The Fund invests primarily in investment-grade debt securities including government and government-related obligations, mortgage- and asset-backed securities, corporate and municipal bonds, and other debt securities. To a lesser extent, the Fund may also invest in below investment-grade debt securities.

Risks

The Fund is subject to market risk, meaning holdings in the Fund may decline in value for extended periods due to the financial prospects of individual companies or due to general market and economic conditions. The Fund also invests in individual bonds whose yields and market values fluctuate, so that your investment may be worth more or less than its original cost. Debt securities are subject to interest rate risk, credit risk, and prepayment and call risk, all of which could have adverse effects on the value of the Fund. Please read the prospectus for specific details regarding the Fund’s risk profile.

GENERAL INFORMATION

Net Asset Value Per Share $99.90
Total Net Assets (billions) $15.1
Expense Ratio 0.53%
Portfolio Turnover Rate (1/1/19 to 6/30/19, unannualized) 16%
30-Day SEC Yield(4) 2.19%
Fund Inception 1931
No sales charges or distribution fees

Investment Manager: Dodge & Cox, San Francisco. Managed by the U.S. Equity Investment Committee, whose ten members’ average tenure at Dodge & Cox is 24 years, and by the U.S. Fixed Income Investment Committee, whose nine members’ average tenure is 20 years.

EQUITY PORTFOLIO (68.7%)

| Number of Common Stocks | Fund | 63 |
| Number of Preferred Stocks | 5 |
| Median Market Capitalization (billions)(b) | $38 |
| Price-to-Earnings Ratio(9)(c) | 12.5x |
| Foreign Securities not in the S&P 500(4) | 7.6% |

FIVE LARGEST SECTORS(%) Common Preferred Fund

Financials 17.3 3.4 20.6
Health Care 13.7 – 13.7
Information Technology 10.5 – 10.5
Communication Services 8.2 0.4 8.6
Energy 6.5 – 6.5

TEN LARGEST EQUITIES(%) Wells Fargo & Co. 2.6 0.7 3.3
JPMorgan Chase & Co. 1.5 1.3 2.8
Comcast Corp. 2.2 0.4 2.6
Bank of America Corp. 2.0 0.5 2.5
Charles Schwab Corp. 2.3 – 2.3
Capital One Financial Corp. 2.2 – 2.2
Occidental Petroleum Corp. 2.2 – 2.2
Alphabet, Inc. 2.2 – 2.2
Charter Communications, Inc. 2.0 – 2.0
Microsoft Corp. 2.0 – 2.0

FIXED INCOME PORTFOLIO (28.6%)

| Number of Credit Issuers | Fund | 54 |
| Effective Duration (years) | 4.2 |

SECTOR DIVERSIFICATION (%) Fund

U.S. Treasury 1.7
Government-Related(4) 1.4
Securitized 14.1
Corporate 11.4

CREDIT QUALITY (%) Fund

U.S. Treasury/Agency/GSE 13.6
AAA 0.6
AA 1.8
A 1.3
BBB 9.5
BB 1.9
B 0.0
CCC 0.0

FIVE LARGEST CREDIT ISSUERS (%) Charter Communications, Inc. 0.6
Petroleos Mexicanos 0.6
HSBC Holdings PLC 0.5
Ford Motor Credit Co. LLC 0.5
Bank of America Corp. 0.5

(4) SEC Yield is an annualization of the Fund’s net investment income for the trailing 30-day period. Dividends paid by the Fund may be higher or lower than implied by the SEC Yield.

(5) Excludes the Fund’s preferred stock positions.

(6) Price-to-earnings (P/E) ratio is calculated using 12-month forward earnings estimates from third-party sources.

(7) Foreign stocks are U.S dollar denominated.

(8) The Fund’s portfolio holdings are subject to change without notice. The mention of specific securities is not a recommendation to buy, sell, or hold any particular security and is not indicative of Dodge & Cox’s current or future trading activity.

(9) Net Cash & Other includes cash, short-term investments, derivatives, receivables, and payables.

(10) The portfolio’s Government-Related holdings include tax-exempt municipal securities; the Index classifies these securities as Municipal Bonds.
The Dodge & Cox Balanced Fund had a total return of 1.0% for the third quarter of 2019, compared to 2.0% for the Combined Index (a 60/40 blend of stocks and fixed income). However, the Fund had a total return of 11.8%, compared to 15.9% for the Combined Index.

INVESTMENT COMMENTARY

Despite intermittent periods of volatility, the U.S. equity market performed strongly during the first nine months of 2019 with the S&P 500 Index up 21%. Growth stocks outperformed value stocks as technology-related companies continued to dominate the longer-term trend. In fact, the Russell 1000 Value Index has underperformed the Russell 1000 Growth Index by an average of 3.5 percentage points per year over the past decade. The Russell 1000 Value posted higher earnings growth during the period, but still underperformed because of its substantial valuation compression.

The valuation differential between value and growth stocks remains wide by historical standards: the Russell 2000 Value Index traded at 14.9 times forward earnings compared to a lofty 22.0 times for the Russell 1000 Growth Index. Value stocks are particularly inexpensive today, and we have been identifying investment opportunities in companies that believe strong underlying fundamentals not reflected in their current valuations. Based on individual security selection, the equity portfolio remains tilted toward value stocks and is overweight Financials (30.1% of the portfolio versus 12.8% of the S&P 500), Health Care (19.9% versus 13.7%), and Energy (9.5% versus 4.5%).

The Federal Reserve cut interest rates by 50 basis points during the third quarter of 2019 in a precautionary effort to protect the United States from slowing global growth and fallout from the U.S.-China trade war. While we have moderately lowered our interest rate expectations in light of these developments, we maintain conviction in the equity portfolio’s overweight position in Financials. U.S. financial services companies are trading at historically low valuations relative to the overall market, and their company fundamentals have become increasingly sound. Banks’ capital levels are near historical highs, and earnings growth has outpaced the broad market in recent years. We expect banks to offset the effects of lower interest rates through volume growth, cost controls, fee income, and share buybacks. Looking forward, we are particularly excited about several national retail banks—Bank of America, JPMorgan Chase, and Wells Fargo—that are increasingly using their scale, technological advantages, and marketing expertise to drive outsized deposit growth and profitability.

The broad U.S. investment-grade fixed income market generated a positive return year to date, fueled by price gains associated with declining Treasury yields and strong performance from the Corporate bond sector. Despite concerns about slowing global growth, credit markets have been supported by generally healthy corporate earnings, a dovish tilt by many central banks, and a thirst for yield from investors. During the third quarter, we made a number of modest adjustments to the fixed income portfolio. Given a slower rate of economic growth and mounting concerns about a recession, we trimmed several credit issuers that offered a less attractive risk-reward tradeoff in a weaker fundamental environment. At the same time, however, we continued to find compelling opportunities. For example, we initiated a position in Occidental Petroleum, which issued debt to help fund its acquisition of Anadarko Petroleum.

Energy, Telecom Italia, UniCredit, and Vodafone.

YEAR-TO-DATE PERFORMANCE REVIEW

The Fund underperformed the Combined Index by 4.1 percentage points year to date. The positive relative impact of the Fund’s lower allocation to fixed income was more than offset by the equity portfolio’s underperformance.

EQUITY PORTFOLIO*

- The portfolio’s holdings in the Information Technology sector (up 19%) lagged the S&P 500 sector (up 31%). HP Inc. (down 5%) and not owning Apple (up 44%) had a negative impact.
- In Consumer Discretionary (down 7% compared to up 22% for the S&P 500 sector), Qurate Retail (down 47%) was the main detractor.
- The portfolio’s average overweight position (10% versus 5%) and holdings in the Energy sector (up 1% compared to up 6% for the S&P 500 sector), Qurate Retail (down 47%) was the main detractor.
- The portfolio’s below-benchmark duration position (75% of the Bloomberg Barclays U.S. Agg’s duration) hampered relative returns given the performance of credit.

FIXED INCOME PORTFOLIO

- Security selection within credit was positive as several issuers performed well, including Citigroup capital securities, Enel, Pemex, Petrobras, Rio Oil Finance Trust, and Telecom Italia.
- The portfolio’s overweight to corporate bonds and underweight to U.S. Treasuries added to relative returns given the outperformance of credit.
- The portfolio’s below-benchmark duration position (72% of the Bloomberg Barclays U.S. Agg’s duration) hampered relative returns as Treasury yields plunged.

The Fund's total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable by shareholders on these distributions or on Fund share redemptions. Index returns include dividends and/or interest income but, unlike Fund returns, do not reflect fees or expenses. The Combined Index reflects an unmanaged portfolio (rebalanced monthly) of 60% of the S&P 500 Index, which is a market capitalization-weighted index of 500 large-capitalization stocks commonly used to represent the U.S. equity market, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index, which is a widely recognized, unmanaged index of U.S. dollar-denominated, investment-grade, taxable fixed income securities. The Fund may, however, invest up to 75% of its total assets in equity securities.

1 The Fund’s total returns include the reinvestment of dividend and capital gain distributions, but have not been adjusted for any income taxes payable by shareholders on these distributions or on Fund share redemptions. Index returns include dividends and/or interest income but, unlike Fund returns, do not reflect fees or expenses. The Combined Index reflects an unmanaged portfolio (rebalanced monthly) of 60% of the S&P 500 Index, which is a market capitalization-weighted index of 500 large-capitalization stocks commonly used to represent the U.S. equity market, and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index, which is a widely recognized, unmanaged index of U.S. dollar-denominated, investment-grade, taxable fixed income securities. The Fund may, however, invest up to 75% of its total assets in equity securities.

2 Value stocks are the lower valuation portion of the equity market, and growth stocks are the higher valuation portion.

3 Unless otherwise specified, all weightings and characteristics are as of September 30, 2019.

4 One basis point is equal to 1/100th of 1%.

5 Excludes the Fund’s preferred stock positions.

6 Duration is a measure of a bond’s (or a portfolio’s) price sensitivity to changes in interest rates.

7 Denotes Fund positioning at the beginning of the period.

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