

TO OUR SHAREHOLDERS

The Dodge & Cox Stock Fund had a total return of -4.5% for the year ending December 31, 2015, compared to a return of 1.4% for the S&P 500 Index.

MARKET COMMENTARY

U.S. equity markets were volatile in 2015: after a significant selloff in August and September, the S&P 500 rebounded during the fourth quarter to finish the year up just over 1%. Global oil prices declined 35% during the year, which aided U.S. household purchasing power and hindered the profitability of oil and gas companies. Consumer Discretionary was the strongest sector (up 10%) of the S&P 500, while Energy was the worst-performing sector (down 21%).

In the United States, economic activity expanded at a moderate pace: household spending and business investment increased, and the housing market strengthened. Labor market conditions continued to improve, with solid job gains and reduced unemployment. Growth was tempered by the stronger U.S. dollar and weaker demand for U.S. exports. In December, the U.S. Federal Reserve (Fed) raised the federal funds rate for the first time in nine years. The 0.25 percentage point increase ended a historic seven-year period with the federal funds rate close to 0%, aimed at stimulating the economy. Fed Chair Janet Yellen reiterated the Fed's intent to normalize monetary policy gradually; the timing and size of future adjustments will be based on economic conditions in relation to the Fed's goals of maximum employment and 2% inflation.

Global growth expectations declined and emerging markets faced significant macroeconomic challenges during the year. China's slowing economic growth contributed to depressed commodity prices (e.g., global copper prices plummeted 24%) and weighed on the global economy. The stronger U.S. dollar and prospects for higher U.S. interest rates negatively affected economies in need of external financing, such as Brazil.

INVESTMENT STRATEGY

As a value-oriented manager, 2015 was a challenging year for absolute and relative performance. Across equities, value stocks (the lower valuation portion of the market) underperformed growth stocks (the higher valuation portion of the market) by one of the widest spreads since the global financial crisis. The Fund was significantly affected by this performance divergence. Many of the S&P 500's higher-valuation growth companies, not held by the Fund, outperformed significantly. In addition, some individual Fund holdings (e.g., HP Inc.^(a), Time Warner, Wal-Mart) significantly detracted from results for the year, and the Fund's Energy holdings were negatively impacted by falling oil prices.

We extensively revisited and retested our thinking on many of the Fund's holdings during 2015. Our equity and fixed income teams regularly work together to evaluate risk and reward as we look at investment opportunities across a company's capital structure, and this collaboration intensified during the year. As a part of our bottom-up research process, our investment teams thoroughly investigated individual company concerns, challenged analyst assumptions, and conducted further due diligence. For

example, a group of portfolio managers and analysts travelled to Houston to better understand shale economics and met with company management teams, suppliers, competitors, and industry consultants. In addition, we conducted intensive reviews to evaluate the key factors affecting a company's capital structure, end-market demand, and relative competitiveness. Through this comprehensive process, we reaffirmed our view that the Fund's holdings have attractive valuations relative to their fundamental outlook over our three- to five-year investment horizon.

During the year, U.S. valuation disparities widened overall: companies with higher valuations became more expensive relative to companies with lower valuations. As valuations became more attractive, we added selectively to existing holdings, including Baker Hughes, Bank of America, Cigna, EMC Corp., HP Inc., and MetLife.^(b) We also identified 8 new investment opportunities (including American Express, Anthem, Concho Resources, and VMware) and exited 13 holdings (including Chevron, General Electric, and PayPal).

We continue to be optimistic about the long-term outlook for the portfolio. Our value-oriented approach has led us to invest in companies where we believe the long-term potential is not reflected in the current price. Three examples—American Express, Hewlett Packard Enterprise, and HP Inc.—are discussed below.

American Express

American Express—the largest new purchase in the Fund during 2015—provides charge and credit card products and travel-related services to consumers and businesses worldwide. The company is the number one credit/charge card issuer and merchant acquirer in the United States measured by billed business, and its network is the second largest after Visa. Historically, American Express has generated attractive returns due to its vertical integration and strong value proposition for high-spending customers.

In 2015, American Express' stock declined 24%^(c) due to concerns that the company's business model is under pressure: Costco U.S. and JetBlue terminated their exclusive relationships with the card company and the Department of Justice questioned American Express' ability to enforce rules prohibiting merchants from steering customers to other credit cards. As a result, American Express' valuation relative to the market is at a historically low level (13 times forward estimated earnings^(d)). We initiated a position in the company because we believe these near-term concerns have obscured a long-term investment opportunity. The company has an attractive business model that produces high returns on capital by encouraging more affluent and creditworthy customers to use the company's credit and charge cards. American Express' highly perceived rewards program, customer service, and strong brand recognition help attract and retain wealthier customers. The company should benefit from a continued industry shift from paper to plastic payments and growth in its third-party issued cards business. We believe American Express will be able to maintain its strong return on equity and improve profitability in the long run. On December 31, American Express was a 1.4% position in the Fund.

Hewlett Packard Enterprise and HP Inc.

After providing strong returns in 2013 and 2014, Hewlett-Packard was the Fund's largest detractor from results during 2015. Hewlett-Packard recently split into two entities—Hewlett Packard Enterprise and HP Inc.—which should result in greater focus and flexibility for each company to achieve its strategic goals. To assess secular challenges and evaluate the risks and opportunities of each stand-alone business, we met numerous times with their management teams and competitors and spoke with industry consultants. As a result, we added to the Fund's positions in both companies. On December 31, Hewlett Packard Enterprise was a 2.5% position and HP Inc. was a 1.8% position in the Fund.

Hewlett Packard Enterprise, one of the largest vendors in information technology (IT), consists of the enterprise technology infrastructure, software, and services segments of the old Hewlett-Packard. We acknowledge the company faces headwinds: the shift to the cloud has negatively impacted all on-premise IT vendors, continued public cloud adoption will likely erode the company's market share, and competition is keen. Despite these risks, we believe Hewlett Packard Enterprise is an attractive investment due to its strong market positions across its portfolio (e.g., top provider of servers, number two position in IT services), scale advantages, and opportunities to improve its margin structure. Meg Whitman—the CEO of Hewlett Packard Enterprise—has overseen sound acquisitions (e.g., 3Par), new product launches, and cost reduction programs during her tenures at Hewlett-Packard and eBay. Management is actively cutting costs and retooling its product and service offerings to improve the company's competitiveness. Margins in the Enterprise Services segment should expand as the company optimizes its contract mix and delivery models. The company trades at a compelling valuation (eight times forward estimated earnings), which is among the lowest in the S&P 500.

As the leader in printing and personal computer sales globally, HP Inc.'s key challenge is declining revenues. Partly due to the stronger U.S. dollar, consensus estimates have the company's sales declining approximately 10% in 2016. Many investors believe a shrinking market for hardware and ink may be too difficult to overcome; we believe this view of the company's prospects is too pessimistic. HP's management is aggressively cutting costs and has plans to introduce more new products. For example, HP has portions of its printing business (e.g., high-end graphics production) that are currently growing and may increase share in the established copier market and in the more nascent 3D print market. Moreover, the company generates robust free cash flow. Trading at seven times forward estimated earnings, HP remains an attractive investment opportunity with strong business prospects given its large valuation discount to the overall market.

IN CLOSING

On December 31, the Fund's portfolio of 63 companies traded at 13.8 times forward estimated earnings, a significant discount to the S&P 500 (17.4 times forward estimated earnings). We remain confident in the prospects for the portfolio over our three- to five-year investment horizon and believe it is positioned to benefit from long-term global growth opportunities.


Our experienced and stable team has weathered past periods of market turbulence by remaining steadfast in our investment philosophy and process. Our approach—constructing a diversified portfolio through in-depth, independent research, a long-term investment horizon, and a focus on valuation relative to underlying fundamentals—continues to guide us through this period. We remain confident that our enduring value-oriented approach will benefit the Fund in the years ahead.

Thank you for your continued confidence in our firm. As always, we welcome your comments and questions.

For the Board of Trustees,



Charles F. Pohl,
Chairman



Dana M. Emery,
President

January 29, 2016

- (a) After Hewlett-Packard Co. split into two companies, HP Inc. retained the HPQ ticker symbol. HP Inc.'s -37% return in 2015 includes Hewlett-Packard Co.'s performance through October 2015.
- (b) The use of specific examples does not imply that they are more attractive investments than the Fund's other holdings.
- (c) All returns are total returns unless otherwise noted.
- (d) Unless otherwise specified, all weightings and characteristics are as of December 31, 2015.