DODGE & COX FUNDS®

March 31, 2018

# Balanced Fund

*Ticker Symbol* DODBX

*Objectives*

- The Fund seeks regular income, conservation of principal, and an opportunity for long-term growth of principal and income.

*Strategy*

- The Fund invests in a diversified portfolio of equity securities and debt securities.

***Equity Securities:*** The Fund typically invests in companies that, in Dodge & Cox's opinion, appear to be temporarily undervalued by the stock market but have a favorable outlook for long-term growth. Under normal circumstances, the Fund will invest no less than 25% and no more than 75% of its total assets in equity securities.

***Debt Securities:*** 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.

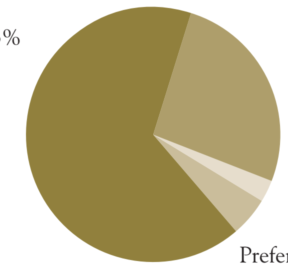
## GENERAL INFORMATION

| | |
|---|---|
| Net Asset Value Per Share | $103.70 |
| Total Net Assets (billions) | $15.9 |
| Expense Ratio | 0.53% |
| 2017 Portfolio Turnover Rate | 19% |
| 30-Day SEC Yield[a] | 1.94% |
| Fund Inception | 1931 |

*No sales charges or distribution fees*

***Investment Manager:*** Dodge & Cox, San Francisco. Managed by the U.S. Equity Investment Committee, whose nine members' average tenure at Dodge & Cox is 23 years, and by the U.S. Fixed Income Investment Committee, whose ten members' average tenure is 20 years.

## ASSET ALLOCATION




| EQUITY PORTFOLIO (71.1%) | Fund |
|---|---|
| Number of Common Stocks | **65** |
| Number of Preferred Stocks | **5** |
| Median Market Capitalization (billions)[b] | **$48** |
| Price-to-Earnings Ratio[b][c] | **14.3x** |
| Foreign Securities not in the S&P 500[d] | **7.6%** |

| FIVE LARGEST SECTORS(%) | Common | Preferred | Fund |
|---|---|---|---|
| Financials | 18.9 | 4.5 | **23.4** |
| Health Care | 14.7 | – | **14.7** |
| Information Technology | 11.6 | – | **11.6** |
| Consumer Discretionary | 10.4 | 0.3 | **10.7** |
| Energy | 5.5 | – | **5.5** |

| TEN LARGEST EQUITIES(%)[e] | Common | Preferred | Fund |
|---|---|---|---|
| Wells Fargo & Co. | 2.4 | 1.5 | **3.9** |
| JPMorgan Chase & Co. | 1.8 | 1.7 | **3.5** |
| Bank of America Corp. | 2.4 | 0.5 | **2.9** |
| Charles Schwab Corp. | 2.7 | – | **2.7** |
| Capital One Financial Corp. | 2.5 | – | **2.5** |
| Microsoft Corp. | 2.1 | – | **2.1** |
| Comcast Corp. | 2.0 | – | **2.0** |
| Alphabet, Inc. | 1.9 | – | **1.9** |
| Charter Communications, Inc. | 1.9 | – | **1.9** |
| Twenty-First Century Fox, Inc. | 1.9 | – | **1.9** |

| FIXED INCOME PORTFOLIO (26.0%) | Fund |
|---|---|
| Number of Credit Issuers | **47** |
| Effective Duration (years)[g] | **4.3** |

| SECTOR DIVERSIFICATION (%) | Fund |
|---|---|
| U.S. Treasury[h] | **3.4** |
| Government-Related[i] | **1.6** |
| Securitized | **11.0** |
| Corporate | **10.0** |

| CREDIT QUALITY (%)[j] | Fund |
|---|---|
| U.S. Treasury/Agency/GSE[h] | **12.9** |
| Aaa | **1.1** |
| Aa | **1.0** |
| A | **1.0** |
| Baa | **8.0** |
| Ba | **2.0** |
| B | **0.0** |
| Caa | **0.0** |

| FIVE LARGEST CREDIT ISSUERS (%)[e] | Fund |
|---|---|
| Charter Communications, Inc. | **0.6** |
| State of California GO | **0.6** |
| Bank of America Corp. | **0.5** |
| Petroleos Mexicanos | **0.5** |
| Verizon Communications, Inc. | **0.4** |

[a] 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.
[b] Excludes the Fund's preferred stock positions.
[c] Price-to-earnings (P/E) ratio is calculated using 12-month forward earnings estimates from third-party sources.
[d] Foreign stocks are U.S. dollar denominated.
[e] 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.
[f] Net Cash & Other includes cash, short-term investments, derivatives, receivables, and payables.
[g] Interest rate derivatives reduce the duration of the fixed income portfolio by 0.6 years (i.e., total portfolio duration is 4.9 years without derivatives).
[h] Data as presented excludes the Fund's position in Treasury futures contracts.
[i] The portfolio's Government-Related holdings include tax-exempt municipal securities; the Index classifies these securities as Municipal Bonds.
[j] The credit quality distribution shown for the Fund is based on the middle of Moody's, S&P, and Fitch ratings, which is the methodology used by Bloomberg in constructing its indices. If a security is rated by only two agencies, the lower of the two ratings is used. Please note the Fund applies the highest of Moody's, S&P, and Fitch ratings to determine compliance with the quality requirements stated in its prospectus. The credit quality of the investments in the portfolio does not apply to the stability or safety of the Fund or its shares.

## *Average Annual Total Return*[1]

| For periods ended March 31, 2018 | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years |
|---|---|---|---|---|---|
| Dodge & Cox Balanced Fund | 6.92% | 7.98% | 10.03% | 7.83% | 8.04% |
| Combined Index | 8.81 | 7.01 | 8.73 | 7.42 | 6.12 |

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*Returns represent past performance and do not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Visit the Fund's website at dodgeandcox.com or call 800-621-3979 for current month-end performance figures.*

The Dodge & Cox Balanced Fund had a total return of –1.5% for the first quarter of 2018, compared to –1.0% for the Combined Index (a 60/40 blend of stocks and fixed income securities).

### INVESTMENT COMMENTARY

After consistently strong performance in 2017, U.S. equity markets were volatile during the first quarter of 2018. The S&P 500 surged in January and reached an all-time high amid positive market sentiment regarding the U.S. tax reform legislation that was enacted in December—the largest change of the tax code in more than 30 years. However, market exuberance was buffeted by significant turnover in the Trump administration and concerns about the Trump tariff initiative escalating global trade tensions. The S&P 500 finished down 0.8% for the quarter, after nine consecutive quarters of positive returns.

Robust corporate earnings growth and sustained profit growth have spurred stock market returns. However, U.S. equity valuations continue to be near the high end of the historical range. While we have a tempered return outlook for the overall U.S. stock market, we are optimistic about the long-term prospects for the equity portfolio, which continues to trade at a significant discount to the market. On March 31, the 65 common stocks held by the equity portfolio traded at 14 times forward estimated earnings, compared to 17 times for the S&P 500.

In fixed income, the U.S. investment-grade bond market had a –1.5% return as higher Treasury yields and wider credit spreads pushed bond prices lower. Several factors influenced fixed income markets, including the specter of rising inflation, bouts of volatility in financial markets, and increased geopolitical tension. Investment-grade corporate bonds returned –2.3%[2] and Agency[3] MBS returned –1.2% for the quarter, underperforming comparable-duration[4] Treasuries by 0.8 and 0.4 percentage points, respectively.

Market volatility can create buying opportunities for patient, long-term, value-oriented investors like Dodge & Cox. We selectively added to Johnson Controls International, for example, because we believe its share price was excessively penalized in reaction to news of impending tariffs. We are also finding various long-term investment opportunities in the Pharmaceuticals industry, where many companies have stable businesses with strong balance sheets and attractive growth potential from new drug discoveries and expansion into emerging markets. In the fixed income portfolio, we moved a small portion of the portfolio's U.S. Treasury holdings into high-quality asset- and mortgage-backed securities and added to certain corporate holdings at attractive valuations.

Overall, we remain optimistic about the long-term outlook for the Fund. Our fundamental, active, value-oriented investment approach requires conviction and patience. Since short-term market movements are impossible to predict, and markets could continue to be volatile, we encourage shareholders to remain focused on the long term. Thank you for your continued confidence in Dodge & Cox.

### FIRST QUARTER PERFORMANCE REVIEW

The Fund underperformed the Combined Index by 0.5 percentage points during the quarter.

#### EQUITY PORTFOLIO5[5]

- Holdings in the Consumer Discretionary sector (down 2% compared to up 3% for the S&P 500 sector) detracted. Media companies DISH Network (down 21%) and Comcast (down 14%) were weak.
- The portfolio's holdings in Financials (down 3% compared to down 1% for the S&P 500 sector), combined with a higher average weighing in the sector (28% versus 15%), hurt performance. Wells Fargo (down 13%) and MetLife (down 8%) lagged.
- The portfolio's underweight position in the Consumer Staples sector (down 7% for the S&P 500 sector) and lack of holdings in the Real Estate and Utilities sectors (down 5% and down 3% for the S&P 500 sectors, respectively) helped relative results.

#### FIXED INCOME PORTFOLIO

- The portfolio's shorter relative duration (72%[6] of the Bloomberg Barclays U.S. Agg's duration) added significantly to relative returns.
- Security selection within credit was positive as several corporate holdings outperformed, including AT&T, Macy's, and Verizon. Rio Oil Finance Trust, an emerging market-domiciled holding, also performed well.
- The portfolio's overweight to corporate bonds and underweight to U.S. Treasuries detracted from relative returns given the poor performance of credit.

[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] Sector returns as calculated and reported by Bloomberg.

[3] The U.S. Government does not guarantee the Fund's shares, yield, or net asset value. The agency guarantee (by, for example, Ginnie Mae, Fannie Mae, or Freddie Mac) does not eliminate market risk.

[4] Duration is a measure of a bond's (or bond portfolio's) price sensitivity to changes in interest rates.

[5] Excludes the Fund's preferred stock positions.

[6] Unless otherwise noted, figures cited in this section denote positioning at the beginning of the period.



**Before investing in any Dodge & Cox Fund, you should carefully consider the Fund's investment objectives, risks, and charges and expenses. To obtain a Fund's prospectus and summary prospectus, which contain this and other important information, visit dodgeandcox.com or call 800-621-3979. Please read the prospectus and summary prospectus carefully before investing.**