

# Davis Real Estate Portfolio

(Portfolio of Davis Variable Account Fund, Inc.)

December 31, 2010

Annual Report

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This Annual Report is authorized for use by existing shareholders. Prospective shareholders must receive a current Davis Real Estate Portfolio prospectus, which contains more information about investment strategies, risks, charges, and expenses. Please read the prospectus carefully before investing or sending money.

Shares of the Davis Real Estate Portfolio are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

### Performance Overview

Davis Real Estate Portfolio delivered a total return on net asset value of 19.70% for the year ended December 31, 2010. Over the same time period, the Wilshire U.S. Real Estate Securities Index ("Index") returned 29.12%. Every sub-industry<sup>1</sup> within the Index delivered positive returns. Real estate operating companies, residential REITs, and retail REITs delivered the strongest performances while office REITs, industrial REITs, and diversified REITs delivered the weakest (but still positive) performances.

### Factors Impacting the Portfolio's Performance

Retail REITs were the most important contributor<sup>2</sup> to performance. The Portfolio's retail REITs under-performed the corresponding sub-industry within the Index (up 32% versus up 33% for the Index) and had a lower relative average weighting (13% versus 24% for the Index). Regency Centers<sup>3</sup> and CBL & Associates were among the most important contributors to performance.

The Portfolio had more invested in office REITs than in any other sub-industry and they were an important contributor to the Portfolio's absolute performance. However, office REITs were the most important detractor relative to the Index. The Portfolio's office REITs under-performed the corresponding sector within the Index (up 12% versus up 17% for the Index) and had a higher relative average weighting (31% versus 17% for the Index) in this weaker performing sub-industry. Boston Properties and Alexandria Real Estate were among the most important contributors to performance. DuPont Fabros Technology, Coresite Realty, and Corporate Office Properties were among the most important detractors from performance.

Residential REITs were also an important contributor to the Portfolio's absolute performance, but similar to office REITs, were also an important detractor from performance relative to the Index. The Portfolio's residential REITs under-performed the corresponding sub-industry within the Index (up 32% versus up 46% for the Index) and had a lower relative average weighting (11% versus 17% for the Index) in this stronger performing sub-industry. Essex Property Trust and American Campus were among the most important contributors to performance.

Forest City Enterprises was the single most important contributor to the Portfolio's performance. The Portfolio benefited from both its large investment in Forest City Enterprises (approximately 8% at December 31, 2010) together with its strong investment performance (up 42%). Cousins Properties and ProLogis were among the most important detractors from performance. The Portfolio no longer owns Cousins Properties or ProLogis.

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Davis Real Estate Portfolio's investment objective is total return through a combination of growth and income. There can be no assurance that the Portfolio will achieve its objective. Davis Real Estate Portfolio's principal risks are: market risk, company risk, concentrated real estate services portfolio risk, focused portfolio risk, foreign country risk, small- and medium-capitalization risk, fees and expenses risk, and headline risk. See the prospectus for a full description of each risk.

Davis Real Estate Portfolio concentrates its investments in the real estate sector, and it may be subject to greater risks than a portfolio that does not concentrate its investments in a particular sector. The Portfolio's investment performance, both good and bad, is expected to reflect the economic performance of the real estate sector much more than a portfolio that does not concentrate its portfolio.

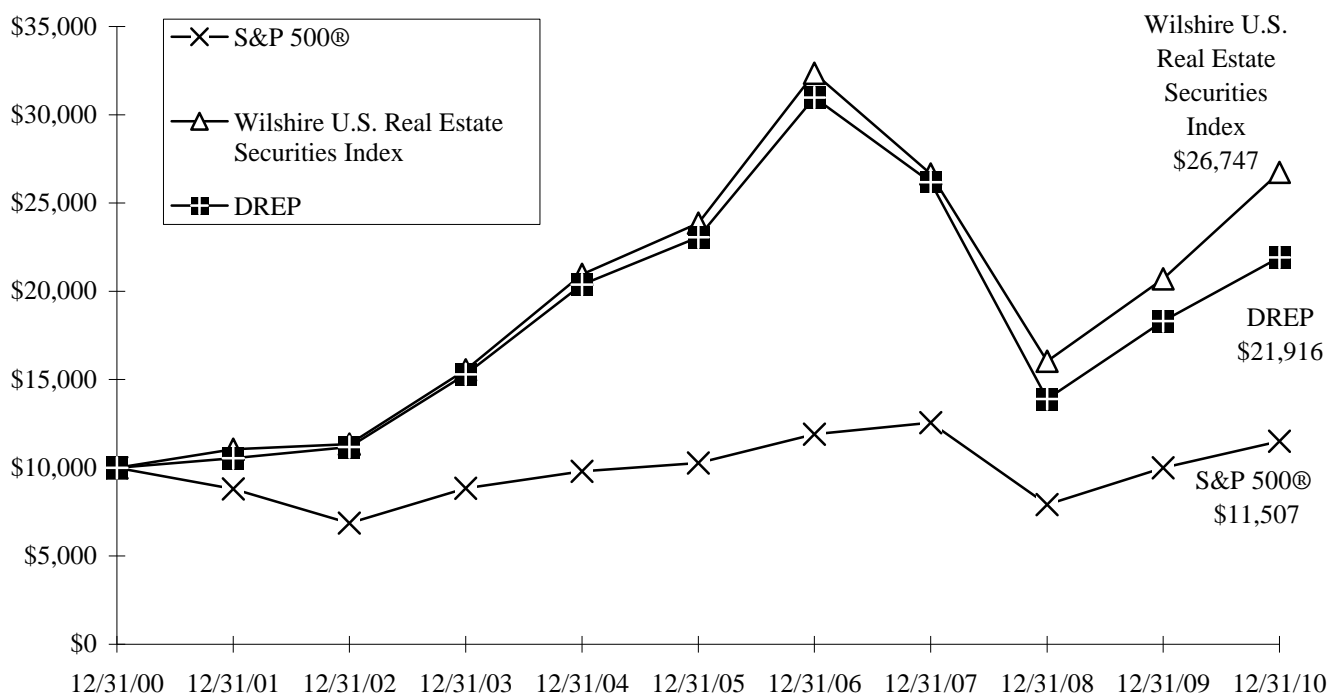
Davis Real Estate Portfolio is allowed to focus its investments in fewer companies, and it may be subject to greater risks than a more diversified portfolio that is not allowed to focus its investments in a few companies. Should the portfolio manager determine that it is prudent to focus the Portfolio's portfolio in a few companies, the Portfolio's investment performance, both good and bad, is expected to reflect the economic performance of its more focused portfolio.

<sup>1</sup> The companies included in the Wilshire U.S. Real Estate Securities Index are divided into eight sub-industries.

<sup>2</sup> A company's or sector's contribution to or deduction from the Portfolio's performance is a product both of its appreciation or depreciation and its weighting within the Portfolio. For example, a 5% holding that rises 20% has twice as much impact as a 1% holding that rises 50%.

<sup>3</sup> This Management Discussion of Fund Performance discusses a number of individual companies. The information provided in this report does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. The Schedule of Investments lists the Portfolio's holdings of each company discussed.

COMPARISON OF A \$10,000 INVESTMENT IN DAVIS REAL ESTATE PORTFOLIO VERSUS THE STANDARD & POOR’S 500® INDEX AND THE WILSHIRE U.S. REAL ESTATE SECURITIES INDEX OVER 10 YEARS FOR AN INVESTMENT MADE ON DECEMBER 31, 2000



AVERAGE ANNUAL TOTAL RETURN FOR PERIODS ENDED DECEMBER 31, 2010

| FUND & BENCHMARK INDICES                   | 1-YEAR | 5-YEAR  | 10-YEAR | SINCE FUND’S INCEPTION (07/01/99) | GROSS EXPENSE RATIO | NET EXPENSE RATIO |
|--------------------------------------------|--------|---------|---------|-----------------------------------|---------------------|-------------------|
| Davis Real Estate Portfolio                | 19.70% | (1.01)% | 8.16%   | 7.95%                             | 0.81%               | 0.81%             |
| Standard & Poor’s 500® Index               | 15.06% | 2.29%   | 1.41%   | 0.99%                             |                     |                   |
| Wilshire U.S. Real Estate Securities Index | 29.12% | 2.32%   | 10.34%  | 10.55%                            |                     |                   |

The Standard & Poor’s 500® Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations, and represents approximately two-thirds of the total market value of all domestic common stocks. Investments cannot be made directly in the Index.

The Wilshire U.S. Real Estate Securities Index is a broad measure of the performance of publicly traded real estate securities. It reflects no deduction for fees or expenses. Investments cannot be made directly in the Index.

The performance data for Davis Real Estate Portfolio contained in this report represents past performance and assumes that all distributions were reinvested, and should not be considered as an indication of future performance from an investment in the Portfolio today. The investment return and principal value will fluctuate so that shares may be worth more or less than their original cost when redeemed. Portfolio performance changes over time and current performance may be higher or lower than stated. The operating expense ratio may vary in future years. For more current information please call Davis Funds Investor Services at 1-800-279-0279.

Portfolio performance numbers are net of all Portfolio operating expenses, but do not include any insurance charges imposed by your insurance company’s separate account. If performance included the effect of these additional charges, the return would be lower.

# DAVIS REAL ESTATE PORTFOLIO

Fund Overview  
December 31, 2010

| Portfolio Composition<br>(% of Fund's 12/31/10 Net Assets) |                | Industry Weightings<br>(% of 12/31/10 Long Term Portfolio) |                                                   |
|------------------------------------------------------------|----------------|------------------------------------------------------------|---------------------------------------------------|
| Common Stock                                               | 85.08%         |                                                            |                                                   |
| Preferred Stock                                            | 7.86%          |                                                            |                                                   |
| Convertible Bonds                                          | 2.68%          |                                                            |                                                   |
| Short Term Investments                                     | 4.19%          |                                                            |                                                   |
| Other Assets & Liabilities                                 | 0.19%          |                                                            |                                                   |
|                                                            | <u>100.00%</u> |                                                            |                                                   |
|                                                            |                |                                                            | <b>Wilshire U.S. Real Estate Securities Index</b> |
|                                                            |                | <b>Fund</b>                                                | <b>Securities Index</b>                           |
|                                                            |                | Office REITs                                               | 15.55%                                            |
|                                                            |                | Residential REITs                                          | 17.14%                                            |
|                                                            |                | Retail REITs                                               | 24.36%                                            |
|                                                            |                | Real Estate Operating Companies                            | 2.24%                                             |
|                                                            |                | Specialized REITs                                          | 25.88%                                            |
|                                                            |                | Telecommunication Services                                 | –                                                 |
|                                                            |                | Other                                                      | 8.83%                                             |
|                                                            |                | Industrial REITs                                           | 6.00%                                             |
|                                                            |                | <u>100.00%</u>                                             | <u>100.00%</u>                                    |

## Top 10 Long Term Holdings (% of Fund's 12/31/10 Net Assets)

|                                                                       |                                 |       |
|-----------------------------------------------------------------------|---------------------------------|-------|
| Forest City Enterprises, Inc., Class A                                | Real Estate Operating Companies | 7.51% |
| American Campus Communities, Inc.                                     | Residential REITs               | 5.73% |
| Alexandria Real Estate Equities, Inc.                                 | Office REITs                    | 5.39% |
| DuPont Fabros Technology Inc.                                         | Office REITs                    | 4.44% |
| Essex Property Trust, Inc.                                            | Residential REITs               | 3.97% |
| Regency Centers Corp.                                                 | Retail REITs                    | 3.94% |
| Alexander & Baldwin, Inc.                                             | Transportation                  | 3.44% |
| Ventas, Inc.                                                          | Specialized REITs               | 3.29% |
| Alexandria Real Estate Equities, Inc., 7.00%,<br>Series D, Conv. Pfd. | Office REITs                    | 3.26% |
| Crown Castle International Corp.                                      | Telecommunication Services      | 3.01% |

**DAVIS REAL ESTATE PORTFOLIO**
**Fund Overview – (Continued)**  
**December 31, 2010**
**New Positions Added (01/01/10-12/31/10)**

(Highlighted positions are those greater than 3.00% Fund's of 12/31/10 net assets)

| <b>Security</b>                       | <b>Industry</b>                 | <b>Date of 1<sup>st</sup><br/>Purchase</b> | <b>% of Fund's<br/>12/31/10<br/>Net Assets</b> |
|---------------------------------------|---------------------------------|--------------------------------------------|------------------------------------------------|
| American Tower Corp., Class A         | Telecommunication Services      | 01/11/10                                   | 2.52%                                          |
| AvalonBay Communities, Inc.           | Residential REITs               | 01/20/10                                   | –                                              |
| Brookdale Senior Living Inc.          | Real Estate Operating Companies | 10/22/10                                   | 1.86%                                          |
| CB Richard Ellis Group, Inc., Class A | Real Estate Services            | 10/26/10                                   | 1.14%                                          |
| Coresite Realty Corp.                 | Office REITs                    | 09/22/10                                   | 2.93%                                          |
| Crown Castle International Corp.      | Telecommunication Services      | 01/11/10                                   | 3.01%                                          |
| DuPont Fabros Technology Inc.         | Office REITs                    | 05/13/10                                   | 4.44%                                          |
| EastGroup Properties, Inc.            | Industrial REITs                | 09/13/10                                   | 2.19%                                          |
| Entertainment Properties Trust        | Specialized REITs               | 01/22/10                                   | 2.93%                                          |
| Highwoods Properties, Inc.            | Office REITs                    | 04/22/10                                   | 2.65%                                          |
| SBA Communications Corp., Class A     | Telecommunication Services      | 01/11/10                                   | 2.80%                                          |
| Toll Brothers, Inc.                   | Homebuilding                    | 08/26/10                                   | 0.63%                                          |
| UDR, Inc.                             | Residential REITs               | 04/22/10                                   | 1.52%                                          |

**Positions Closed (01/01/10-12/31/10)**

(Gains and losses greater than \$200,000 are highlighted)

| <b>Security</b>                               | <b>Industry</b>   | <b>Date of<br/>Final Sale</b> | <b>Realized<br/>Gain (Loss)</b> |
|-----------------------------------------------|-------------------|-------------------------------|---------------------------------|
| AvalonBay Communities, Inc.                   | Residential REITs | 04/21/10                      | \$ 158,182                      |
| Brookfield Asset Management Inc.,<br>Class A  | Capital Markets   | 03/03/10                      | (44,148)                        |
| CBL & Associates Properties, Inc.             | Retail REITs      | 10/29/10                      | 303,225                         |
| Cousins Properties, Inc.                      | Diversified REITs | 07/19/10                      | (903,447)                       |
| Digital Realty Trust, Inc., 8.50%, Series A   | Office REITs      | 08/24/10                      | 53,750                          |
| Equity Residential                            | Residential REITs | 12/17/10                      | 52,251                          |
| Host Hotels & Resorts Inc.                    | Specialized REITs | 04/15/10                      | 132,235                         |
| Macerich Co.                                  | Retail REITs      | 01/07/10                      | 16,340                          |
| ProLogis                                      | Industrial REITs  | 01/28/10                      | 107,017                         |
| ProLogis, Conv. Sr. Notes, 2.25%,<br>04/01/37 | Industrial REITs  | 05/26/10                      | 213,214                         |

**Example**

As a shareholder of the Fund, you incur ongoing costs only, including advisory and administrative fees and other Fund expenses. The Expense Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Expense Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period indicated, which for the Fund is for the six-month period ended December 31, 2010. Please note that the Expense Example is general and does not reflect charges imposed by your insurance company’s separate account or account specific costs, which may increase your total costs of investing in the Fund. If these charges or account specific costs were included in the Expense Example, the expenses would have been higher.

**Actual Expenses**

The information represented in the row entitled “Actual” provides information about actual account values and actual expenses. You may use the information in this row, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then, multiply the result by the number under the heading “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

**Hypothetical Example for Comparison Purposes**

The information represented in the row entitled “Hypothetical” provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only. Therefore, the information in the row entitled “Hypothetical” is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

|              | <b>Beginning<br/>Account Value<br/>(07/01/10)</b> | <b>Ending<br/>Account Value<br/>(12/31/10)</b> | <b>Expenses Paid<br/>During Period*<br/>(07/01/10-12/31/10)</b> |
|--------------|---------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------|
| Actual       | \$1,000.00                                        | \$1,150.65                                     | \$4.28                                                          |
| Hypothetical | \$1,000.00                                        | \$1,021.22                                     | \$4.02                                                          |

Hypothetical assumes 5% annual return before expenses.

\* Expenses are equal to the Fund’s annualized operating expense ratio (0.79%)\*\*, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

\*\* The expense ratio reflects the impact, if any, of the reduction of expenses paid indirectly and of certain reimbursements from the Adviser.

**DAVIS REAL ESTATE PORTFOLIO**

 Schedule of Investments  
 December 31, 2010

|                                                            | Shares  | Value<br>(Note 1) |
|------------------------------------------------------------|---------|-------------------|
| <b>COMMON STOCK – (85.08%)</b>                             |         |                   |
| <b>CONSUMER DISCRETIONARY – (0.63%)</b>                    |         |                   |
| <b>Consumer Durables &amp; Apparel – (0.63%)</b>           |         |                   |
| <b>Homebuilding – (0.63%)</b>                              |         |                   |
| Toll Brothers, Inc. *                                      | 8,400   | \$ 159,600        |
| <b>TOTAL CONSUMER DISCRETIONARY</b>                        |         | <b>159,600</b>    |
| <b>FINANCIALS – (72.68%)</b>                               |         |                   |
| <b>Real Estate – (72.68%)</b>                              |         |                   |
| <b>Real Estate Investment Trusts (REITs) – (62.18%)</b>    |         |                   |
| <b>Diversified REITs – (2.27%)</b>                         |         |                   |
| Vornado Realty Trust                                       | 6,870   | 572,477           |
| <b>Industrial REITs – (4.72%)</b>                          |         |                   |
| DCT Industrial Trust Inc.                                  | 120,000 | 637,200           |
| EastGroup Properties, Inc.                                 | 13,100  | 554,392           |
|                                                            |         | 1,191,592         |
| <b>Office REITs – (25.26%)</b>                             |         |                   |
| Alexandria Real Estate Equities, Inc.                      | 18,600  | 1,362,636         |
| Boston Properties, Inc.                                    | 6,500   | 559,650           |
| Coresite Realty Corp.                                      | 54,200  | 739,288           |
| Corporate Office Properties Trust                          | 17,490  | 611,276           |
| Digital Realty Trust, Inc.                                 | 11,800  | 608,172           |
| Douglas Emmett, Inc.                                       | 42,800  | 710,480           |
| DuPont Fabros Technology Inc.                              | 52,800  | 1,123,056         |
| Highwoods Properties, Inc.                                 | 21,000  | 668,850           |
|                                                            |         | 6,383,408         |
| <b>Residential REITs – (11.22%)</b>                        |         |                   |
| American Campus Communities, Inc.                          | 45,600  | 1,448,256         |
| Essex Property Trust, Inc.                                 | 8,790   | 1,003,994         |
| UDR, Inc.                                                  | 16,300  | 383,376           |
|                                                            |         | 2,835,626         |
| <b>Retail REITs – (9.19%)</b>                              |         |                   |
| Federal Realty Investment Trust                            | 4,150   | 323,409           |
| Regency Centers Corp.                                      | 23,600  | 996,864           |
| Simon Property Group, Inc.                                 | 6,292   | 625,991           |
| Taubman Centers, Inc.                                      | 7,460   | 376,581           |
|                                                            |         | 2,322,845         |
| <b>Specialized REITs – (9.52%)</b>                         |         |                   |
| Cogdell Spencer, Inc.                                      | 69,583  | 403,581           |
| Entertainment Properties Trust                             | 16,000  | 740,000           |
| LaSalle Hotel Properties                                   | 16,400  | 432,960           |
| Ventas, Inc.                                               | 15,820  | 830,234           |
|                                                            |         | 2,406,775         |
|                                                            |         | 15,712,723        |
| <b>Real Estate Management &amp; Development – (10.50%)</b> |         |                   |
| <b>Real Estate Operating Companies – (9.36%)</b>           |         |                   |
| Brookdale Senior Living Inc. *                             | 21,900  | 468,879           |
| Forest City Enterprises, Inc., Class A *                   | 113,680 | 1,897,319         |
|                                                            |         | 2,366,198         |

**DAVIS REAL ESTATE PORTFOLIO**

Schedule of Investments – (Continued)  
December 31, 2010

|                                                                          | Shares/Principal | Value<br>(Note 1) |
|--------------------------------------------------------------------------|------------------|-------------------|
| <b>COMMON STOCK – (CONTINUED)</b>                                        |                  |                   |
| <b>FINANCIALS – (CONTINUED)</b>                                          |                  |                   |
| <b>Real Estate – (Continued)</b>                                         |                  |                   |
| <b>Real Estate Management &amp; Development – (Continued)</b>            |                  |                   |
| <b>Real Estate Services – (1.14%)</b>                                    |                  |                   |
| CB Richard Ellis Group, Inc., Class A *                                  | 14,000           | \$ 286,720        |
|                                                                          |                  | 2,652,918         |
|                                                                          |                  | 18,365,641        |
| <b>TOTAL FINANCIALS</b>                                                  |                  | <b>18,365,641</b> |
| <b>INDUSTRIALS – (3.44%)</b>                                             |                  |                   |
| <b>Transportation – (3.44%)</b>                                          |                  |                   |
| Alexander & Baldwin, Inc.                                                | 21,700           | 868,651           |
| <b>TOTAL INDUSTRIALS</b>                                                 |                  | <b>868,651</b>    |
| <b>TELECOMMUNICATION SERVICES – (8.33%)</b>                              |                  |                   |
| American Tower Corp., Class A *                                          | 12,300           | 635,172           |
| Crown Castle International Corp. *                                       | 17,350           | 760,450           |
| SBA Communications Corp., Class A *                                      | 17,300           | 708,435           |
| <b>TOTAL TELECOMMUNICATION SERVICES</b>                                  |                  | <b>2,104,057</b>  |
| <b>TOTAL COMMON STOCK – (Identified cost \$17,692,295)</b>               |                  | <b>21,497,949</b> |
| <b>PREFERRED STOCK – (7.86%)</b>                                         |                  |                   |
| <b>FINANCIALS – (7.86%)</b>                                              |                  |                   |
| <b>Real Estate – (7.86%)</b>                                             |                  |                   |
| <b>Real Estate Investment Trusts (REITs) – (7.86%)</b>                   |                  |                   |
| <b>Industrial REITs – (1.13%)</b>                                        |                  |                   |
| AMB Property Corp., 6.75%, Series M                                      | 11,900           | 285,243           |
| <b>Office REITs – (5.95%)</b>                                            |                  |                   |
| Alexandria Real Estate Equities, Inc., 7.00%, Series D, Conv. Pfd.       | 33,272           | 823,482           |
| Digital Realty Trust, Inc., 5.50%, Series D, Cum. Conv. Pfd.             | 5,700            | 181,510           |
| SL Green Realty Corp., 7.625%, Series C                                  | 19,930           | 499,495           |
|                                                                          |                  | 1,504,487         |
| <b>Retail REITs – (0.78%)</b>                                            |                  |                   |
| CBL & Associates Properties, Inc., 7.375%, Series D                      | 8,280            | 195,843           |
| <b>TOTAL FINANCIALS</b>                                                  |                  | <b>1,985,573</b>  |
| <b>TOTAL PREFERRED STOCK – (Identified cost \$940,569)</b>               |                  | <b>1,985,573</b>  |
| <b>CONVERTIBLE BONDS – (2.68%)</b>                                       |                  |                   |
| <b>FINANCIALS – (2.68%)</b>                                              |                  |                   |
| <b>Real Estate – (2.68%)</b>                                             |                  |                   |
| <b>Real Estate Investment Trusts (REITs) – (2.23%)</b>                   |                  |                   |
| <b>Office REITs – (2.23%)</b>                                            |                  |                   |
| Digital Realty Trust, Inc., 144A Conv. Sr. Notes, 5.50%, 04/15/29 (a) \$ | 344,000          | 461,820           |
| SL Green Realty Corp., 144A Conv. Sr. Notes, 3.00%, 03/30/27 (a)         | 104,000          | 102,180           |
|                                                                          |                  | 564,000           |
| <b>Real Estate Management &amp; Development – (0.45%)</b>                |                  |                   |
| <b>Real Estate Operating Companies – (0.45%)</b>                         |                  |                   |
| Forest City Enterprises, Inc., Conv. Sr. Notes, 5.00%, 10/15/16          | 80,000           | 114,100           |
| <b>TOTAL FINANCIALS</b>                                                  |                  | <b>678,100</b>    |
| <b>TOTAL CONVERTIBLE BONDS – (Identified cost \$526,554)</b>             |                  | <b>678,100</b>    |

**DAVIS REAL ESTATE PORTFOLIO**

**Schedule of Investments – (Continued)  
December 31, 2010**

|                                                                                                                                                                                                                                                                         | <b>Principal</b> | <b>Value<br/>(Note 1)</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------------|
| <b>SHORT TERM INVESTMENTS – (4.19%)</b>                                                                                                                                                                                                                                 |                  |                           |
| Banc of America Securities LLC Joint Repurchase Agreement, 0.25%, 01/03/11, dated 12/31/10, repurchase value of \$203,004 (collateralized by: U.S. Government agency mortgages in a pooled cash account, 2.104%-6.50%, 06/01/25-12/01/40, total market value \$207,060) | \$ 203,000       | \$ 203,000                |
| Goldman, Sachs & Co. Joint Repurchase Agreement, 0.16%, 01/03/11, dated 12/31/10, repurchase value of \$245,003 (collateralized by: U.S. Government agency mortgages in a pooled cash account, 3.50%-6.50%, 12/01/25-01/01/41, total market value \$249,900)            | 245,000          | 245,000                   |
| Mizuho Securities USA Inc. Joint Repurchase Agreement, 0.24%, 01/03/11, dated 12/31/10, repurchase value of \$612,012 (collateralized by: U.S. Government agency obligations in a pooled cash account, 3.125%-7.50%, 01/31/12-05/15/37, total market value \$624,240)   | 612,000          | 612,000                   |
| <b>TOTAL SHORT TERM INVESTMENTS – (Identified cost \$1,060,000)</b>                                                                                                                                                                                                     |                  | <b>1,060,000</b>          |
| Total Investments – (99.81%) – (Identified cost \$20,219,418) – (b)                                                                                                                                                                                                     |                  | 25,221,622                |
| Other Assets Less Liabilities – (0.19%)                                                                                                                                                                                                                                 |                  | 47,664                    |
| Net Assets – (100.00%)                                                                                                                                                                                                                                                  |                  | <u>\$ 25,269,286</u>      |

\* Non-Income producing security.

(a) These securities are subject to Rule 144A. The Board of Directors of the Fund has determined that there is sufficient liquidity in these securities to realize current valuations. These securities amounted to \$564,000 or 2.23% of the Fund's net assets as of December 31, 2010.

(b) Aggregate cost for federal income tax purposes is \$21,614,504 At December 31, 2010 unrealized appreciation (depreciation) of securities for federal income tax purposes is as follows:

|                             |                     |
|-----------------------------|---------------------|
| Unrealized appreciation     | \$ 4,821,698        |
| Unrealized depreciation     | (1,214,580)         |
| Net unrealized appreciation | <u>\$ 3,607,118</u> |

*See Notes to Financial Statements*

**DAVIS REAL ESTATE PORTFOLIO****Statement of Assets and Liabilities  
At December 31, 2010****ASSETS:**

|                                                                                |    |                   |
|--------------------------------------------------------------------------------|----|-------------------|
| Investments in securities at value* (see accompanying Schedule of Investments) | \$ | 25,221,622        |
| Cash                                                                           |    | 3,922             |
| Receivables:                                                                   |    |                   |
| Capital stock sold                                                             |    | 15,397            |
| Dividends and interest                                                         |    | 118,423           |
| Prepaid expenses                                                               |    | 466               |
| <b>Total assets</b>                                                            |    | <b>25,359,830</b> |

**LIABILITIES:**

|                          |  |               |
|--------------------------|--|---------------|
| Payables:                |  |               |
| Capital stock redeemed   |  | 51,460        |
| Accrued audit fees       |  | 12,100        |
| Accrued management fee   |  | 13,924        |
| Other accrued expenses   |  | 13,060        |
| <b>Total liabilities</b> |  | <b>90,544</b> |

**NET ASSETS** **\$ 25,269,286**

**SHARES OUTSTANDING** **2,908,309**

**NET ASSET VALUE**, offering, and redemption price per share (Net assets ÷ Shares outstanding) **\$ 8.69**

**NET ASSETS CONSIST OF:**

|                                                                              |           |                   |
|------------------------------------------------------------------------------|-----------|-------------------|
| Par value of shares of capital stock                                         | \$        | 2,908             |
| Additional paid-in capital                                                   |           | 35,769,746        |
| Overdistributed net investment income                                        |           | (1,276)           |
| Accumulated net realized losses from investments                             |           | (15,503,918)      |
| Net unrealized appreciation on investments and foreign currency transactions |           | 5,001,826         |
| <b>Net Assets</b>                                                            | <b>\$</b> | <b>25,269,286</b> |

**\*Including:**

|                     |    |            |
|---------------------|----|------------|
| Cost of Investments | \$ | 20,219,418 |
|---------------------|----|------------|

*See Notes to Financial Statements*

**DAVIS REAL ESTATE PORTFOLIO****Statement of Operations  
For the year ended December 31, 2010****INVESTMENT INCOME:****Income:**

|                     |    |                |
|---------------------|----|----------------|
| Dividends*          | \$ | 559,207        |
| Interest            |    | 33,745         |
| <b>Total income</b> |    | <b>592,952</b> |

**Expenses:**

|                                   |    |                |
|-----------------------------------|----|----------------|
| Management fees (Note 3)          | \$ | 136,388        |
| Custodian fees                    |    | 18,305         |
| Transfer agent fees               |    | 5,651          |
| Audit fees                        |    | 18,000         |
| Legal fees                        |    | 720            |
| Accounting fees (Note 3)          |    | 2,004          |
| Reports to shareholders           |    | 5,800          |
| Directors' fees and expenses      |    | 8,410          |
| Registration and filing fees      |    | 15             |
| Miscellaneous                     |    | 6,761          |
| <b>Total expenses</b>             |    | <b>202,054</b> |
| Expenses paid indirectly (Note 4) |    | (2)            |
| <b>Net expenses</b>               |    | <b>202,052</b> |
| <b>Net investment income</b>      |    | <b>390,900</b> |

**REALIZED & UNREALIZED GAIN ON INVESTMENTS AND  
FOREIGN CURRENCY TRANSACTIONS:**

|                                                                                              |           |                  |
|----------------------------------------------------------------------------------------------|-----------|------------------|
| Net realized gain from investment transactions                                               |           | 167,089          |
| Net increase in unrealized appreciation                                                      |           | 3,843,814        |
| <b>Net realized and unrealized gain on investments and<br/>foreign currency transactions</b> |           | <b>4,010,903</b> |
| <b>Net increase in net assets resulting from operations</b>                                  | <b>\$</b> | <b>4,401,803</b> |

\*Net of foreign taxes withheld as follows \$ 395

*See Notes to Financial Statements*

**DAVIS REAL ESTATE PORTFOLIO**

**Statements of Changes in Net Assets**

|                                                                                                       | <b>Year ended December 31,</b> |                      |
|-------------------------------------------------------------------------------------------------------|--------------------------------|----------------------|
|                                                                                                       | <b>2010</b>                    | <b>2009</b>          |
| <b>OPERATIONS:</b>                                                                                    |                                |                      |
| Net investment income                                                                                 | \$ 390,900                     | \$ 523,044           |
| Net realized gain (loss) from investments and foreign currency transactions                           | 167,089                        | (12,772,190)         |
| Net change in unrealized appreciation (depreciation) on investments and foreign currency transactions | 3,843,814                      | 17,711,950           |
| <b>Net increase in net assets resulting from operations</b>                                           | <b>4,401,803</b>               | <b>5,462,804</b>     |
| <b>DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>                                              |                                |                      |
| Net investment income                                                                                 | (470,072)                      | (513,936)            |
| <b>CAPITAL SHARE TRANSACTIONS:</b>                                                                    |                                |                      |
| Net decrease in net assets resulting from capital share transactions (Note 5)                         | (2,228,798)                    | (713,924)            |
| <b>Total increase in net assets</b>                                                                   | <b>1,702,933</b>               | <b>4,234,944</b>     |
| <b>NET ASSETS:</b>                                                                                    |                                |                      |
| Beginning of year                                                                                     | 23,566,353                     | 19,331,409           |
| <b>End of year*</b>                                                                                   | <b>\$ 25,269,286</b>           | <b>\$ 23,566,353</b> |
| *Including undistributed (overdistributed) net investment income of                                   | \$ (1,276)                     | \$ 7,288             |

*See Notes to Financial Statements*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Fund is a separate series of Davis Variable Account Fund, Inc. (a Maryland corporation), which is registered under the Investment Company Act of 1940, as amended, as a non-diversified, open-end management investment company. Only insurance companies, for the purpose of funding variable annuity or variable life insurance contracts, may purchase shares of the Fund. The following is a summary of significant accounting policies followed by the Fund in the preparation of financial statements.

**Security Valuation** - The Fund calculates the net asset value of its shares as of the close of the New York Stock Exchange (“Exchange”), normally 4:00 P.M. Eastern time, on each day the Exchange is open for business. Securities listed on the Exchange (and other national exchanges) are valued at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market (e.g. NASDAQ) and listed securities for which no sale was reported on that date are stated at the average of closing bid and asked prices. Securities traded on foreign exchanges are valued based upon the last sales price on the principal exchange on which the security is traded prior to the time when the Fund’s assets are valued. Securities (including restricted securities) for which market quotations are not readily available are valued at their fair value. Securities whose values have been materially affected by what Davis Selected Advisers, L.P. (“Davis Advisors” or “Adviser”), the Fund’s investment adviser, identifies as a significant event occurring before the Fund’s assets are valued but after the close of their respective exchanges will be fair valued. Fair value is determined in good faith using consistently applied procedures under the supervision of the Board of Directors. Short-term securities purchased within 60 days to maturity are valued at amortized cost, which approximates market value. These valuation procedures are reviewed and subject to approval by the Board of Directors.

**Value Measurements** - Fair value is defined as the price that the Fund would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used to determine the fair value of the Fund’s investments. These inputs are summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including Fund’s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund’s investments carried at value:

|                             | <b>Investments in Securities at Value</b> |                                                                 |                                                             | <b>Total</b>         |
|-----------------------------|-------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------|----------------------|
|                             | Valuation Inputs                          |                                                                 |                                                             |                      |
|                             | <b>Level 1:<br/>Quoted Prices</b>         | <b>Level 2:<br/>Other Significant<br/>Observable<br/>Inputs</b> | <b>Level 3:<br/>Significant<br/>Unobservable<br/>Inputs</b> |                      |
| <u>Equity securities:</u>   |                                           |                                                                 |                                                             |                      |
| Consumer discretionary      | \$ 159,600                                | \$ –                                                            | \$ –                                                        | \$ 159,600           |
| Financials                  | 20,169,704                                | 181,510                                                         | –                                                           | 20,351,214           |
| Industrials                 | 868,651                                   | –                                                               | –                                                           | 868,651              |
| Telecommunication services  | 2,104,057                                 | –                                                               | –                                                           | 2,104,057            |
| Convertible debt securities | –                                         | 678,100                                                         | –                                                           | 678,100              |
| Short-term securities       | –                                         | 1,060,000                                                       | –                                                           | 1,060,000            |
| <b>Total</b>                | <b>\$ 23,302,012</b>                      | <b>\$ 1,919,610</b>                                             | <b>\$ –</b>                                                 | <b>\$ 25,221,622</b> |

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**Master Repurchase Agreements** - The Fund, along with other affiliated funds, may transfer uninvested cash balances into one or more master repurchase agreement accounts. These balances are invested in one or more repurchase agreements, secured by U.S. Government securities. A custodian bank holds securities pledged as collateral for repurchase agreements until the agreements mature. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal; however, in the event of default by the other party to the agreement, retention of the collateral may be subject to legal proceedings.

**Currency Translation** - The market values of all assets and liabilities denominated in foreign currencies are recorded in the financial statements after translation to the U.S. Dollar based upon the mean between the bid and offered quotations of the currencies against U.S. Dollars on the date of valuation. The cost basis of such assets and liabilities is determined based upon historical exchange rates. Income and expenses are translated at average exchange rates in effect as accrued or incurred.

**Foreign Currency** - The Fund may enter into forward purchases or sales of foreign currencies to hedge certain foreign currency denominated assets and liabilities against declines in market value relative to the U.S. Dollar. Forward currency contracts are marked-to-market daily and the change in market value is recorded by the Fund as an unrealized gain or loss. When the forward currency contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the forward currency contract at the time it was opened and value at the time it was closed. Investments in forward currency contracts may expose the Fund to risks resulting from unanticipated movements in foreign currency exchange rates or failure of the counter-party to the agreement to perform in accordance with the terms of the contract.

Reported net realized foreign exchange gains or losses arise from the sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. Dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate. The Fund includes foreign currency gains and losses realized on the sale of investments together with market gains and losses on such investments in the Statement of Operations.

**Federal Income Taxes** - It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute substantially all of its taxable income, including any net realized gains on investments not offset by loss carryovers, to shareholders. Therefore, no provision for federal income or excise tax is required. The Adviser has analyzed the Fund's tax positions taken on federal and state income tax returns for all open tax years and has concluded that as of December 31, 2010, no provision for income tax would be required in the Fund's financial statements. The Fund's federal and state (Arizona and Maryland) income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue. The earliest tax year that remains subject to examination by these jurisdictions is 2007. The Fund has available for federal income tax purposes unused capital loss carryforwards as follows:

|                                | <b>Capital Loss<br/>Carryforwards</b> |                   |
|--------------------------------|---------------------------------------|-------------------|
| <u><b>Expiring</b></u>         |                                       |                   |
| 12/31/2016                     | \$                                    | 2,447,000         |
| 12/31/2017                     |                                       | 11,662,000        |
| Total                          | \$                                    | <u>14,109,000</u> |
| <u><b>Utilized in 2010</b></u> | \$                                    | 138,000           |

The Regulated Investment Company Modernization Act of 2010 (the "Act") was enacted on December 22, 2010. The Act makes changes to several tax rules impacting the Fund. In general, the provisions of the Act will be effective for the Fund's fiscal year ending December 31, 2011. Although the Act provides several benefits, including the unlimited carryforward of future capital losses, there may be a greater likelihood that all or a portion of the Fund's pre-enactment capital loss carryforwards may expire without being utilized due to the fact that post-enactment capital losses get utilized before pre-enactment capital loss carryforwards. Relevant information regarding the impact of the Act on the Fund, if any, will be contained within the "Federal Income Taxes" section of the Notes to Financial Statements for the fiscal year ending December 31, 2011.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

**Securities Transactions and Related Investment Income** - Securities transactions are accounted for on the trade date (date the order to buy or sell is executed) with realized gain or loss on the sale of securities being determined based upon identified cost. Dividend income is recorded on the ex-dividend date. Dividend income from REIT securities may include return of capital. Upon notification from the issuer, the amount of the return of capital is reclassified to adjust dividend income, reduce the cost basis, and/or adjust realized gain/loss. Interest income, which includes accretion of discount and amortization of premium, is accrued as earned.

**Dividends and Distributions to Shareholders** - Dividends and distributions to shareholders are recorded on the ex-dividend date. Net investment income (loss), net realized gains (losses), and net unrealized appreciation (depreciation) on investments may differ for financial statement and tax purposes primarily due to differing treatments of wash sales and foreign currency transactions. The character of dividends and distributions made during the fiscal year from net investment income and net realized securities gains may differ from their ultimate characterization for federal income tax purposes. Also, due to the timing of dividends and distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which income or realized gain was recorded by the Fund. The Fund adjusts certain components of capital to reflect permanent differences between financial statement amounts and net income and realized gains/losses determined in accordance with income tax rules. Accordingly, during the year ended December 31, 2010, amounts have been reclassified to reflect a decrease in overdistributed net investment income of \$70,608 and a corresponding decrease in paid in capital. The Fund's net assets have not been affected by this reclassification.

The tax character of distributions paid during the years ended December 31, 2010 and 2009 was as follows:

|                 | 2010       | 2009       |
|-----------------|------------|------------|
| Ordinary income | \$ 470,072 | \$ 513,936 |

As of December 31, 2010, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

|                                                                                    |                        |
|------------------------------------------------------------------------------------|------------------------|
| Undistributed net investment income                                                | \$ -                   |
| Accumulated net realized losses from investments and foreign currency transactions | (14,108,832)           |
| Net unrealized appreciation (depreciation) on investments                          | 3,606,740              |
| Total                                                                              | <u>\$ (10,502,092)</u> |

**Indemnification** - Under the Fund's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, some of the Fund's contracts with its service providers contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown since the amount of any future claims that may be made against the Fund cannot be determined and the Fund has no historical basis for predicting the likelihood of any such claims.

**Use of Estimates in Financial Statements** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

**Directors Fees and Expenses** - The Fund set up a Rabbi Trust to provide for the deferred compensation plan for Independent Directors that enables them to elect to defer receipt of all or a portion of annual fees they are entitled to receive. The value of an eligible Director's account is based upon years of service and fees paid to each Director during the years of service. The amount paid to the Director by the Trust under the plan will be determined based upon the performance of the Davis Funds in which the amounts are invested.

**NOTE 2 - PURCHASES AND SALES OF SECURITIES**

The cost of purchases and proceeds from sales of investment securities (excluding short-term securities) during the year ended December 31, 2010 were \$9,875,366 and \$10,533,846, respectively.

**NOTE 3 - INVESTMENT ADVISORY FEES AND OTHER TRANSACTIONS WITH AFFILIATES**

Advisory fees are paid monthly to the Adviser at an annual rate of 0.55% of the Fund's average net assets.

Boston Financial Data Services, Inc. ("BFDS") is the Fund's primary transfer agent. State Street Bank and Trust Company ("State Street Bank") is the Fund's primary accounting provider. Fees for such services are included in the custodian fee as State Street Bank also serves as the Fund's custodian. The Adviser is also paid for certain accounting services. The fee paid to the Adviser for these services for the year ended December 31, 2010 amounted to \$2,004. Certain directors and officers of the Fund are also directors and officers of the general partner of the Adviser.

Davis Selected Advisers-NY, Inc. ("DSA-NY"), a wholly-owned subsidiary of the Adviser, acts as sub-adviser to the Fund. DSA-NY performs research and portfolio management services for the Fund under a Sub-Advisory Agreement with the Adviser. The Fund pays no fees directly to DSA-NY.

**NOTE 4 - EXPENSES PAID INDIRECTLY**

Under an agreement with State Street Bank, custodian fees are reduced for earnings on cash balances maintained at the custodian by the Fund. Such reductions amounted to \$2 during the year ended December 31, 2010.

**NOTE 5 - CAPITAL STOCK**

At December 31, 2010, there were 500 million shares of capital stock (\$0.001 par value per share) authorized. Transactions in capital stock were as follows:

|                                                      | Year ended<br>December 31, 2010 |                | Year ended<br>December 31, 2009 |              |
|------------------------------------------------------|---------------------------------|----------------|---------------------------------|--------------|
|                                                      | Shares                          | Amount         | Shares                          | Amount       |
| Shares sold                                          | 352,772                         | \$ 2,867,737   | 708,612                         | \$ 4,050,873 |
| Shares issued in<br>reinvestment of<br>distributions | 58,913                          | 470,072        | 102,105                         | 513,936      |
|                                                      | 411,685                         | 3,337,809      | 810,717                         | 4,564,809    |
| Shares redeemed                                      | (690,084)                       | (5,566,607)    | (956,040)                       | (5,278,733)  |
| Net decrease                                         | (278,399)                       | \$ (2,228,798) | (145,323)                       | \$ (713,924) |

**NOTE 6 - BANK BORROWINGS**

The Fund may borrow up to 5% of its assets from a bank to purchase portfolio securities, or for temporary and emergency purposes. The purchase of securities with borrowed funds creates leverage in the Fund. The Fund has entered into an agreement, which enables it to participate with certain other funds managed by the Adviser in an unsecured line of credit with a bank, which permits borrowings up to \$50 million, collectively. Interest is charged based on its borrowings, at a rate equal to the higher of the Federal Funds Rate or the Overnight Libor Rate, plus 1.25%. The Fund had no borrowings during the year ended December 31, 2010.

# DAVIS REAL ESTATE PORTFOLIO

## Financial Highlights

The following financial information represents selected data for each share of capital stock outstanding throughout each period:

|                                                  | Year ended December 31, |                |                |                 |                 |
|--------------------------------------------------|-------------------------|----------------|----------------|-----------------|-----------------|
|                                                  | 2010                    | 2009           | 2008           | 2007            | 2006            |
| Net Asset Value, Beginning of Period             | \$ 7.40                 | \$ 5.80        | \$ 11.45       | \$ 20.43        | \$ 17.33        |
| <b>Income (Loss) from Investment Operations:</b> |                         |                |                |                 |                 |
| Net Investment Income                            | 0.13                    | 0.16           | 0.19           | 0.42            | 0.34            |
| Net Realized and Unrealized Gains (Losses)       | 1.31                    | 1.60           | (5.50)         | (3.40)          | 5.58            |
| <b>Total from Investment Operations</b>          | <b>1.44</b>             | <b>1.76</b>    | <b>(5.31)</b>  | <b>(2.98)</b>   | <b>5.92</b>     |
| <b>Dividends and Distributions:</b>              |                         |                |                |                 |                 |
| Dividends from Net Investment Income             | (0.15)                  | (0.16)         | (0.22)         | (0.64)          | (0.60)          |
| Distributions from Realized Gains                | -                       | -              | (0.11)         | (5.36)          | (2.22)          |
| Return of Capital                                | -                       | -              | (0.01)         | -               | -               |
| <b>Total Dividends and Distributions</b>         | <b>(0.15)</b>           | <b>(0.16)</b>  | <b>(0.34)</b>  | <b>(6.00)</b>   | <b>(2.82)</b>   |
| <b>Net Asset Value, End of Period</b>            | <b>\$ 8.69</b>          | <b>\$ 7.40</b> | <b>\$ 5.80</b> | <b>\$ 11.45</b> | <b>\$ 20.43</b> |
| Total Return <sup>a</sup>                        | 19.70%                  | 31.73%         | (46.91)%       | (15.48)%        | 34.37%          |
| <b>Ratios/Supplemental Data:</b>                 |                         |                |                |                 |                 |
| Net Assets, End of Period (in thousands)         | \$ 25,269               | \$ 23,566      | \$ 19,331      | \$ 49,548       | \$ 89,738       |
| Ratio of Expenses to Average Net Assets:         |                         |                |                |                 |                 |
| Gross                                            | 0.81%                   | 0.98%          | 0.98%          | 0.88%           | 0.86%           |
| Net <sup>b</sup>                                 | 0.81%                   | 0.98%          | 0.98%          | 0.87%           | 0.86%           |
| Ratio of Net Investment Income to Average        |                         |                |                |                 |                 |
| Net Assets                                       | 1.58%                   | 2.81%          | 1.84%          | 1.92%           | 1.63%           |
| Portfolio Turnover Rate <sup>c</sup>             | 43%                     | 70%            | 41%            | 49%             | 38%             |

- a Assumes hypothetical initial investment on the business day before the first day of the fiscal period, with all dividends and distributions reinvested in additional shares on the reinvestment date, and redemption at the net asset value calculated on the last business day of the fiscal period. Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.
- b The Net Ratio of Expenses to Average Net Assets reflects the impact, if any, of the reduction of expenses paid indirectly and of certain reimbursements from the Adviser.
- c The lesser of purchases or sales of portfolio securities for a period, divided by the monthly average of the market value of portfolio securities owned during the period. Securities with a maturity or expiration date at the time of acquisition of one year or less are excluded from the calculation.

*See Notes to Financial Statements*

**To the Shareholders and Board of Directors  
of Davis Variable Account Fund, Inc.:**

We have audited the accompanying statement of assets and liabilities of Davis Real Estate Portfolio (a separate series of the Davis Variable Account Fund, Inc.), including the schedule of investments as of December 31, 2010, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2010, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Davis Real Estate Portfolio as of December 31, 2010, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

Denver, Colorado  
February 9, 2011

**Federal Income Tax Information (Unaudited)**

During the calendar year ended December 31, 2010, \$32,799 or 7% of dividends paid by the Fund constituted income qualifying for the corporate dividends-received deduction.

**Portfolio Proxy Voting Policies and Procedures**

The Fund has adopted Portfolio Proxy Voting Policies and Procedures under which the Fund votes proxies relating to securities held by the Fund. A description of the Fund's Portfolio Proxy Voting Policies and Procedures is available (i) without charge, upon request, by calling the Fund toll-free at 1-800-279-0279, (ii) on the Fund's website at [www.davisfunds.com](http://www.davisfunds.com), and (iii) on the SEC's website at [www.sec.gov](http://www.sec.gov).

In addition, the Fund is required to file Form N-PX, with its complete proxy voting record for the 12 months ended June 30<sup>th</sup>, no later than August 31<sup>st</sup> of each year. The Fund's Form N-PX filing is available (i) without charge, upon request, by calling the Fund toll-free at 1-800-279-0279, (ii) on the Fund's website at [www.davisfunds.com](http://www.davisfunds.com), and (iii) on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Form N-Q**

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q is available without charge, upon request, by calling 1-800-279-0279 or on the Fund's website at [www.davisfunds.com](http://www.davisfunds.com) or on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

**Matters Submitted to a Vote of Shareholders (Unaudited)**

A special meeting of shareholders was held on November 18, 2010. The number of votes necessary to conduct the meeting and approve the proposal was obtained. The results of the votes of shareholders are listed below.

**PROPOSAL**

| Election of Directors | For        | Withheld  |
|-----------------------|------------|-----------|
| Marc Blum             | 23,958,514 | 1,628,294 |
| Christopher Davis     | 24,332,566 | 1,254,242 |
| Andrew Davis          | 24,164,567 | 1,422,241 |
| John Gates Jr.        | 24,319,928 | 1,266,880 |
| Thomas Gayner         | 24,332,566 | 1,254,242 |
| G. Bernard Hamilton   | 24,038,919 | 1,547,889 |
| Samuel Iapalucci      | 24,164,567 | 1,422,241 |
| Robert Morgenthau     | 24,240,888 | 1,345,920 |
| Christian Sonne       | 24,026,281 | 1,560,527 |
| Marsha Williams       | 24,268,899 | 1,317,909 |

## DAVIS REAL ESTATE PORTFOLIO

## Directors and Officers

For the purposes of their service as directors to the Davis Funds, the business address for each of the directors is 2949 E. Elvira Road, Suite 101, Tucson, AZ 85756. Each Director serves until their retirement, resignation, death or removal. Subject to exceptions and exemptions, which may be granted by the Independent Directors, Directors must retire at the close of business on the last day of the calendar year in which the Director attains age seventy-four (74).

| <b>Name</b><br>(birthdate)                | <b>Position(s)</b><br><b>Held With</b><br><b>Fund</b> | <b>Term of</b><br><b>Office and</b><br><b>Length of</b><br><b>Time</b><br><b>Served</b> | <b>Principal Occupation(s)</b><br><b>During Past Five Years</b>                                                                                                                                                               | <b>Number of</b><br><b>Portfolios in</b><br><b>Fund</b><br><b>Complex</b><br><b>Overseen by</b><br><b>Director</b> | <b>Other Directorships</b><br><b>Held by Director</b>                                                                                                                                                                     |
|-------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Independent Directors</i>              |                                                       |                                                                                         |                                                                                                                                                                                                                               |                                                                                                                    |                                                                                                                                                                                                                           |
| <b>Marc P. Blum</b><br>(09/09/42)         | Director                                              | Director since<br>1986                                                                  | Chief Executive Officer, World Total Return Fund, LLLP; of Counsel to Gordon, Feinblatt, Rothman, Hoffberger and Hollander, LLC (law firm).                                                                                   | 13                                                                                                                 | Director, Legg Mason Investment Counsel & Trust Company N.A. (asset management company) and Rodney Trust Company (Delaware).                                                                                              |
| <b>John S. Gates, Jr.</b><br>(08/02/53)   | Director                                              | Director since<br>2007                                                                  | Chairman and Chief Executive Officer of PortaeCo LLC, a private investment company (beginning in 2006); Co-founder of CenterPoint Properties Trust (REIT); Co-chairman and Chief Executive Officer for 22 years (until 2006). | 13                                                                                                                 | Director, DCT Industrial Trust (REIT); Chairman, Regional Transportation Authority.                                                                                                                                       |
| <b>Thomas S. Gayner</b><br>(12/16/61)     | Director/<br>Chairman                                 | Director since<br>2004                                                                  | President and Chief Investment Officer, Markel Corporation (insurance company).                                                                                                                                               | 13                                                                                                                 | Director, Washington Post Co. (publishing company); Director, Colfax Corp. (engineering and manufacturer of pumps and fluid handling equipment).                                                                          |
| <b>G. Bernard Hamilton</b><br>(03/18/37)  | Director                                              | Director since<br>1978                                                                  | Managing General Partner, Avanti Partners, L.P. (investment partnership), retired 2005.                                                                                                                                       | 13                                                                                                                 | none                                                                                                                                                                                                                      |
| <b>Samuel H. Ipalucci</b><br>(07/19/52)   | Director                                              | Director since<br>2006                                                                  | Former Executive Vice President and Chief Financial Officer, CH2M-HILL Companies, Ltd. (engineering).                                                                                                                         | 13                                                                                                                 | Director, Trow Global Holdings Inc. (engineering & consulting).                                                                                                                                                           |
| <b>Robert P. Morgenthau</b><br>(03/22/57) | Director                                              | Director since<br>2002                                                                  | Chairman, NorthRoad Capital Management, LLC (investment management firm) since June 2002.                                                                                                                                     | 13                                                                                                                 | none                                                                                                                                                                                                                      |
| <b>Christian R. Sonne</b><br>(05/06/36)   | Director<br>(Retired 12/31/10)                        | Director since<br>1990                                                                  | General Partner, Tuxedo Park Associates (land holding and development firm).                                                                                                                                                  | 13                                                                                                                 | none                                                                                                                                                                                                                      |
| <b>Marsha Williams</b><br>(03/28/51)      | Director                                              | Director since<br>1999                                                                  | Senior Vice President and Chief Financial Officer, Orbitz Worldwide, Inc. (travel-services provider) since 2007; former Executive Vice President and Chief Financial Officer, Equity Office Properties Trust (REIT).          | 13                                                                                                                 | Director, Modine Manufacturing, Inc. (heat transfer technology); Director, Chicago Bridge & Iron Company, N.V. (industrial construction and engineering); Director, Fifth Third Bancorp (diversified financial services). |

| Name<br>(birthdate)                       | Position(s)<br>Held With<br>Fund | Term of<br>Office and<br>Length of<br>Time<br>Served | Principal Occupation(s)<br>During Past Five Years                                                                                                                                                                                                                                                                                                                     | Number of<br>Portfolios in<br>Fund<br>Complex<br>Overseen by<br>Director | Other Directorships<br>Held by Director                                                                                       |
|-------------------------------------------|----------------------------------|------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| <i>Inside Directors*</i>                  |                                  |                                                      |                                                                                                                                                                                                                                                                                                                                                                       |                                                                          |                                                                                                                               |
| <b>Andrew A. Davis</b><br>(06/25/63)      | Director                         | Director since<br>1997                               | President or Vice President of each Davis Fund and Selected Fund; President, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.                                                                                                                                                                 | 16                                                                       | Director, the Selected Funds (consisting of three portfolios) since 1998.                                                     |
| <b>Christopher C. Davis</b><br>(07/13/65) | Director                         | Director since<br>1997                               | President or Vice President of each Davis Fund, Selected Fund, and Clipper Fund; Chairman, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser, including sole member of the Adviser's general partner, Davis Investments, LLC; Employee of Shelby Cullom Davis & Co. (registered broker/dealer). | 16                                                                       | Director, the Selected Funds (consisting of three portfolios) since 1998; Director, Washington Post Co. (publishing company). |

\* Andrew A. Davis and Christopher C. Davis own partnership units (directly, indirectly, or both) of the Adviser and are considered to be "interested persons" of the Funds as defined in the Investment Company Act of 1940. Andrew A. Davis and Christopher C. Davis are brothers.

### *Officers*

**Christopher C. Davis (born 07/13/65, Davis Funds officer since 1997).** See description in the section on Inside Directors.

**Andrew A. Davis (born 06/25/63, Davis Funds officer since 1997).** See description in the section on Inside Directors.

**Kenneth C. Eich (born 08/14/53, Davis Funds officer since 1997).** Executive Vice President and Principal Executive Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Chief Operating Officer, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

**Douglas A. Haines (born 03/04/71, Davis Funds officer since 2004).** Vice President, Treasurer, Chief Financial Officer, Principal Financial Officer, and Principal Accounting Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President and Director of Fund Accounting, Davis Selected Advisers, L.P.

**Sharra L. Haynes (born 09/25/66, Davis Funds officer since 1997).** Vice President, Chief Compliance Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President and Chief Compliance Officer, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

**Thomas D. Tays (born 03/07/57, Davis Funds officer since 1997).** Vice President and Secretary of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President, Chief Legal Officer and Secretary, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

**Arthur Don (born 09/24/53, Davis Funds officer since 1991).** Assistant Secretary (for clerical purposes only) of each of the Davis Funds and Selected Funds; Shareholder, Greenberg Traurig, LLP (law firm); counsel to the Independent Directors and the Davis Funds.

## **DAVIS REAL ESTATE PORTFOLIO**

### **Investment Adviser**

Davis Selected Advisers, L.P. (Doing business as “Davis Advisors”)  
2949 East Elvira Road, Suite 101  
Tucson, Arizona 85756  
(800) 279-0279

### **Distributor**

Davis Distributors, LLC  
2949 East Elvira Road, Suite 101  
Tucson, Arizona 85756

### **Transfer Agent**

Boston Financial Data Services, Inc.  
c/o The Davis Funds  
P.O. Box 8406  
Boston, Massachusetts 02266-8406

### **Custodian**

State Street Bank and Trust Co.  
One Lincoln Street  
Boston, Massachusetts 02111

### **Counsel**

Greenberg Traurig, LLP  
77 West Wacker Drive, Suite 3100  
Chicago, Illinois 60601

### **Independent Registered Public Accounting Firm**

KPMG LLP  
707 Seventeenth Street, Suite 2700  
Denver, Colorado 80202

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*For more information about Davis Real Estate Portfolio, including management fee, charges, and expenses, see the current prospectus, which must precede or accompany this report. The Fund’s Statement of Additional Information contains additional information about the Fund’s Directors and is available without charge upon request by calling 1-800-279-0279 and on the Fund’s website at [www.davisfunds.com](http://www.davisfunds.com). Quarterly Fact sheets are available on the Fund’s website at [www.davisfunds.com](http://www.davisfunds.com).*

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Davis Advisors  
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Tucson, AZ 85756  
800-279-0279  
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