

October 2009

Consulting Group

## Davis New York Venture

### Focus List Research Report

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**Investment Style:** Large Cap Value  
**Equity Sub-Style<sup>1</sup>:** Relative Value  
**Benchmark:** Russell 1000 Value  
**Research Status<sup>2</sup>:** Focus List  
**Product Type:** Mutual Fund  
**Ticker Symbol:** NYVTX  
**Sub-Advisor:** Davis Advisors  
[www.davisadvisors.com](http://www.davisadvisors.com)

<sup>1</sup> Please see Definitions at the end of this report.

<sup>2</sup> For additional information on the new Focus/Approved research process, please ask your Financial Advisor or Private Banker for a copy of the research paper entitled Manager Research and Selection: A Disciplined Process.

**Before investing, consider the fund's investment objectives, risks, charges and expenses. Contact your Financial Advisor or Private Banker for a prospectus containing this and other information about the fund. Read it carefully before investing.**

This report contains one of the share classes that is offered in the advisory programs and may not be the share class that you own or may not be the share class available in the advisory programs you have. Mutual fund fees, expenses and performance may differ for different share classes. More information regarding the fee, expenses and performance is available at the website noted above.

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INVESTMENT PRODUCTS: NOT FDIC INSURED\*NO BANK GUARANTEE\*MAY LOSE VALUE

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## Davis Advisors: Davis New York Venture

FOCUS LIST

### Snapshot

Investment Capabilities	Business Evaluation	Short-Term Performance Analysis ( $\leq 3$ Yrs)	Long-Term Performance Analysis ( $> 3$ Yrs)	Track Record Reliability	Expected Benchmark Sensitivity	Expected Portfolio Turnover
Above Average	Above Average	Above Expectations	Above Expectations	High	High	High
Average	Average	In-Line	In-Line	Moderate	Moderate	Moderate
Needs Improvement	Needs Improvement	Below Expectations	Below Expectations	Low	Low	Low

See Opinion Overview Description at the end of this report.

### Summary of Opinion

This product was included on the Focus List due primarily to CG's favorable view of the personnel; especially lead portfolio managers Chris Davis and Ken Feinberg. This positive opinion also extends to the supporting research staff. We also view favorably the low turnover, intrinsic value approach applied by the investment team, where they find that thorough fundamental analysis will uncover investment opportunities. This approach relies heavily on the strength of the personnel.

#### Positive Attributes

- Accounting validation to verify financial information and seek out hidden value is this manager's trademark for original research.
- Consistency in application of "owner earnings" philosophy".
- Experienced team of talented research analysts.
- Blend of traditional and non-traditional research roles
- Family and employee owned; material investment in own products by Davis family.

#### Points to Consider

- Possible concentration in a few economic sectors. The firm has a longer-term bias towards Financials, particularly the insurance industry.
- Davis will place little reliance on surface oriented statistical valuation traits (i.e., P/E, P/B, etc.).
- Often benchmarked to the S&P 500 Index.
- The sell process is open ended and broadly defined.
- Portfolio typically holds 65-95 names with typically low (15%-25%) turnover.
- Firm will consider ADR securities in their investable universe.

#### Areas of Concern

- Liquidity/capacity remains a concern. Davis is managing approximately \$70 billion (through 9/30/09) in large cap value assets. See also comments on page 4 under Summary of Investment Capabilities Opinion for more on this topic.

#### Performance Expectations

- CG believes that the process has the potential to add value over the long term. However, the process may lead to volatile returns relative to the benchmark over shorter-term time horizons.
- The process can be best described as relative value as the primary emphasis is placed on relative valuation techniques which utilize non conventional accounting treatments.
- The flexibility of the process may lead to a portfolio that can, at times, test the traditional definition of value in terms of valuation factors such as P/E and P/B, etc. As a result, the portfolio may experience overlap with a client's growth holdings.

#### Performance Opinion

- Longer term performance was challenged at times during a strong value market as more discount value oriented styles tended to lead performance relative to the Russell 1000 Value benchmark. More recent positive relative performance has brought longer term performance figures back ahead of the benchmark.

#### News Summary

- 2Q09- Shelby Davis is no longer formally involved in the research process. He has been removed from day-to-day stock picking for some time, but had remained in a mentor role for the research staff.
- 2Q09- 3 hires to their investment staff, a credit analyst and two generalists with hedge fund backgrounds.
- 1Q09- Some administrative layoffs at the firm given year-end asset levels. No cuts were made to the investment team.
- 1Q09- Firm adds more disclosure on trading rotation in ADV. SMA channel rotation begins after a portion (typically ~50%) of firm's internal trading (mutual funds, institutional accounts).

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#### Additional Analyst Comments

- CG expects the SMA model to exclude many of the smaller weighted stocks (sub 1% positions) found in this mutual fund. As a result, some performance dispersion can result. However, as the SMA (~50 stocks) is essentially a subset of the larger mutual fund model (~ 70 stocks), we anticipate and have observed marginal performance differences at times favoring either model.
- Davis motivates the research staff in ways that are not always commonplace across the investment industry. Davis has a compensation committee, which reviews not only those names which analysts weight in their All Cap Core sleeve portfolio, but also their contributions to other products, including a paper "Research Portfolio". The Research Portfolio is made up of large cap names that are served up to the Portfolio Managers on the Large Cap Value products. But as they often exercise discretion and have a heavy influence on the product's holdings, the Research Portfolio system allows Davis to assess analyst skill even if the names did not ultimately make it into a live portfolio.
- Davis has increased their analyst staff significantly in the recent past. This staffing increase is believed to stem from a desire to take advantage of inefficiencies in the post Reg FD market with the diminished importance of the sell side. They specify reviews of proxy voting across all of their researched names, for example, as an important role for at least one of their analysts. CG considers the firm's blend of traditional and non-traditional research roles a strength. It compliments their philosophy of researching potential areas of market inefficiency and gives the firm multiple perspectives on any particular stock.
- Generally speaking, the high degree of flexibility in the investment process makes it difficult to confine this product into a specific sub-style box. CG has witnessed portfolio statistics range from near benchmark levels to the more relative value end of the value style spectrum (due largely to their weightings in either Financials or Technology stocks). Due to this propensity to look different at different times according to common valuation metrics, we loosely consider the product to be in the Relative Value sub-style. It has both gone to that extreme end of the range, but also retains the flexibility to look more like the index at times. Due to portfolio manager biases, however, it is doubtful that the portfolio would go to the other end of the value sub-style spectrum, and become a true 'deep-value' portfolio.

#### Additional News Summary

- 1Q09- Firm is target of class action suit claiming improper fees. CG does not find this to be a major concern at this time, see page 6 under Legal/Compliance for more details.
- 1Q08- Departure of senior analyst Chip Tucker

#### Portfolio Traits

Equity	
Range of Holdings	Typically 65-95, although more recently it has been marginally higher
Maximum Position Size	7.5%, "rarely over 5%"
Econ Sector Constraints	None- 25% industry level maximum
Tracking Error Target	None
Typical Annual Turnover	25%
Invests in ADRs	Yes
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	Yes
Liquidity Constraints	None
Maximum Cash	10%
Typical Cash Position	3%
Est. Product Capacity	None

Source: Davis Advisors, CG

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#### Investment Capabilities Overview

##### Portfolio Management Team

- Chris Davis and Ken Feinberg are considered the Portfolio Managers on the Large Value product. They make the determination of whether or not to include a stock in the portfolio and the respective stock's portfolio weighting. Chris Davis can ultimately make the final decision in case of a deadlock.
- Christopher Davis has been at Davis since 1989. Prior to that he worked as a portfolio accountant at State Street Bank & Trust Company in Boston (1988-1989). CG has considered Mr. Davis the lead thinker on the portfolio's Technology positions.
- Prior to joining Davis in 1994, Kenneth Feinberg worked at Continental Insurance Corporation (1988-1994). There, he was a part of the investor relations department and also performed special projects for the CEO. Prior to that, he worked as a Business Analyst for General Foods (1985-1988). CG has considered Mr. Feinberg the lead thinker on the firm's Financials positions.

##### Investment Philosophy & Process

- Davis's philosophy is based on the belief that value added can be found by investing in quality stocks at reasonable valuations over a long-term time horizon. Davis utilizes a hybrid top down/bottom up approach to stock selection. The approach strives to deliver consistent long-term performance through full market cycles.
- Davis takes a comprehensive, research driven approach to stock selection, keying on their knowledge of the company and an assessment of intrinsic value.
- The opportunity set generally starts with stocks that are 1) considered by Davis to be of high quality, 2) above \$10 billion in market cap and/or 3) a special situation. According to Davis, much of the opportunity set closely corresponds to the larger members of the S&P500 Index. Since there are no valuation constraints applied to the opportunity set at this juncture, it includes value as well as growth stocks.
- The 250-300 stock opportunity set is typically narrowed down according to a five-pronged analysis of each company including management assessment, competitive advantage assessment, business model review, use of technology, and valuation /financial condition.
- This valuation methodology is considered an "owner earnings" approach. They take operating earnings and make significant adjustments for accounting differences in sources of income and expenses (accounting for option expenses, inflated pension assumptions, depreciation expenses, etc), and then divide that figure by their assessment of enterprise value. Enterprise value includes the equity and debt value that a business holds, including adjustments for pension and health-care liabilities.

#### Summary of Investment Capabilities Opinion

- Liquidity/capacity remains a concern. Davis is managing approximately \$63 of the firm's ~\$70 billion (through 9/30/09) in large cap value assets combining separate account and mutual fund strategy assets. This is on the high end of the range of asset levels that CG has witnessed with any one manager in a single asset class. CG's concerns reside in that the firm holds a materially large amount of the outstanding shares in many of their holdings (some more than 20%), especially those smaller in market cap. Furthermore, a significant portion of the names in a recent sample FS portfolio would take 20 days or more to unwind.
- Chris Davis and Ken Feinberg are viewed as being extremely important to the day-to-day management of this product. CG currently finds both Chris Davis and Ken Feinberg to be actively involved in the day-to-day investment activities in the firm. However, there have been indications that at some point in the near future, some of their role might transition

to the more senior analysts. It is anticipated that Chris and Ken eventually transition into more of a top-down role and that the bottom-up work will be in the hands of the research analysts, as Chris and Ken's conviction in their abilities increases.

- Focus and attention away from investment duties by the portfolio managers was also considered to be a potential issue of concern. Despite numerous media and client service appearances, the firm claims that Chris and Ken spend little time (less than 5%) away from investment duties. The firm states that Ken Feinberg spends essentially all of his time solely on investment activity.
- Davis believes they can take advantage of inefficiencies in the market. There may be stocks within the portfolio that are hard to decipher given their complicated accounting standards. Other inefficiencies that Davis attempts to exploit are found in company management and changes in accounting policy.
- The research effort is held in very high regard. Research emphasis is placed on assessing company management on top of knowing the business drivers and financials. But the firm also digs deep into company filings including proxy votes, and more recently has added more credit research capabilities in light of the AIG experience.

#### Other Key Items

##### Decision-Making

- If the analyst ultimately views the stock favorably, the idea is presented to Chris Davis and Ken Feinberg for acceptance or rejection. If accepted, Messrs. Davis and Feinberg will also determine the stock's weighting in the portfolio. Decisions are made based on consensus. Disagreements typically require additional research by the analyst. Chris Davis can ultimately make the final decision in case of a deadlock.

##### Sell Process

- Generally, a stock is sold if: fundamentals deteriorate, an incorrect assessment is made, a gradual degradation of the business is observed whereby another company in the same industry becomes more attractive, or valuation grows above their comfort level
- There is no stop loss and there is no requirement to average down.

##### Track Record Reliability

- The track record is considered reliable as the decision-making at the firm has not changed since Chris Davis took the helm from his father in the mid 90's. In addition, the firm has upheld the investment philosophy that they trace back three generations.

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**Key Investment Professionals**

Investment Team Overview	Position	Area of Coverage	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Chris Davis	Chairman, co-PM	Generalist, Financials		St Andrews	1987	1989	1989
Ken Feinberg	Co-PM	Generalist, Financials		Columbia	1994	1994	1994
Danton Goei	Research Analyst	Healthcare, Media		Penn	1994	1998	1998
Dwight Blazin	Research Analyst	Technology		NYU	1994	1994	1994
Tania Pouschine	Research Analyst	Generalist			1994	2003	2003
Jae Chung	Research Analyst	Multi-national			1989	2003	2003
Charles Cavanaugh	Research Analyst	Financials			1997	2001	2001
Stephen Chen	Research Analyst	Generalist	•		1995	2002	2002
Todd Heysse	Research Analyst	Generalist		Columbia	2001	2002	2002
Darin Prozes	Research Analyst	Generalist		Stanford	1997	2004	2004
Dreyfus Neenan	Research Analyst	Financials		Chicago	1997	2006	2006

*Source: Davis Advisors, Consulting Group*

**Other Key Professionals**

Investment Team Overview	Position	Area of Responsibility	CFA	Advanced Degree From	Experience		
					Career	Firm	Product
Sharra Haynes	Ch Comp Officer	Compliance			1989	1994	

*Source: Davis Advisors, Consulting Group*

**Primary Functions of Key Professionals**

Name	Security Selection	Security Research	Portfolio Construction	Trading	Client Service	Business Management
Chris Davis	•	•	•		•	•
Ken Feinberg	•	•	•			•
Danton Goei		•				
Dwight Blazin		•				
Tania Pouschine		•				
Jae Chung		•				
Charles Cavanaugh		•				
Stephen Chen		•				
Todd Heysse		•				
Darin Prozes		•				
Dreyfus Neenan		•				
Sharra Haynes						•

*Source: Davis Advisors, Consulting Group*

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### Business Structure Overview

#### History/Ownership

- Davis Advisors is a privately owned, family managed investment firm founded in 1969 by Shelby M.C. Davis and partners. Roots of the firm can be further traced to Mr. Davis' father, investor Shelby Cullom Davis, a financial advisor to past governors and U.S. Presidents.
- The firm established its flagship large cap value mutual fund in 1969. In the early 1990's Davis expanded its product base beyond the large cap value products to include financial services as well as real estate and convertible bond portfolios. The firm also offers an all cap product, which is managed by members of the research group. More recent additions to the product lineup include international and global equities.
- The firm has remained independent with regard to ownership. The general partner in Davis is a Subchapter S corporation named Davis Investments. In 1993, the Davis family increased its ownership to become majority owners of the firm after purchasing the remaining portion of founding co-partner, Martin Proiect's, share of the firm.
- There is currently a succession plan in place in which Christopher Davis and Andrew Davis will slowly purchase partnership shares (within Davis Investments L.L.C.) from their father, Shelby. Chris Davis replaced Shelby Davis as the firm's general partner (i.e. within Davis Investments) at the end of 2000. Hence, voting control shifted to Chris.
- Non-family ownership has increased from 5% in 2003. According to DA, Ken Feinberg is noted as having a large portion of the employee ownership.

#### Business Plan

- The firm maintains its primary office in New York, NY which houses more than 30 investment/marketing/client service professionals. Davis also has its mutual fund/service center and operations department in Tucson, Arizona, and a back office staff located in Santa Fe, New Mexico.
- The firm distributes their products through multiple distribution channels including separately managed accounts, institutional accounts, load funds, no load funds, variable annuity, offshore funds and sub-advisory services.
- While distribution is relatively diversified, the Large Cap Value strategy holds an overwhelming majority (~90%) of the firm's assets.
- Asset declines have led to support staff cuts in early 2009, not unlike many industry peers.
- The firm has actively added to their research staff in recent years.

#### Legal/Compliance

- In August 2008, a proposed class action lawsuit was filed in the United States District Court for the District of Arizona on behalf of investors in Davis New York Venture Fund ("Fund") against Davis Selected Advisers L.P. (the Fund's adviser) and Davis Distributors, LLC (the Fund's principal distributor). The plaintiffs claim that the defendants ("Davis Advisors") charged the Fund excessive and disproportionate fees to manage and distribute the Fund. The lawsuit seeks monetary damages and other relief. Davis Advisors believes the action is without merit and intends to vigorously defend the proceedings. Although no determination can be made at this time, it is not anticipated that this lawsuit will have a material adverse effect on Davis Advisors, the assets, or results of the Fund.

#### Summary of Business Structure Opinion

- The concentration of assets in the Large Cap Value product is a concern. CG takes a limited degree of comfort in the firm's acknowledgement of capacity as an issue, but views negatively the fact that the firm will not commit to any tangible capacity limit.

- The firm is not without some personnel turnover, notably Chip Tucker in 2008 and Kent Whitaker in 2006. Both were high in seniority and tenure among analysts at the firm at the time of their departures. While we find any departure in a research team that we have a high opinion of a negative event, additions to the team in the recent past suggest no issues with the firm's ability to attract talent.
- Assets have fallen with the market and the firm has made some rationalizations among support staff. Although notably the firm has moved in the other direction by adding to the investment team and states that they wouldn't have to make any "draconian" cuts in staff unless assets fell below \$20 billion.

#### Other Key Factors

##### Incentives/Alignment of Interests

- The investment professionals are compensated based on salary and bonus. The non-partners have one bonus pool while the partners have a separate pool. The partners' bonus pool is based on the earnings of the firm.
- Analysts who participate in the analyst-driven All Cap Core product have the additional incentive of being paid based on the performance of that product. They also are tracked on an internal paper portfolio of Large Cap stocks, the Davis Research Fund.
- Bonus distribution is subjectively determined based on research contributions. Quality of analysis and effectiveness are two determining factors. Data is recorded to measure the effectiveness of analyst stock recommendations.
- The Davis family, the DA Board of Directors and employees have over \$2 billion personally invested in the firm's investment products.

Ownership And Parent Company	
Name of Owner	Percent Owned
Davis Family	81
Other Employees	19
Publicly Traded	Ticker Symbol
No	NA

Source: Davis Advisors, CG

##### Assets Under Management (\$ Millions)

Year	Firm	Product
2008	60,675	55,140
2007	105,161	92,890
2006	98,011	85,690
2005	72,123	66,970
2004	58,257	54,170

Source: Davis Advisors, CG

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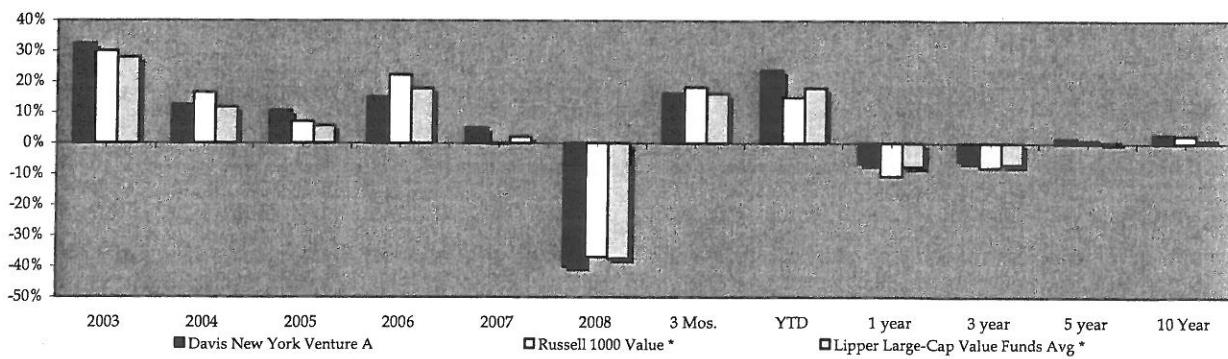
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## Performance Overview

The performance data shown represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance information, current to the most recent month-end, please contact the Fund directly at [www.davisadvisors.com](http://www.davisadvisors.com). Please refer to important performance and other disclosures located at the end of the report. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets.

### Performance as of 9/30/09

(Total Returns - periods greater than 1-year are annualized)



	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>3 Mos.</u>	<u>YTD</u>	<u>1 year</u>	<u>3 year</u>	<u>5 year</u>	<u>10 Year</u>
<b>Davis New York Venture A</b>	32.34%	12.38%	10.69%	15.13%	4.96%	-40.03%	16.35%	23.80%	-6.55%	-5.69%	1.57%	2.91%
Russell 1000 Value *	30.03%	16.49%	7.04%	22.21%	-0.18%	-36.85%	18.24%	14.84%	-10.62%	-7.88%	0.89%	2.58%
Lipper Large-Cap Value Funds Avg *	27.92%	11.84%	5.70%	17.83%	2.11%	-37.44%	16.23%	17.93%	-7.82%	-6.94%	0.43%	0.84%

#### Fund Expense Ratios

#### NYVTX

Gross Expense Ratio	0.59%
Net Expense Ratio	0.59%

Source: Performance information from Lipper and Polaris, expense information from the fund company

\* Please refer to "Indices/Definitions" at the end of this report.

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## **Performance Commentary**

### **Shorter-Term**

- Technology exposure has been a significant value adding factor for the portfolio thus far into 2009 as that sector has been a significant performance leader in the broader equity market. In addition this is helpful to benchmark relative performance as the value style index does not have as much exposure to Technology whereas active and particularly relative value investment processes can subjectively justify the valuation and participate in the sector's performance.
- The portfolio's Financials exposure has also been additive, participating in the rebound in that sector with nearly 30% of equity assets.
- From the onset of the bear market, 2<sup>nd</sup> half of 2007 and into 2008, the portfolio had held up surprisingly well on a relative basis given the amount of Financials exposure that has typified this product. That is until the AIG collapse in September, which had been among the top positions in the portfolio. Davis ended the year approximately matching the benchmark's return.

### **Longer-Term**

- Longer term performance was challenged at times during a strong value market as more discount value oriented styles tended to lead performance relative to the Russell 1000 Value benchmark.
- The product had noticeable difficulty keeping up with the benchmark in 2004 and 2006, although more positive relative performance has brought longer term performance figures back ahead of the benchmark.

### **Trends in Portfolio Positioning**

- While Financials still make up a materially large weight in the portfolio, the firm has moved away from the larger relative position in that sector than in the recent past and has built up a similar in magnitude but less observed overweight to Technology.
- An increase in non-US domiciled names has also been a noticeable trend in recent years, more so in the mutual fund versions of the Large Cap Value strategy. Notably the firm has also put more of an emphasis on ex-US domiciled firms in their research effort and has launched international and global products.

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**Portfolio Statistics**

**FUND STATISTICS AS OF 7/31/09**

**Risk Statistics As Of 9/30/09**

**Economic Sector Allocation**

Sectors	Fund	R1000V
Energy	14.9%	18.9%
Materials	6.2%	3.8%
Industrials	7.3%	10.2%
Consumer Discretionary	9.8%	9.3%
Consumer Staples	12.2%	5.8%
Health Care	10.0%	9.7%
Financials	28.4%	23.8%
Information Technology	10.9%	5.1%
Telecomm Service	0.0%	6.0%
Utilities	0.4%	7.4%

**Top 10 Holdings**

Company	% Equity
BERKSHIRE HATHAWAY INC	4.1%
WELLS FARGO & CO NEW	3.9%
COSTCO WHSL CORP NEW	3.5%
OCCIDENTAL PETE CORP	3.3%
AMERICAN EXPRESS CO	3.2%
JPMORGAN CHASE & CO	3.1%
EOG RES INC	2.9%
DEVON ENERGY CORP NEW	2.9%
BANK OF NEW YORK MELLO	2.6%
CANADIAN NAT RES LTD	2.4%
Total	32.1%

**Capitalization Distribution**

CG Definitions	Fund	R1000V
Mega Cap (\$50b+)	30.9%	37.4%
Large Cap (\$11b - \$50b)	42.2%	34.7%
Mid Cap (\$2b - \$11b)	26.4%	23.3%
Small Cap (\$500m - \$2b)	0.5%	4.5%
Micro Cap (< \$500m)	0.0%	0.0%

**Capitalization Quintile**

	Fund	R1000V
1 ABOVE 126.95 (Bil)	9.2	21.9
2 47.16 - 126.95	23.6	15.7
3 19.99 - 47.16	27.3	20.3
4 7.11 - 19.99	23.9	21.6
5 0.00 - 7.11	16.0	20.5

**Portfolio Statistics**

	Fund	R1000V
Number of Holdings	93	676
Weighted Capitalization (Bil)	48.9	65.6
Average Capitalization (Bil)	35.2	9.8
Median Cap by Port Weight (Bil)	30.3	24.7
Trailing P/E	25.1	25.6
Adjusted Trailing P/E	25.3	22.3
Historical EPS Growth (%)	12.8	7.8
Year 1 EPS Growth Yield (%)*	(1.5)	(3.2)
Long Term EPS Growth Rate (%)*	8.9	7.2

**PE Quintiles**

	Fund	R1000V
1 BELOW 10.83	25.0	35.0
2 10.83 - 13.61	7.8	19.6
3 13.61 - 16.04	19.8	16.3
4 16.04 - 24.70	22.5	11.2
5 ABOVE 24.70	24.8	17.9

**Risk Statistics vs. R1000V\*\* as of 9/30/09**

	3 year	5 year
Alpha	2.65%	0.72%
Beta	1.01	0.98
R-Squared	95%	94%
Tracking Error	5.5%	4.8%
Information Ratio	0.40	0.14
Batting Average	42%	40%
Up Capture	108%	99%
Down Capture	96%	96%
Standard Deviation - Fund	25.22%	19.90%
Standard Deviation - Benchmark	24.33%	19.69%
Sharpe Ratio - Fund	(0.32)	(0.07)
Sharpe Ratio - Benchmark	(0.42)	(0.10)

Source: Risk statistics from Lipper, Polaris, Consulting Group. All other Fund Statistics from Vestek Systems and Consulting Group.

\*Analyst Consensus (annualized)

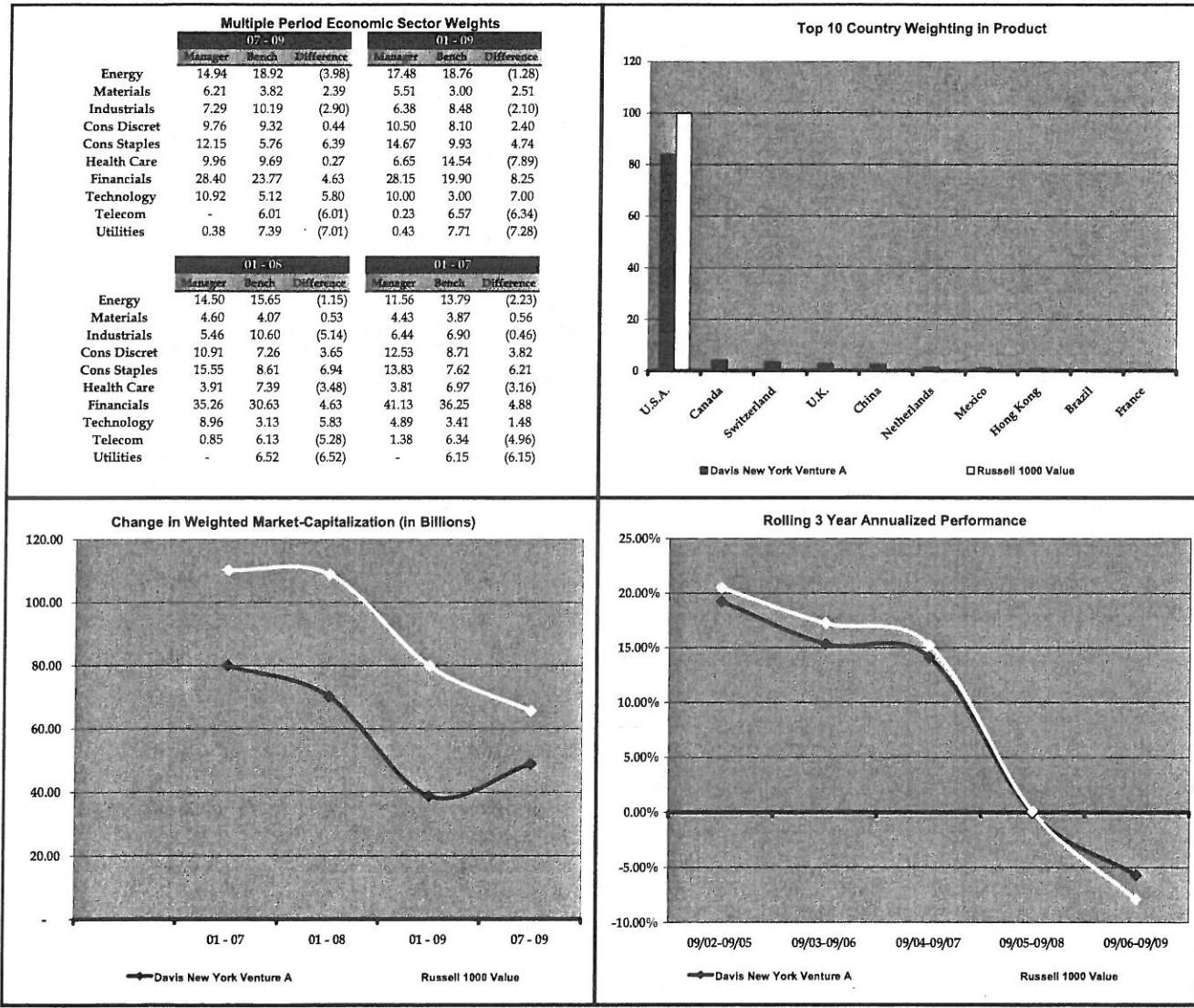
\*\*Please refer to "Indices/Definitions" at the end of this report.

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### Performance and Portfolio Statistics

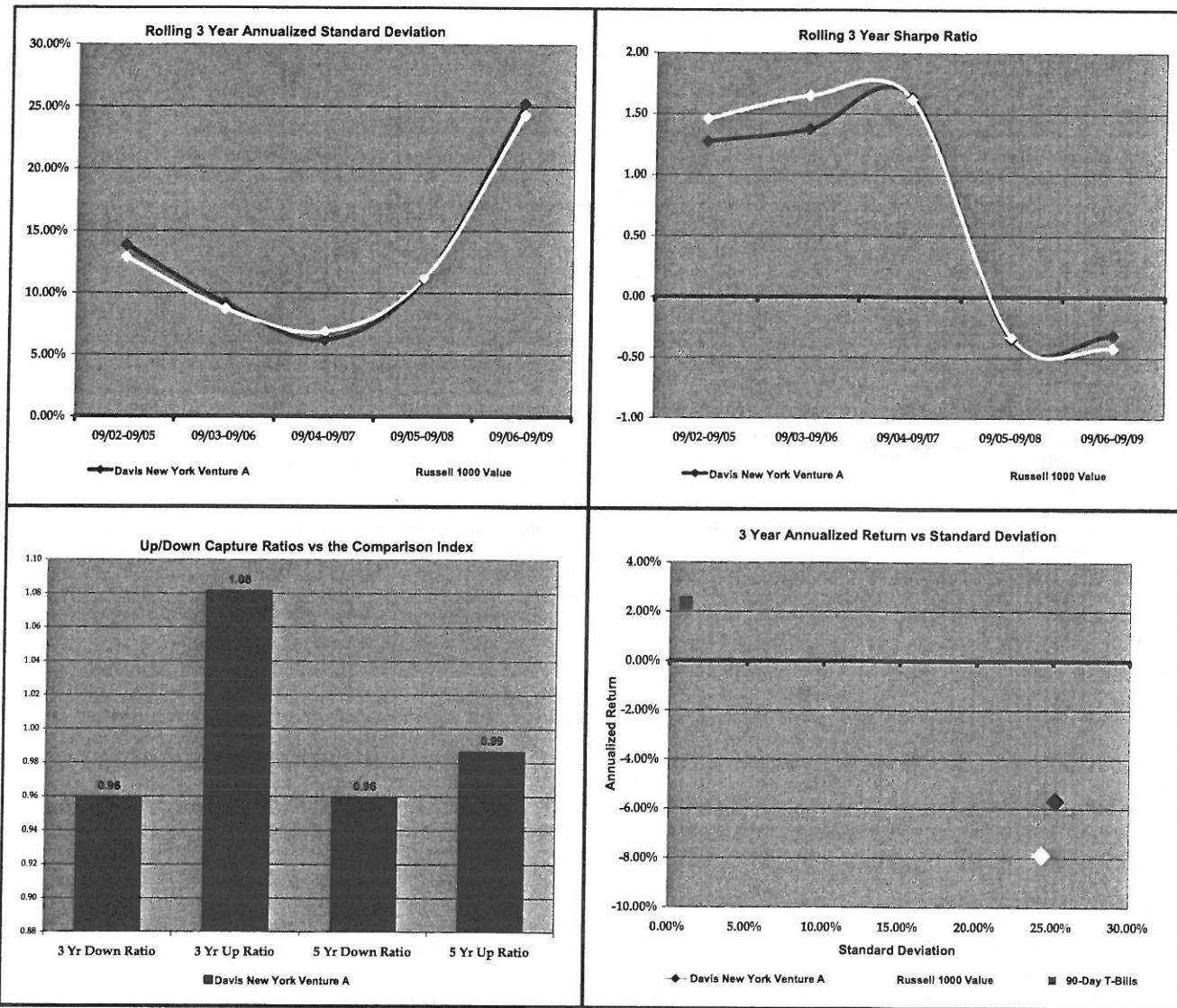
The performance data shown represents past performance, which does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance information, current to the most recent month-end, please contact the Fund directly at [www.davisadvisors.com](http://www.davisadvisors.com). Please refer to important performance and other disclosures located at the end of the report. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets.



Source: Polaris, Vesteck Systems and Consulting Group.

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**Performance Statistics**



Source: Polaris, Vestek Systems and Consulting Group.

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### OPINION OVERVIEW DESCRIPTION

**Investment Capabilities** – Represents CG Research's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average and Needs Improvement**. **Above Average** conveys that CG Research has a high degree of confidence and conviction in a manager's investment capabilities. An opinion of **Average** denotes that while CG Research has a generally favorable view, it may have some concerns about the investment manager's investment capabilities. An opinion rating of **Needs Improvement** generally indicates that CG Research has material concerns relative to the investment manager's overall investment capabilities. For example, this could be the result of sizable personnel departures, poor execution of stated investment discipline or a limited research effort.

**Business Evaluation** - Represents CG Research's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement**. **Above Average** conveys that CG Research has a high degree of confidence and conviction in a manager's overall business structure and believes that there are limited to no material issues. An opinion of **Average** denotes that while CG Research has a generally favorable view, it may have some concerns about the investment manager's business structure. An opinion rating of **Needs Improvement** generally indicates that CG Research has material concerns relative to the investment manager's overall business structure. For example, this could be the result of what we believe to be material legal and/or compliance issues, material asset loss, ownership issues or ineffective incentives for the investment professionals.

**Short-Term & Long-Term Performance Analysis** – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents CG Research's opinion of the investment manager's investment performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents CG Research's opinion of the investment manager's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line and Below Expectations**. **Above Expectations** conveys that CG Research believes the investment product has performed better than expected given investment biases and market conditions, while an opinion of **In-Line** denotes that CG Research believes the investment product has performed as expected given investment biases and market conditions. A rating of **In-Line** should not be interpreted negatively, but rather that the investment product is performing as expected. An opinion rating of **Below Expectations** generally indicates that CG Research has concerns relative to the investment product's overall investment performance given our knowledge of the investment manager's process and the overall market conditions.

**Track Record Reliability** – Represents CG Research's opinion of the overall integrity of the investment performance displayed to clients or potential clients. This area takes into consideration items such as portfolio manager tenure on a respective strategy, construction of the performance composite, and consistency in the execution of a stated investment process. This area has three potential opinion outcomes: **High, Moderate and Low**. **High** conveys that CG Research believes the investment performance track record has a high degree of integrity and is representative of what investors could expect over time, while an opinion of **Moderate** denotes that CG Research may have some concerns as it relates to the historical performance track record. An opinion rating of **Low** generally indicates that CG Research has material concerns relative to the investment product's historical performance track record. For example, if an investment product has had a long standing portfolio manager that has delivered solid performance results over the last five-years relative to a benchmark and the portfolio manager is replaced by a new portfolio manager who instills a new investment process, CG Research may consider the historical performance track record to be non-representative of the new investment discipline.

**Expected Benchmark Sensitivity** – Represents CG Research's opinion of how closely an investment product's performance is expected to "track" the investment performance of CG Research's designated performance benchmark for a particular investment product. This area evaluates the historical investment performance tracking of a given investment product relative to a respective benchmark as well as the investment manager's current approach to active portfolio management. In evaluating benchmark sensitivity, CG will utilize relevant statistical measures such as tracking error and R-Squared as well as portfolio construction guidelines such as economic sector constraints and benchmark relative position sizing. This area has three potential opinion outcomes: **High, Moderate and Low**. In CG Research's opinion, **High** conveys that a product is anticipated to be managed with a high degree of emphasis on its benchmark with relatively tight control over the product's active weights relative to that benchmark. High benchmark sensitivity does not mean wide deviations from the benchmark will not happen, but that the investment manager seeks to reduce them. **Moderate** conveys that a product's management is anticipated to have some amount of benchmark sensitivity, but is able to make meaningful, but controlled, allocations away from a benchmark. **Low** denotes that a product places little to no emphasis on its assigned benchmark. Performance from a month-to-month and year-to-year basis may deviate significantly from its benchmark.

**Expected Portfolio Turnover** - Represents CG Research's opinion of how actively the portfolio is managed from the perspective of trading activity (purchases, sales, additions, trims, etc.). We do not view these ratings positively or negatively, but render an opinion for this category so Financial Advisors, Private Bankers and clients have some idea as to the overall level of activity that takes place in a given portfolio. High activity may result in a portfolio that is less tax-efficient for taxable clients, whereas Low activity may result in a more tax efficient portfolio for taxable clients. This area has three potential opinion outcomes: **High, Moderate and Low**. In CG Research's opinion, **High** conveys an investment product that is likely to have more than 90% turnover on an annual basis, while **Moderate** indicates expected annual portfolio turnover in the range of 30% - 90% and **Low** indicates expected annual portfolio turnover of less than 30%.

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## GLOSSARY

**ADRs** – American Depository Receipts are U.S. dollar denominated forms of equity ownership in Non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

**Adjusted Trailing P/E** - trailing Price/Earnings ratio is measured by taking the current price of the stock divided by the most recent 12 months trailing earnings per share. When calculating portfolio averages, Adjusted P/E values are not inverted to E/P which is a method used to smooth earnings. Additionally, P/Es below 2.0 are shown as N/A. As a result, this method of calculating price-to-earnings can bias P/E values higher than would normally be reported.

**Historical EPS Growth** - historical EPS Growth is defined as the quarterly earnings per share for the past 20 quarters regressed over time to determine the security's historical growth rate in earnings. The quarterly historical growth rate is then annualized.

**Alpha** – measures the difference between a manager's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the manager has performed better than its Beta would predict. A negative Alpha indicates the manager's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a manager.

**Asset-backed securities (ABS)** - securities backed by a pool of assets, typically loans or accounts receivable, originated by banks, specialty finance companies, or other credit providers.

**Batting Average** - measures how frequently a manager outperforms its benchmark on a quarterly basis. The statistic is obtained by dividing the number of quarters in which the manager outperformed the total return of the benchmark by the total number of quarters. For example, a fund with a batting average of 60% has outperformed the index more than it has underperformed.

**Beta** – measures a manager's volatility relative to its benchmark. A manager with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a manager with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

**Bond Convexity** – measures the sensitivity of a bond's duration to changes in interest rates. Convexity can be positive or negative. Unlike most fixed income securities, bonds with negative convexity tend to fall in value as interest rates decline and vice versa.

**Credit Quality Rating** - assessment of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

**Down Capture Ratio** – the ratio of the manager's overall performance to the benchmark's overall performance, considering only periods that are negative in the benchmark. A Down Capture Ratio of less than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark's negative quarters and preserves more of a portfolio's value during down markets.

**Excess Returns** – represents the average quarterly total returns of the manager relative to its benchmark. A manager with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the manager's return.

**Information Ratio** – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the manager's overperformance or underperformance relative to its benchmark.

**Long-Term EPS Growth Rate** - I/B/E/S forecasts representing an expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years.

**Modified Adjusted Duration** – measures the sensitivity of the percentage change in the price of a bond for a given change in yield, shown as a number of years to maturity.

**Mortgage-backed securities (MBS)** – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

**R-Squared ( $R^2$ )** – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's  $R^2$  is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher  $R^2$  percentages.

**Returns Rolled Annually** – measures the consistency of a manager's performance. For example, with three-year annualized returns rolled annually, the return shown for a given period is actually an annualized return for a particular year and the previous two years. Since performance is assessed over longer periods, the returns rolled annually give a better indication of trends.

**Sharpe Ratio** – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

**Standard Deviation** – quantifies the volatility associated with a given product's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility.

**Tracking Error** – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the manager's returns relative to its benchmark. A manager with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

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**Up Capture Ratio** – measures the manager's overall performance to the benchmark's overall performance, considering only periods that are positive in the benchmark.

**Year 1 EPS Growth Yield** - I/B/E/S consensus Year 1 EPS forecast minus last fiscal year's reported EPS, normalized by dividing by current price.

**Source:** CG

### DEFINITIONS

**Russell 1000** - Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

**Russell 1000 Value** - Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**S&P 500 Index** - Widely regarded as the best single gauge of the U.S. equities market, this index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of U.S. equities, it may be a proxy for the total market.

**Lipper Funds Average** – is calculated by Lipper, Inc. and it includes all funds in the stated Lipper Category group in existence for that period. Universes are dynamic due to revisions for new funds, mergers and liquidations which result in changes in the number of funds in a particular category and therefore it will be inaccurate if historical averages are linked.

**Sub-Styles:** Subjective classifications designed to assist with manager selection and performance evaluation based on CG's understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

**Relative Value:** Generally search for what they believe to be undervalued companies based on analysis relative to the market, industry and historical norms leading to portfolios that may at times maintain broader market exposure to more growth-oriented names and may appear to have higher valuations using traditional valuation metrics.

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