

## TO OUR SHAREHOLDERS

Our experience over 80 years has taught us that the best long-term investment opportunities often arise in periods of trepidation. While it is impossible to time market cycles with precision, we believe that building strong long-term returns rests on two key tenets of our investment approach: a willingness to revisit and retest our thinking as prices and conditions change, and the fortitude to stay the course, even in periods of volatility or underperformance.

### A Year Defined by Aversion to Risk and Extreme Volatility

Two interconnected issues weighed heavily on global financial markets in 2011: uncertainty about the future of the Eurozone and the challenges to global economic growth posed by high debt levels. Investors responded by turning toward safety and security. A regular feature of this market environment was the “risk-on/risk-off” trade. Markets and securities with widely divergent fundamental risk factors traded in tandem based on whether short-term investor confidence improved (risk-on) or deteriorated (risk-off) on that day—often resulting in one day’s move being retraced the following day.

The year-over-year effect on returns was strong performance from investments considered less risky (e.g., 30-year U.S. Treasury securities returned 36% for the year), negative returns from world equities (down 6%), and wide divergence within asset classes between investments viewed as more safe and those viewed as less. Volatility levels were significantly elevated, especially during a gut-wrenching four days of daily 4% price moves in major equity markets in early August. In this environment, our Funds’ strategies suffered, with each underperforming its market benchmark for the year. For a more detailed discussion of each Fund’s 2011 performance, please read their Annual Shareholder Letters.

### Importance of Fundamental Research

In fear-driven markets, when prices fall across the board, bottom-up research is more important than ever. At Dodge & Cox, our goal is to build diversified portfolios of individual securities—with attractive fundamentals at low valuations—based on our analysts’ intensive research and the depth of knowledge and experience of our portfolio managers.

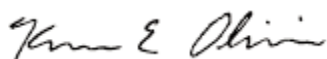
Through the team-based decision-making of our seasoned investment professionals, we evaluate the risks, merits, and trade-offs of our investment decisions. Our analysts’ detailed knowledge about our holdings and our investment universe enables us to quickly assess a security’s long-term return potential following a decline in valuation—and take advantage of those opportunities where short-term valuations do not reflect the security’s long-term potential.

### Opportunities Ahead

Starting valuation is an important component of long-term returns, and as significant pessimism about the future has driven down equity prices, we have been finding attractive opportunities around the world. Today, global equity markets are trading at 10 to 12 times forward estimated earnings, and many companies have strong balance sheets and opportunities for long-term global growth. Corporate bonds are also very attractive in this environment. Their yield premiums are at high levels now, and we’re seeing interesting opportunities in companies across a range of industries.

Over Dodge & Cox’s 80-year history, our long-term, value-oriented approach has withstood many periods of uncertainty. All of our Fund portfolios are well diversified and thoughtfully constructed, giving us optimism for the future. Thank you for your continued confidence in our firm. As always, we welcome your comments and questions.

On Behalf of Dodge & Cox,



Kenneth E. Olivier,  
Chairman and Chief Executive Officer

31 January 2012

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