

Davenport Small Cap Focus Fund (DSCPX)

Interview with Small Cap Focus Fund Portfolio Managers

To view our DSCPX video, visit:
www.investdavenport.com/davenport-asset-management/perspectives

George L. Smith III, CFA



Christopher G. Pearson, CFA



OVERVIEW

- Chris:** The Davenport Small Cap Focus Fund is a fund that we rolled out in the beginning of 2015.
- George:** The fund was launched to take advantage of one of our greatest strengths, which is finding relatively unknown and under-followed companies that have significant appreciation potential.
- Chris:** It's all been in a direct response to a client need and to an opportunity that we saw in the markets; and we were happy to be able to come out of the gates at the beginning of 2015 with a great roster of companies. We continue to identify new ideas and build on that success.

RESEARCH

- George:** Chris and I both have research backgrounds and experience digging into business models and a number of different industries.
- Chris:** We also have an extremely robust research effort at Davenport & Company and we have many sector analysts who have been covering their industries for years and years; and in addition to that, we've been adding new talent. Adding folks who not only have industry experience and are great at what their backgrounds provide them, but are also adaptable and are out there discovering new concepts, themes, and feeding that back into the flywheel, so to speak, of idea generation.
- George:** Oftentimes, an idea may be theme-based. In other words, you recognize economic trends or you see something going on in the world and want to filter down and see what that might produce in the way of investible ideas. You can imagine that very small companies are just less trafficked in, they're less followed, they aren't going to be talked about on CNBC as much, for instance. And really sharpening your pencil and doing a lot of research work on those companies is more likely to pay off than it would be with a \$500 billion company, for instance.

OBJECTIVE AND APPROACH

- George:** The objective of the fund would be capital appreciation—long-term capital appreciation and outsize returns over a multi-year period. We tend to have a concentrated approach; what I mean by that is, we tend to own fewer companies than some of our peers might and we tend to take bigger positions in those companies. The idea being to invest in things that we really know well and invest in a meaningful way in those things that we know really well.
- Chris:** And we like to invest with conviction and really see our ideas pan out over the long term.

continued

George: The first thing we look for in an individual investment is a quality business. In other words, it's growing, it's profitable, and it's defensible. Then we want to get a feel for how much cashflow that business is generating and how management is choosing to reinvest that cash. It may be that they're investing in new product, new stores, new distribution, new acquisitions, perhaps. We want there to be some avenue for growth that leads to kind of a compounding phenomenon over time.

Chris: Once we've done the due diligence and read through the filings and come up with our financial models, we like to go and get to know the people that are running these businesses and are investing our capital on our behalf.

George: Related to that, we really love owner-operator situations where a management team has a lot of their own money invested in the company. We find that those people are much more passionate about what they do, they tend to be more opportunistic, they're more risk-averse and we love the fact that their interests are aligned with ours.

RISK MANAGEMENT

George: Risk management is very important. We always say that we like to look down before we look up. In other words, when we invest in something, we first want to ask ourselves, what's the risk of losing money here?

Chris: First and foremost, for us, is protecting our shareholders capital.

George: Therefore, we're going to tend to shun investments where there's a high degree of business risk or a high degree of balance sheet risk.

Chris: And hopefully, we can do a good job of buying these businesses when they face headwinds. We always like to say, we like it when bad things happen to great businesses.

STABILITY

George: I think there's tremendous stability in terms of our people, there's tremendous stability in terms of our process, we've thrived, we're still independent, we're employee owned and all of our employees are invested right alongside our clients.

Chris: I think the combination of being dynamic, the combination of being flexible, yet very disciplined has worked well for us over the years, and will continue to.

DECEMBER 2017

Investors should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. The Fund's prospectus and summary prospectus contain 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, or by calling (888) 285-1863.

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