99%; 5 years, 14.48%; and 10 years, 10.34%. 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 Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days. The total annual operating expense ratio for Class A shares as of the most recent prospectus was 0.92%. 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. The Fund's performance benefited from IPO purchases in 2013 and 2014. After purchase, the IPOs rapidly increased in value. Davis Advisors purchases shares intending to benefit from long-term growth of the underlying company; the rapid appreciation of the IPOs were unusual occurrences. The Fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

DAVIS DISTRIBUTORS, LLC (DDLLC) paid Value Investor Media, Inc. their customary licensing fee to reprint this interview. Value Investor Media is not affiliated with DDLLC, and DDLLC did not commission them to create or publish this interview.

This reprint is authorized for use by existing shareholders. A current Davis Global 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, charges, and expenses before investing. Read the prospectus carefully before you invest or send money.

This reprint includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

Davis Advisors is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. Forward-looking statements can be identified by words like "believe," "expect," "anticipate," or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events, or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

Objective and Risks. Davis Global Fund's investment objective is long-term growth of capital. There can be no assurance that the Fund will achieve its objective. 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; **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; **foreign country risk:** foreign companies may be subject to greater risk as foreign economies may not be as strong or diversified; **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; **depositary receipts risk:** depositary receipts involve higher expenses and may trade at a discount (or premium) to the underlying security; **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; **exposure to industry or sector risk:** significant exposure to a particular industry or sector may cause the Fund to be more impacted by risks relating to and developments affecting the industry or sector; **emerging market risk:** securities of issuers in emerging and developing markets may present risks not found in more mature markets. As of 3/31/21, the Fund had approximately 33.8% of net assets invested in securities from emerging markets; **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; **fees and expenses risk:** the Fund may not earn enough through income and capital appreciation to offset the operating expenses of the Fund; and **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. See the prospectus for a complete description of the principal risks.

The Fund is subject to a 2% short-term redemption fee for shares held for fewer than 30 days.

The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of 3/31/21, the top ten holdings of Davis Global Fund were: Capital One Financial, 6.77%; Alphabet, 6.07%; Wells Fargo, 6.05%; New Oriental Education & Technology, 4.98%; Alibaba, 4.78%; JD.com, 4.74%; DNB ASA, 4.46%; DBS Group, 4.10%; Missfresh, 3.98%; and Naspers, 3.98%.

Davis Funds 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.

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

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets throughout the world. The index includes reinvestment of dividends, net foreign withholding taxes. Investments cannot be made directly in an index.

After 7/31/21, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Davis Funds 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.

Davis Distributors, LLC
2949 East Elvira Road, Suite 101, Tucson, AZ 85756
800-279-0279, davisfunds.com

Item #5156 4/21