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.

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.
The Dodge & Cox Balanced Fund had a total return of 4.2% for the third quarter of 2018, compared to 4.6% for the Combined Index (a 60/40 blend of stocks and fixed income securities). For the nine months ended September 30, 2018, the Fund had a total return of 4.2%, compared to 5.6% for the Combined Index.

### INVESTMENT COMMENTARY

In the third quarter, U.S. equities posted strong returns and outperformed equity markets in other developed countries. The S&P 500 Index was up 8%, reaching an all-time high in late September. U.S. growth stocks (the higher valuation portion of the equity market) outperformed value stocks (the lower valuation portion) by three percentage points during the quarter,2 continuing a longer-term trend. Since 2014, growth has outpaced value by 39 percentage points,3 led by growth-oriented companies in sectors and industries associated with technology. Over this period, the equity portfolio performed strongly compared to the U.S. value investment universe; however, the portfolio's value-oriented approach hindered its relative returns versus the broad-based S&P 500, which benefited from its exposure to growth stocks.

In the United States, growth-oriented companies are trading at a historically large premium to value stocks. As a result of this wide valuation gap, we are identifying investment opportunities in companies that we believe have strong underlying fundamentals, which are not reflected in their current valuations. Based on individual security selection, the equity portfolio remains tilted toward Financials (29.5% of the portfolio), Health Care (23.2%), and Communication Services (15.3%) on September 30. During the third quarter, we initiated five new holdings in the equity portfolio, with the largest new purchase being CVS Health.

The U.S. investment-grade bond market return was flat for the third quarter as strong performance from the corporate bond sector was largely offset by price declines associated with rising Treasury yields. The fundamentals underpinning corporate credit remain strong and are supported by continued profit growth due to core business strength as well as tax savings associated with the tax overhaul passed last year. During the third quarter, we made modest changes to the fixed income portfolio. For example, we added to several corporate issuers and Agency4 mortgage-backed securities at attractive relative valuations. To fund these purchases, we trimmed the portfolio's holdings in U.S. Treasuries.

While concerns about tariffs and trade wars persist, we remain optimistic about the long-term prospects for the U.S. economy. The outlook for corporate earnings remains solid, and interest rates should continue to rise. We believe longer-term global economic growth will be better than many investors expect, and the Fund is well positioned to capitalize on this. Patience, persistence, and a long-term investment horizon are essential to long-term investment success. We encourage our shareholders to take a similar view.

### THIRD QUARTER PERFORMANCE REVIEW

The Fund underperformed the Combined Index by 0.4 percentage points during the quarter. The underperformance of the equity portfolio was partially offset by having a lower allocation to fixed income.

### EQUITY PORTFOLIO

- The portfolio's average position over the quarter (27% versus 14%) and holdings in the Financials sector (up 2% compared to up 4% for the S&P 500 sector) detracted from results. Bank of New York Mellon (down 5%), Wells Fargo (down 4%), and Charles Schwab (down 4%) performed poorly.
- Returns from holdings in the Energy sector (down 3% compared to up 1% for the S&P 500 sector), combined with a higher average weighting (9% versus 6%), had a negative impact. Anadarko Petroleum and Schlumberger (both down 8%) were weak.
- In Health Care, the portfolio's higher average weighting (24% versus 14%) and holdings (up 14% compared to up 15% for the S&P 500 sector), the best performing sector of the market, helped results. Key contributors included Eli Lilly (up 26%), Express Scripts (up 23%), Cigna (up 23%), and Novartis (up 14%).

### FIXED INCOME PORTFOLIO

- The portfolio's shorter relative duration (72% of the Bloomberg Barclays U.S. Agg's duration) added significantly to relative returns.
- Security selection within credit was positive as several holdings outperformed, particularly Bank of America capital securities, which outperformed due to redemption by the issuer at a premium to the market price. Other outperformers included Kinder Morgan, Macy's, Rio Oil Finance Trust, and Verizon.
- Despite the overall move higher in rates, the portfolio's lower exposure to long-term (10+ years) bonds detracted from relative returns as the yield curve flattened.

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. The Russell 1000 Growth Index had a total return of 9.2% compared to 5.7% for the Russell 1000 Value Index during the third quarter of 2018.
3. The Russell 1000 Growth Index had a total return of 72.5% compared to 33.2% for the Russell 1000 Value Index from December 31, 2014 through September 30, 2018.
4. 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.
5. Excludes the Fund's preferred stock positions.
6. Unless otherwise noted, figures cited in this section denote Fund positioning at the beginning of the period.
7. Duration is a measure of a bond's (or a bond portfolio's) price sensitivity to changes in interest rates.

S&P 500® is a trademark of S&P Global Inc. Bloomberg is a registered trademark of Bloomberg Finance L.P. and its affiliates. Barclays® is a trademark of Barclays Bank PLC. For more information about these indices, visit dodgeandcox.com.

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.