

An Update from
The Davis Research Team
Annual Review 2009

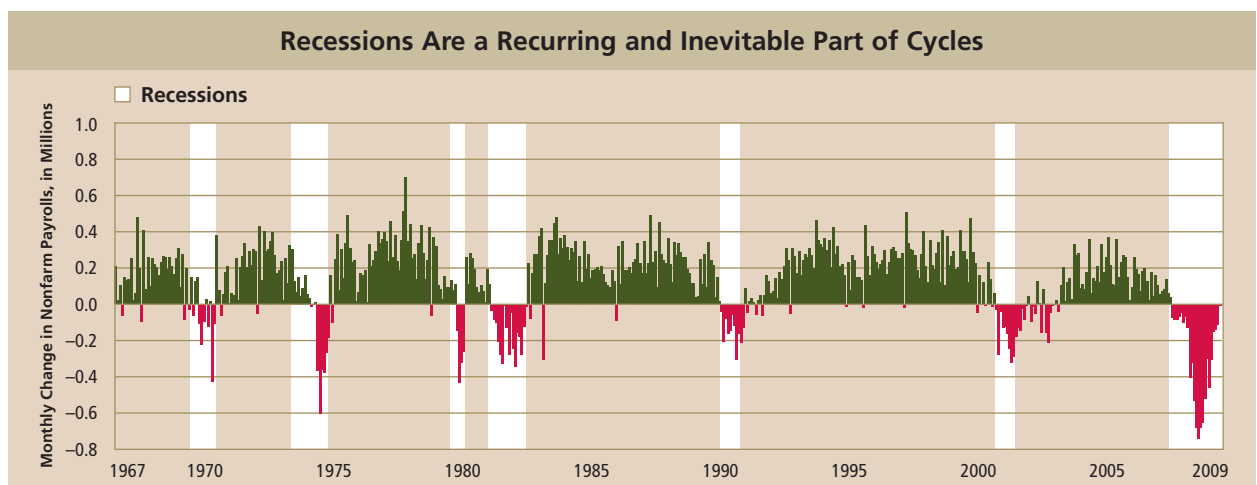
Since our founding more than 40 years ago in 1969, Davis Advisors' mission as a firm has been to serve our shareholders and to do so with high integrity. Mindful of the enormous responsibility that comes with serving as a steward of others' capital, we are firmly committed to:

- **Investment excellence:** Davis Advisors conducts rigorous fundamental research with the goal of producing solid long-term investment results for shareholders.
- **Sharing wisdom and perspectives about investor behavior:** We strive to promote healthy investor behavior, which we firmly believe can positively influence the results that shareholders ultimately realize.
- **Open and honest communications:** We seek to communicate with our shareholders in a manner that we would desire if our roles were reversed.

As a sign of our commitment to all those who have entrusted capital to us, the Davis family, Davis Advisors, employees, and directors have more than \$2 billion of their own money invested side by side with fellow shareholders in the various mutual funds our firm manages.¹

Market Perspectives²

Last winter in the midst of the turmoil in the financial markets, we recommended long-term investors think about conditions as dynamic, not static. Specifically we noted that “we are now in a bear market and economic recession, but it would be a mistake to assume this state of affairs will last forever. *Based on our experience, we believe that the economy and financial system . . . are extraordinarily resilient, that the credit crunch will eventually subside, that businesses can and do adapt to changing realities given time, and that the long-term outlook for businesses—and therefore equities—remains favorable.*”³ While certain aspects of the market environment remain uncertain, important signs of stabilization began to appear



Source: National Bureau of Economic Research using data from the Labor Department, January 1967 through November 2009.

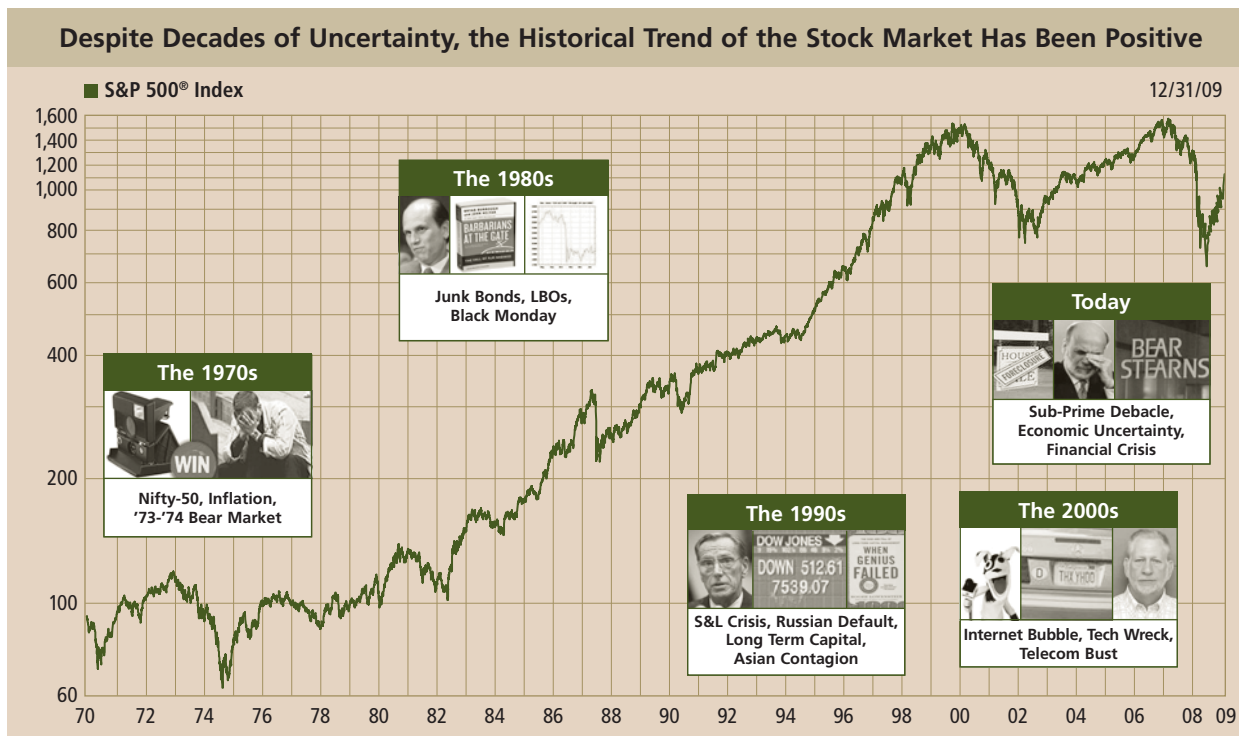
Past performance is not a guarantee of future results.

¹As of December 31, 2009. ²This report includes candid statements and observations regarding investment strategies, individual securities, 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. **Past performance is not a guarantee of future results.**

³Source: Selected Special Shares Annual Review 2008, December 31, 2008, page 3.

on numerous fronts in 2009. Notably, the pace of deterioration seemed to moderate, particularly with respect to the residential housing market. Credit markets, meanwhile, have thawed considerably over the past year as evidenced by robust debt issuance. Equity markets, while still below their level of two years ago, have risen from their lows. Among other positive news, valuations for many high-quality businesses remain in a range that we consider reasonable relative to their intrinsic worth. (From a risk/reward standpoint this is significant, as low valuations are generally a requirement for higher future returns.) In addition, policymakers around the world are seeking to aid the process of recovery by maintaining relatively accommodative monetary policies, and businesses almost universally are cutting costs and/or consolidating to support profits and margins.

The recent period of dislocation is neither the first nor the last that we will see. In our more than 40 year history as a firm, Davis Advisors has navigated through numerous bear markets and recessions, each of which had aspects that at the time were worse than anyone could have imagined. What our experience has taught us is that crises are inevitable and painful, but ultimately surmountable. None to date has permanently derailed the market's ability to compound over the long term. In fact, for the better part of the last century the U.S. economy has grown over every decade and the market in the long run has managed to produce double-digit returns despite setbacks such as prolonged bear markets; wars; recessions; an oil crisis; a hostage crisis; periods of double-digit interest rates, inflation and unemployment; political scandals; stock market crashes; the 9/11 attacks; and much more.



Source: Yahoo Finance. Graph represents the S&P 500® Index from January 1, 1970 through December 31, 2009. **Past performance is not a guarantee of future results.**

Portfolio Positioning⁴

Market conditions may vary from period to period, yet the core tenets of the Davis investment discipline and approach remain the same. We start with the premise that stocks represent fractional ownership in real businesses. We seek to purchase durable businesses at value prices and hold them for the long term. We believe that owning shares of well-managed businesses with attractive reinvestment rates, purchased at reasonable valuations and held for years to allow the power of compounding to work, is a reliable method for building capital over long investment horizons.

By definition, owning shares of companies for years or even decades means that some, perhaps all, of our investments will traverse rough patches along the way, whether they are specific to a company, an industry or the broader market. We know in advance that we are going to own businesses in periods of rising interest rates, falling interest rates, inflation, disinflation, a weak dollar, a strong dollar, and so forth. Therefore, when we think about purchasing shares of a company, we have to weigh carefully up front whether we think the business can withstand inevitable shocks in addition to considering the likelihood the business can grow earnings power (and therefore intrinsic worth) over full cycles. Then, company by company, we set out to build a durable, all-weather portfolio of businesses that can compound over the long term.

Our Portfolio holds three primary categories of investments:

- Market leaders with strong balance sheets
- “Out-of-the-spotlight” businesses
- Headline risk or contrarian investments

Market leaders with strong balance sheets—

In many cases these are global companies with universally known brands, earnings that are well diversified from the standpoint of product line and geography, and fortress balance sheets. At this time the majority of the Portfolio’s assets is invested in companies with market capitalizations in excess of \$10 billion and combined revenues totaling more than \$1.2 trillion.⁵ These businesses span a broad range of global industries from technology to financials to health care, among others. They provide a core foundation of stability within the Portfolio and offer in our view a high probability of long-term sustainable returns through capital appreciation and dividends.

An example of a market leader in our Portfolio is SAP AG, a global information technology company headquartered in Germany that designs and maintains enterprise software systems. Enterprise software is the underlying software used by a firm’s mainframe computers that power such essential functions as accounting, inventory control and customer contact systems. SAP’s business model is based on creating innovative software packages and offering them at a far lower price than businesses would incur if they built the software on their own. Virtually every company that purchases SAP software also purchases a maintenance contract that provides access to periodic upgrades and ongoing customization. These maintenance contracts are an important driver of earnings growth and annuity-like cash flows over multi-year periods making SAP a particularly durable franchise.

⁴Individual securities are discussed in this piece. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. The return of a security to the Portfolio will vary based on weighting and timing of purchase. This is not a recommendation to buy or sell any specific security. **Past performance is not a guarantee of future results.** ⁵Source: Davis Advisors and Wilshire Atlas.

In our view, market leaders such as SAP that possess global reach, proven management and scale advantages are well positioned to create significant value for long-term shareholders.

Out-of-the-spotlight businesses—After market leaders, the next major category of investments in the Portfolio is out-of-the-spotlight businesses. These are lesser known companies with attractive economics that in our opinion should eventually command higher valuations. Their appeal may take time to gain recognition, often because these businesses are smaller or operate in a mundane non-consumer-oriented industry. Given the right leadership and attractive reinvestment rates, these low-profile holdings can provide the opportunity for the “double play” of expanding multiples on expanding earnings, which can turn a company with a solid earnings growth rate into a stellar investment. As a general rule, out-of-the-spotlight holdings tend to be boring but steady compounding machines.

Agilent Technologies is an example of an out-of-the-spotlight holding. This company was spun off from Hewlett-Packard in 1999, and today is a leading provider of bio-analytical and electronic measurement solutions. Among its various offerings, Agilent manufactures laboratory equipment that detects dangerous chemical and biological agents in air, water, soil, and food samples. Agilent’s electronics division complements its chemical and biological business by providing testing instruments, systems and services for manufacturers of electronic equipment such as cell phones, MP3 players and fiber optic cable. Led by CEO Bill Sullivan, Agilent has demonstrated excellent capital allocation discipline, generates ample free cash flow and has a solid balance sheet with ample liquidity.

Banco Santander (Brasil), a recent addition to the Portfolio, is a second example of an out-of-the-spotlight holding. The company is a major financial institution in Brazil focusing on the retail and small business markets. We believe our investment in this well-capitalized bank will allow us to participate both in a well-run bank and an important growing economy.

Headline risk or contrarian investments⁶— On a very selective basis we make contrarian investments. These often involve controversial situations where the market is discounting a company’s share price to reflect a perception of risk that we think is greater than the probable economic risk to the business’s long-term fundamentals. Typically a minor portion of our portfolios in percentage terms, headline risk investments can sometimes be difficult for clients to understand because they beg the question, “Don’t you read the papers?” But it is precisely because so many other investors automatically sell companies with near-term challenges, however surmountable, that the potential for high returns exists in many such instances. Our job is to ferret out opportunities that represent favorable risk/reward trade-offs and do our best to avoid the value traps. We will not get every investment right. However, overall this distinctly contrarian element of our investment discipline has been an important contributor to our long-term success and can be an effective and repeatable way to capitalize on herd mentality in the market. As an example, the uncertainty associated with pending health care reform in the United States has created opportunity in recent months. In 2009 we were able to purchase shares of a number of high-quality businesses in the health care field, including Merck (which merged with Schering-Plough in November 2009) and Pfizer, at what we believed were highly attractive valuations.

⁶While we research companies subject to such contingencies, we cannot be correct every time, and a company’s stock may never recover.

Overall, the investments we have made in the three categories described above combine to form a total Portfolio that we believe is well diversified and has a high probability of producing satisfactory compound returns over full market cycles.⁷

Performance Review

For the year ended December 31, 2009, Selected Special Shares significantly outperformed its benchmark the Russell 3000® Index, which returned 28.34%.⁸ Longer term, the Fund has outperformed the Index in the majority of years since 2002, the first full year that Davis Advisors managed the Fund⁹—a testament in our view to the effectiveness of the fundamentals-based Davis investment discipline through a variety of market and economic environments.

The Portfolio’s results in 2009 reflect strong performance among many individual holdings, particularly within the information technology, health care and energy sectors. (Sector allocations are a by-product of bottom-up stock selection and generally represent a cross section of market leaders, out-of-the-spotlight holdings and

headline risk investments. We refer to sector-level performance here merely to provide a general framework for understanding the Portfolio’s aggregate performance in the most recent calendar year.)

Information technology was one of the best performing areas of the Portfolio and the market as a whole in 2009. Our technology holdings predominantly include workhorse category leaders in online search, chips and software, among other business types. We believe our technology holdings, which include Google, Texas Instruments, Microsoft, SAP, and Agilent, stand a high probability of compounding earnings by generating relatively high returns on capital and enjoy significant competitive barriers to entry.

Our health care holdings consist of a variety of businesses including IDEXX (leading technology and services provider to veterinarian offices around the world); Merck and Pfizer (pharmaceutical manufacturers); Becton, Dickinson (global leader in surgical instruments and other health care supplies); and Johnson & Johnson

Total Returns as of 12/31/09	1 Year	5 Years	10 Years	Since 6/1/01
Selected Special Shares Class S Shares	44.21%	0.10%	0.99%	1.77%
Russell 3000® Index	28.34%	0.76%	-0.20%	1.19%

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 for Class S shares as of the most recent prospectus was 1.26%. 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 data quoted. For most recent month-end performance, visit selectedfunds.com or call 800-243-1575.

⁷While 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. Equity markets are volatile and an investor may lose money. ⁸Class S shares. **Past performance is not a guarantee of future results.** ⁹Class S shares. Since January 1, 2002, the Fund outperformed the Russell 3000® Index in five of the last eight calendar years. Davis Advisors began active daily management of the Fund on June 1, 2001. **Past performance is not a guarantee of future results.**

(global leader in consumer health care products). As noted earlier, due to the uncertainty created by the health care debate, a number of quality businesses—some of which we have followed for many years—have traded at depressed market valuations, offering us the opportunity to selectively add strong durable companies to our Portfolio at attractive prices in 2009. While we cannot predict how the health care debate will be resolved, we believe that well-managed businesses with strong competitive positions in their unique markets stand to benefit from increasing expenditures on health care products and services due to global demographic trends.

Our energy holdings consist predominantly of oil and natural gas exploration and production companies including Occidental Petroleum and Devon Energy as well as businesses that provide services to that industry including Tenaris and Transocean. These companies have historically earned above-average returns on capital versus their peers and in our view are trading at reasonable normalized valuations. We believe our energy holdings are capable of creating value for shareholders under a variety of economic and market conditions through the disciplined allocation of capital. They also stand to benefit potentially from the long-term tailwinds of a growing global middle class and a veritable industrial revolution taking place within certain developing economies.

Regarding notable portfolio changes in 2009, we initiated or added to select positions in health care and financial services, among other areas. To fund these new allocations,

we pared our position in Comcast among other holdings.

To provide our clients with timely information, we have discussed Portfolio results for the trailing 12 month period. However, our investment discipline is based on a much longer term view. We evaluate each investment in the Portfolio based on its potential to create value for our clients over multi-year holding periods. Through bottom-up stock selection and rigorous fundamental research, we aim to construct a total portfolio that we believe is well diversified and has a high probability of producing satisfactory compound returns over full market cycles.

Lessons Learned in 2008 and 2009

Reflecting on the past two years, which include the economic crisis of 2008 and the partial recovery of 2009, these are among the key lessons we have learned:

- Periodic crises are *inevitable* and painful, but they are ultimately surmountable and can create significant opportunities for disciplined long-term investors.
- Liquidity, reasonable limits on leverage, franchise durability, and management quality are critical to companies weathering the inevitable yet unpredictable periods of crisis.
- Adhering to a reliable, time-tested discipline and keeping a long-term perspective are crucial to compounding wealth over time.¹⁰ Investors who maintained a patient, objective and long-term perspective through 2008

(continued)

¹⁰There is no guarantee an investment will compound over time.

and who recognized that periods of dislocation can cause *security prices* to diverge widely from *business values* were generally rewarded for their steadfastness in 2009, as the chart below suggests.¹¹

Maintaining a Long-Term Perspective

Building long-term wealth with a portfolio of businesses is like driving an automobile in some respects. If investors focus too narrowly on the stretch of road a few feet ahead, they run the risk of making unnecessary adjustments and oversteering. Only by lifting our eyes to see the road further ahead are we likely to reach our ultimate destination. The crisis that unfolded in 2008 and from which we are gradually recovering is a case in point. While 2008 was extraordinary in many respects and the experiences of that year provide some important lessons for the future, investors must not forget that the norm over longer time horizons generally favors growth and positive equity returns.¹² In fact, history suggests that the probability of achieving positive returns from equities increases the longer one's investment horizon, which is a strong endorsement for being patient and staying the course.¹²

The charts on the next page illustrate this point by showing the percentage of time from 1928

through the end of 2009 the Dow Jones Industrial Average produced positive returns over one year and five year holding periods. Extending one's horizon from one to five years increased the historical chances of realizing a positive return in the market from 73% to 92%. In navigating uncertain times, it is useful to remain focused on the long term since stocks have generally rewarded patient investors.¹²

Where We Are Finding Opportunities

There are always opportunities and risks. In our view the keys to outperforming the market over the next decade, as we have done in the majority of years since Davis Advisors began managing the Fund,¹³ are: (1) to think long-term rather than get caught up in short-term cycles, (2) to exercise a highly selective and disciplined approach with respect to business quality and valuation, and (3) to remain focused on in-depth, bottom-up research.

Today we are finding compelling values in many areas of the market that in our view represent attractive avenues for compounding shareholders' capital over the next decade. Most of these opportunities fit within the following long-term themes:

A Long-Term Perspective Is Crucial to Compounding Wealth

	2009 Low	Year-End Close
Berkshire Hathaway	72,400	99,200
Costco	38	59
Google	283	620
Johnson & Johnson	47	64
Dow Jones Industrial Average	6,547	10,428
NASDAQ	1,269	2,269
S&P 500® Index	677	1,115

Source: Bloomberg. There is no guarantee that these indices or securities, or any other indices or securities, will appreciate in the future.

¹¹Source: Bloomberg. There is no guarantee that low priced securities will appreciate. ¹²Past performance is not a guarantee of future results. ¹³Class S shares. Since January 1, 2002, the Fund outperformed the Russell 3000® Index in five of the last eight calendar years. Davis Advisors began active daily management of the Fund on June 1, 2001. Past performance is not a guarantee of future results.

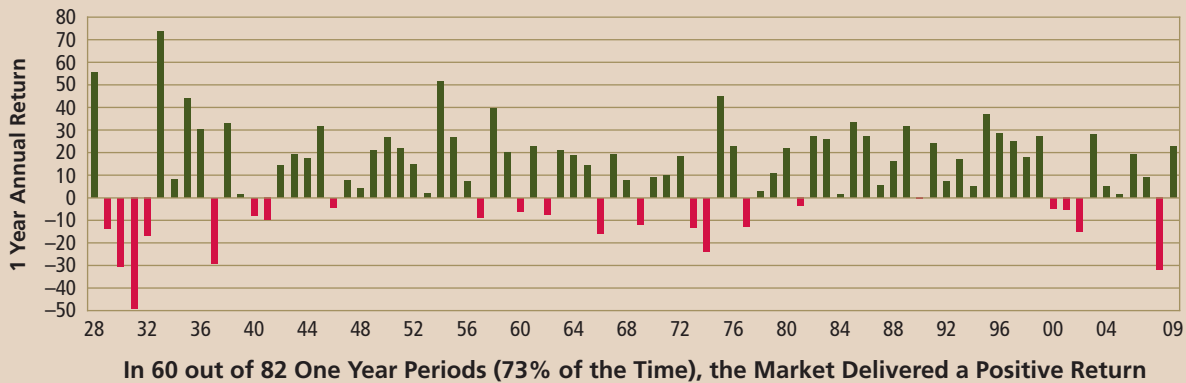
■ **Globally dominant businesses**—These industry leaders are characterized by strong pricing power, diversified earnings, healthy balance sheets, strong competitive moats, and durable business models. Because these businesses produce excess cash, they are not dependent on external funding.

■ **Beneficiaries of crisis**—Certain companies' business models, capital positions and management disciplines allow them to take advantage of chaos. Given strong free cash flow, these companies are often able to use distressed prices to make investments, acquisitions or significant share buybacks at accretive prices.

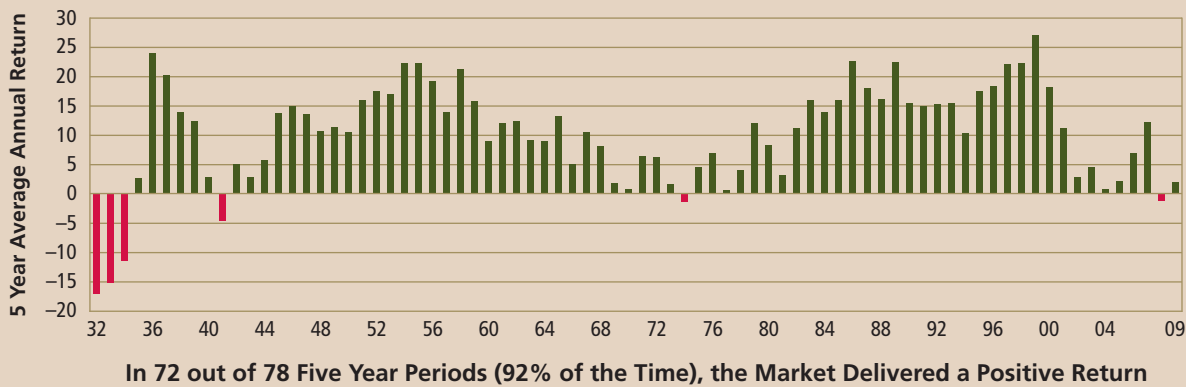
Dow Jones Industrial Average Performance (1928–2009)

Holding Period	Percent of Time the DJIA Generated Positive Results
One Year	73%
Five Year	92%

Dow Jones Industrial Average Performance (1928–2009)



Dow Jones Industrial Average Performance (1928–2009)



Source: The performance was obtained from a combination of sources, including, but not limited to, Thomson Financial, Lipper and index websites. Returns are annualized total returns. **Past performance is not a guarantee of future results.**

■ **Select financial companies**—The financial services industry is not prone to obsolescence. People will always need basic banking services, insurance products, investment management advice, and other such services. Nonetheless, it is necessary to differentiate between strong and weak players in order to invest successfully in this area of the market.

■ **Energy, commodities and agriculture businesses**—Well-managed companies in these areas are positioned to benefit from the inexorable long-term growth of a global middle class, which will result in increasing

demand and potentially higher prices for most natural resources.

■ **Select special situations**—These are highly opportunistic companies in diverse industries trading at steep discounts to intrinsic worth that may prove to be exceptional long-term investments in our view.

All of us at Davis Advisors thank you for your support. We are grateful and fortunate to have your confidence and will continue to work hard on your behalf. We look forward to continuing our investment journey together. ■

Davis Advisors Audio Webcast



Christopher Davis
Portfolio Manager

Shelby Davis
Founder of Davis Advisors



Kathryn Davis
Wife of the Late Legendary
Investor Shelby Cullom Davis

Andrew Davis
Portfolio Manager

Insights From One of the Most Successful Investment Families in History

Drawing from more than 60 years of investing experience, the Davis family shares insights and wisdom on building wealth and the temperament needed to invest successfully.

To listen to the Audio Webcast, please visit selectedfunds.com.

This report is authorized for use by existing shareholders. A current Selected Funds prospectus must accompany or precede this material if it is distributed to prospective shareholders. You should carefully consider the Fund's investment objectives, 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, 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.

Selected Special Shares investment objective is capital growth. There can be no assurance that the Fund will achieve its objective. Some important risks of an investment in the Fund are: market risk: the market value of shares of common stock can change rapidly and unpredictably; company risk: the market value of a common stock varies with the success or failure of the company issuing the stock; small- and medium-capitalization risk: small and mid-size companies typically have more limited product lines, markets and financial resources than larger companies, and their securities may trade less frequently and in more limited volume than those of larger, more mature companies; and foreign country risk: companies operating, incorporated or principally traded in foreign countries may have more fluctuation as foreign economies may not be as strong or diversified, foreign political systems may not be as stable and foreign financial reporting standards may not be as rigorous as they are in the United States. As of December 31, 2009, Selected Special Shares had approximately 18.0% of assets invested in foreign companies. See the prospectus for a complete listing 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 regarding the investment prospects of our portfolio holdings include "forward looking statements" which may or may not be accurate over the long term. 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. These opinions are current as of the date of this piece but are subject to change. Market values will vary so that an investor may experience a gain or a loss. The information provided in this material should not be considered a recommendation to buy, sell or hold any particular security. As of December 31, 2009, Selected Special Shares had invested the following percentages of its assets in the companies listed: Agilent Technologies, 2.75%; Banco Santander, 0.49%; Becton, Dickinson, 2.89%; Berkshire Hathaway, 0.99%; Comcast, 1.04%; Costco, 0.04%; Devon Energy, 0.82%; Google, 5.24%; Hewlett-Packard, 0.84%; IDEXX, 1.68%; Johnson & Johnson, 4.20%; Merck, 4.58%; Microsoft, 3.52%; Occidental Petroleum, 1.46%; Pfizer, 0.83%; SAP AG, 1.17%; Tenaris, 1.36%; Texas Instruments, 3.15%; Transocean, 2.29%.

Selected Funds has adopted a Portfolio Holdings Disclosure policy that governs the release of non-public portfolio holding information. This policy is described in detail in the prospectus. Visit selectedfunds.com or call 800-243-1575 for the most current public portfolio holdings information.

Davis Advisors began active daily management of Selected Special Shares on June 1, 2001. From May 1, 1993 until May 31, 2001, Davis Advisors had a subadvisor that handled the active daily management of the Fund.

Broker-dealers and other financial intermediaries may charge Davis Advisors substantial fees for selling its products and providing continuing support to clients and shareholders. For example, broker-dealers and other financial intermediaries may charge: sales commissions; distribution and service fees; and record-keeping fees. In addition, payments or reimbursements may be requested for: marketing support concerning Davis Advisors' products; placement on a list of offered products; access to sales meetings, sales representatives and management representatives; and participation in conferences or seminars, sales or training programs for invited registered representatives and other employees, client and investor events, and other dealer-sponsored events. Financial advisors should not consider Davis Advisors' payment(s) to a financial intermediary as a basis for recommending Davis Advisors.

The net expense ratio for Selected Special Shares for the fiscal period ended December 31, 2009 was 1.32% and 0.84% for Class S and D, respectively.

Effective July 1, 2009, Davis Advisors voluntarily and permanently reduced any management fee breakpoints ABOVE 0.55% to 0.55% for Selected Special Shares.

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

The **Russell 3000® Index** measures the performance of the 3,000 largest companies incorporated in the United States and its territories and listed on the NYSE, AMEX or NASDAQ. The companies are ranked by decreased total market capitalizations. The **S&P 500® Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue chip stocks. The Dow Jones is calculated by adding the closing prices of the component stocks and using a divisor that is adjusted for splits and stock dividends equal to 10% or more of the market value of an issue as well as substitutions and mergers. The average is quoted in points, not in dollars. The **NASDAQ Composite® Index** measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ Stock Market. The Index is market-value weighted. Investments cannot be made directly in an index.

Over the last five years, the high and low turnover ratio for Selected Special Shares was 53% and 30%, respectively.

After April 30, 2010, this material must be accompanied by a supplement containing performance data for the most recent quarter end.

Shares of the Selected 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.

