

## Talking With **Michael S. Beall**

Senior Portfolio Manager, Davenport Value & Income Fund

# The Company Man

by Jack Willoughby

Michael S. Beall brings a complementary mix of interests and skills to money management. As a teen, Beall revealed an entrepreneurial streak by running his own business, and later briefly became an accountant. Eventually, 26-year-old Beall made such a big impression on his broker that he landed a job at the broker's own employer, Richmond, Va.-based Davenport & Co. Beall says he knew by then that "I'd much rather manage money than count it."

"Mike looked at businesses not like pieces of paper but as actual thriving enterprises. That's the way we invest," says Robert Giles, Beall's former broker who is today a 70-year-old Davenport director. Beall's experience as a small-business owner was well suited to an employee-owned firm founded in 1863 that prides itself on investing alongside its clients, most of whom reside in the mid-Atlantic states.

Beall, now 62, is the chief investment officer at Davenport, which manages about \$6 billion in all, and serves as senior portfolio manager of the Davenport Value & Income fund (ticker: DVIPX). In the latter post he chairs a seven-person investment committee created before the fund was launched in December 2010. The \$509 million fund owns a pretty concentrated portfolio of 51 large-cap value stocks with an emphasis on dividend growth. Value & Income has a pre-expense yield of about 3%, which exceeds that of the Standard & Poor's 500 index. The fund's strategy has its roots in the 2002 collapse of the tech bubble. "After the crash we saw the need for value investments," Beall says. Davenport



Brooks Kraft for Barron's

**Michael Beall's entrepreneurial spirit and accounting knowledge drive Davenport Value & Income fund.**

port developed the strategy in separately managed accounts before rolling it out as a fund.

Beall was a natural choice to run a fund focused on well-run businesses with strong owner-operated managements. In high school he owned a Charles Chips franchise, a brand known to baby boomers for their big tin containers full of potato chips or other snacks. The son of a prison warden, Beall moved around a lot as a child, eventually settling in Virginia, receiving both his undergraduate degree and a masters in accounting from the University of Virginia. Soon after joining Davenport, he set up two unisex hair salons called "Fantastic Sam's" in Virginia Beach and later sold them.

The Value & Income team is continually weighing competitive threats against

growth opportunities. Davenport, which also had 10 analysts working on the fund, is in regular contact with the smaller companies among its holdings. Critical to the process is a close examination of capital flows. "We try to understand cash flows by determining how much capital spending is maintenance and how much is for growth," he says. "What we want most to see is an ownership culture that isn't swayed by quarterly or even annual results, and isn't willing to let popularity interfere with long-term decision-making."

Just 25% of the portfolio turns over, on average, in any given year—well below the average 60% for most large-cap value funds, according to Morningstar. "We tend to hold positions longer because as small-business owners we know that the

*(over please)*

## Davenport Value & Income

	Total Returns*		
	1-Yr	3-Yr	5-Yr
DVIPX	16.8%	9.4%	15.4%
Top 10 Holdings	Ticker	% of Portfolio**	
Johnson & Johnson	JNJ	3.3%	
Fidelity National	FNF	3.0	
Markel	MKL	2.9	
Watsco	WSO	2.9	
Capital One Financial	COF	2.8	
JPMorgan Chase	JPM	2.7	
General Electric	GE	2.5	
Diageo	DEO	2.4	
Wells Fargo	WFC	2.3	
Gaming & Leisure	GLPI	2.2	
<b>Total</b>		<b>27.0</b>	

\*All returns are as of 9/28; three- and five-year returns are annualized.  
\*\*As of 8/31. Sources: Davenport; Morningstar

world is not linear,” says Beall. Though many top holdings are household names, the fund skews toward more mid-caps than competitors, and reflects Davenport’s regional perspective. The average market value of the portfolio’s stocks is \$48 billion, versus the category’s \$80 billion.

These smaller companies sit side-by-side with the likes of Johnson & Johnson (JNJ), its top holding. Good ideas start with a 1.5% position and could double, but no one stock will exceed 4% of the fund. The top 10 holdings today comprise 27% of assets. “We really have to be careful not to dilute returns by diversifying profits away,” says Beall.

Value & Income has returned 15.4% annually over the past five years, better than 85% of its large-cap value peers, says Morningstar. The return so far this year is 9.71%, two percentage points better than the S&P 500, and ahead of 74% of its competitors.

One of Beall’s recent value themes is well-known U.S. companies hurt by the strong dollar. Whirlpool (WHR), based in Benton Harbor, Mich., makes and markets home appliances worldwide, and has suffered from weak emerging markets as well as an adverse World Trade Organization ruling (for more, see *The Trader*). At \$160, the shares trade at nine times 2017 estimated earnings of \$17.29, roughly half the multiple for similar companies. But Beall says that as Americans start spending more on their homes, replacing their aging appliances, the U.S. market will rebound. A 2.5% dividend will compensate investors waiting for a turnaround.

Many smaller companies are hidden gems in unpopular industries. A REIT with a \$6 billion market value, Sun Communities (SUI), is one example. Based in Southfield, Mich., the self-managed trust sells manufactured housing and owns trailer and recreational vehicle parks nationwide. Beall expects these communities to appeal to baby boomers interested in retiring to warmer climes; the company also offers 55+ communities in nine states. Its robust dividend yield of 3.3% adds to the allure.

Watsco (WSO), based in Coconut Grove, Fla., is a distributor of industrial air conditioning and heating equipment to North

America, Latin America, and the Caribbean. The company, with a \$5 billion market cap, has a good track record of growing dividends and earnings per share, Beall says. At \$140, Watsco shares trade at a pricey 24 times 2017 earnings of \$5.91 a share. But the stock has been a top performer and its growth prospects are excellent, says Beall.

One unusual holding reflects Davenport’s 153-year-old history in the area. Richmond-based Markel (MKL) has been run by the Markel family since its founding in 1930. The firm markets and underwrites specialty insurance; it’s known as a mini-Berkshire Hathaway that grows its book value in the midteens annually. It is the only Value & Income holding that doesn’t offer a dividend.

Markel’s investment portfolio, which backs its underwriting, is \$4.5 billion in public stocks and \$1 billion in private equity. The bull market has helped that stock portfolio, and Markel’s profits. Value & Income has sold some of the stock because, at \$916 a share, Markel isn’t exactly a value play. It trades at 28 times 2016 earnings of \$33.14 a share, and 1.5 times book value.

But Beall remains a longtime holder because the Markels have delivered. Over the past decade the shares are up 155%, well above the 54% for the property/casualty insurance group. “To work this business model, you have to be a good underwriter and a good investor,” Beall says. Markel has proved adept at both over time. That appeals to the investor, entrepreneur, and accountant in Beall. ■

The article was written by Barron’s. The information contained in the article is not guaranteed as to its accuracy or completeness. This material should not be considered an offer for any of the securities referenced. The opinions expressed in this article were as of the date of the reprint but are subject to change. The information provided in this reprint 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.

Past performance does not guarantee future results. All investments carry risk, including possible loss of principal. Investing in small and mid-cap stocks is more risky and more volatile than investing in large cap stocks. The intrinsic value of stocks in which the Fund invests may never be recognized by the broader market.

Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of the Fund.

**Investors should consider the Fund’s investment objectives, risks, charges, and expenses carefully before investing. The Fund’s prospectus containing this and other important information, should be read carefully before investing or sending money, and may be obtained from your Investment Executive, [www.investdavenport.com](http://www.investdavenport.com), or by calling (888) 285-1863.**

**DAVENPORT**  
ASSET MANAGEMENT

*Davenport & Company LLC Member: NYSE | FINRA | SIPC*

# Davenport Value & Income Fund

DAVENPORT  
ASSET MANAGEMENT

Symbol: DVIPX Current Expense Ratio† %: 0.89  
Share Class: No Load Prospectus Expense Ratio: 0.93  
Minimum Purchase: \$5,000 / \$2,000 IRAs

As of 8/31/2016

## OBJECTIVE

Long-term growth of capital and current income

## MARKET CAP BIAS

Large Cap

## FUND FACTS

Inception	12/31/2010
Net Assets (M)	\$506.3
No. Equity Holdings	52
Average Market Cap (B)	\$48.5
Turnover Ratio	25.0%
30-Day SEC Yield	2.20%
Source: Morningstar Direct as of	8/31/2016

## FUND OVERVIEW

- Value bias with broad diversification
- Differentiated ideas and flexibility to invest where we see value
- Risk management is strongly emphasized and central to investment process

## INVESTMENT DISCIPLINE

A focus on companies in three categories:

- Value stocks** – including deep value, contrarian ideas, special situations
- Income stocks** – high yielders, dividend growers, capital appreciation potential
- Foundation stocks** – household names with established business models and history of dividend payment and growth

## PORTFOLIO MANAGEMENT

Investment Policy Committee

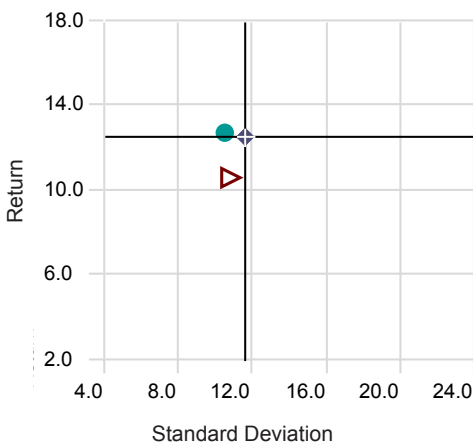
## Trailing performance (%) Net of fees

Last Month End 8/31/2016	1 Month	QTD	YTD	1 Year	3 Years*	5 Years*	Since Inception*
Davenport Value & Income	-0.13	2.15	9.85	11.59	10.79	14.08	12.67
S&P 500	0.14	3.83	7.82	12.55	12.30	14.69	12.50
Lipper Equity Income Index	0.30	2.91	9.30	11.99	9.55	12.46	10.53

Last Quarter End 6/30/2016	1 Month	QTD	YTD	1 Year	3 Years*	5 Years*	Since Inception*
Davenport Value & Income	1.50	4.11	7.54	3.84	10.17	12.51	12.64
S&P 500	0.26	2.46	3.84	3.99	11.66	12.10	12.13
Lipper Equity Income Index	1.01	3.65	6.20	3.70	8.99	10.00	10.29

An investor may obtain performance data current to the most recent month end by calling (800) 846-6666, or by visiting our website at [www.investdavenport.com](http://www.investdavenport.com). Performance shown is historical and is no guarantee of future results. Current performance may be lower or higher than the data quoted. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost.

## Risk & Return - Since Inception



	Return	Std Dev
Davenport Value & Income	12.67	10.51
S&P 500	12.50	11.61
Lipper Lg-Cap Core	10.53	10.82

Source: Morningstar Direct; data shown from 12/31/2010-8/31/2016

## Statistics - Since Inception

Beta	0.87
Alpha	1.63
Sharpe Ratio	1.20

Source: Morningstar Direct as of 8/31/2016; statistics are shown versus the S&P 500.

## Top Ten Holdings - % Net Assets

As of 8/31/2016

Johnson & Johnson	3.30
Fidelity National Financial	3.01
Markel Corp	2.89
Watsco Inc	2.85
Capital One Financial Corp	2.84
JPMorgan Chase & Co	2.71
General Electric Co	2.47
Diageo PLC**	2.41
Wells Fargo & Co	2.34
Gaming & Leisure Properties Inc	2.23

Holdings are subject to change without notice. \*\*Foreign holding.

**OVERALL MORNINGSTAR RATING™**  
★★★★ BELOW AVERAGE RISK

Overall rating out of 1179 Large Value funds as of 08/31/16 based on risk-adjusted return.

## LIPPER LEADER OVERALL RATINGS

<b>5</b>	<b>5</b>	<b>5</b>
Total Return	Consistent Return	Preservation

As of 8/31/2016  
Highest = 5•4•3•2•1= Lowest  
Consistent Return rating based on risk-adjusted return.

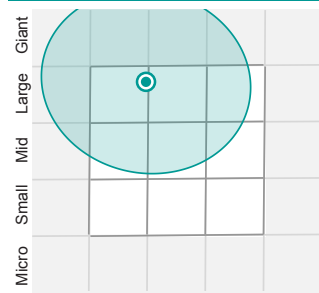
For distribution through October 11, 2016

†The Current Expense Ratio is the expense ratio as a percentage of the Fund's average daily net assets as of the date listed above. The Current Expense Ratio may fluctuate based upon a number of factors, including changes in the Fund's net assets.

\*Returns greater than 1 year are annualized. Please see reverse side for important risk considerations and other information.

# Davenport Value & Income Fund

## Morningstar Ownership Zone Sector Weightings - % Net Assets



Deep Val Core Val Core Core-Grth Grth  
 Micro Small Mid Large Giant  
 ● Davenport Value & Income  
 Category: Large Value  
 As of 7/31/2016

As of 8/31/2016

Consumer Discretionary	11.59
Consumer Staples	15.81
Energy	6.08
Financials	17.83
Health Care	6.67
Industrials	13.84
Information Technology	3.42
Materials	6.49
REITs	9.49
Telecommunications	3.21
Utilities	1.76
Cash & Equivalents	3.57

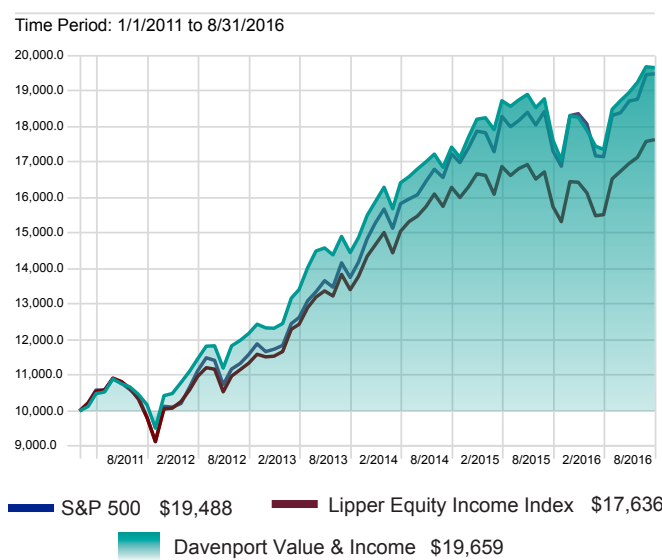
## IMPORTANT DISCLOSURES & RISK CONSIDERATIONS

**Investors should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. The Fund's prospectus contains this and other important information, should be read carefully before investing or sending money, and may be obtained from your Investment Executive, [www.investdavenport.com](http://www.investdavenport.com), or by calling (800) 846-6666.**

**Risk** is measured by standard deviation, which is the variability of returns around the average return. **Beta** is a measure of the volatility, or systematic (market-related) risk, of a portfolio as compared to the overall market. **Alpha** measures the excess return of your portfolio above the expected return as established by comparison to a beta-adjusted benchmark. The **Sharpe Ratio** indicates the excess returns over a risk-free asset per unit of total risk (where risk is measured by standard deviation).

**Morningstar Disclosure:** As of 08/31/2016, For each fund with at least a three-year history, Morningstar calculates a **Morningstar Rating** based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. DVIPX was rated against the following numbers of U.S.-domiciled Large Value funds over the following time periods: 1,179 funds in the last three years, 1,039 funds in the last five years. With respect to these Large Value funds, DVIPX received a Morningstar Rating of four stars for the three year period and four stars for the five-year period. Morningstar does not provide ratings for the 1 year period. **The Morningstar Ownership Zone™** provides detail about a portfolio's equity investment style by showing the range of stock sizes and styles. A portfolio's Ownership Zone™ is derived by plotting each stock in the fund's portfolio within the proprietary Morningstar Style Box™. The shaded area represents the center 75% of the fund's assets, and it provides an intuitive visual representation of the area of the market in which the fund invests. A "centroid" plot in the middle of the Ownership Zone represents the weighted average of all the fund's holdings. A fund that is concentrated will have a small ownership zone relative to the area of the style box, and broadly diversified fund will have an ownership zone that stretches across many sizes and style. Over a period of time, the shape and location of a fund's ownership zone may vary. ©2016 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

## Investment Growth



## Calendar Year Returns

	DVIPX	S&P 500	LIPPER EQUITY INCOME
2015	-1.93	1.38	-2.96
2014	12.00	13.69	10.68
2013	30.76	32.39	28.70
2012	15.38	16.00	13.70
2011	8.00	2.11	2.66

*Performance shown is historical and is no guarantee of future results. Current performance may be lower or higher than the data quoted. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost.*

**Lipper Leader Disclosure:** As of 08/31/2016, Lipper ratings for Total Return reflect funds' historical total return performance relative to peers; Lipper ratings for Consistent Return reflect funds' historical risk-adjusted returns, adjusted for volatility, relative to peers; Lipper ratings for Preservation reflect funds' historical loss avoidance relative to other funds within the same asset class. Preservation ratings are relative, rather than absolute, measures and funds named Lipper Leaders for Preservation may still experience losses periodically; those losses may be larger for equity and mixed equity funds than for fixed income funds. The Lipper ratings are subject to change every month and are based on an equal-weighted average of percentile ranks for the Total Return, Consistent Return, and Preservation metrics over three-, five-, ten-year and overall periods (if applicable). The highest 20% of funds in each peer group are named Lipper Leader or a score of 5, the next 20% receive a score of 4, the middle 20% are scored 3, the next 20% are scored 2, and the lowest 20% are scored 1. DVIPX, in Lipper's Equity Income classification, received the following ratings for the 3-, 5-year, and overall periods, respectively: Total Return: 5 (432 funds), 5 (312 funds), 5 (432 funds); Consistent Return: 5 (432 funds), 5 (312 funds), 5 (432 funds); Preservation: 5 (11,726 funds), 5 (9,838 funds), 5 (11,726 funds). Lipper ratings are not intended to predict future results, and Lipper does not guarantee the accuracy of this information. More information is available at [www.lipperweb.com](http://www.lipperweb.com). Thomson Reuters ©2016. All Rights Reserved.

The **Lipper Equity Income Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Equity Income Fund category. The **S&P 500 Index** is comprised of 500 U.S. stocks and is an indicator of the performance of the overall U.S. stock market. An investor cannot invest in an index and index returns are not indicative of the performance of any specific investment.

**Risk Considerations:** The fund may not achieve its objective and/or you could lose money on your investment in the fund. Stock markets and investments in individual stocks are volatile and can decline significantly in response to market, foreign securities, small company, exchange traded fund, investment style and management risks. There is no guarantee that a company will continue to pay a dividend. Please see the prospectus for further information on these and other risk considerations.

Distributed by Ultimius Fund Distributors, LLC.