Davenport Asset Management
Quarterly Update | Q3 2016

September 30, 2016

Equity markets had a good third quarter, with the S&P 500 Index up 3.9% and the Russell 2000 Index up 9.1%. Volatility subsided in Q3 after the "Brexit" vote had caused a fleeting selloff at the end of Q2. Year-to-date, the S&P 500 has gained 7.8% and the Russell 2000 is up 11.5%. This is very impressive performance in the face of widespread pessimism and one of the worst starts to the year on record. In fact, the S&P finished Q3 a whopping 18.5% above its mid-February low, when the market was down roughly 11% to start the year.

Market leadership changed significantly during the quarter. As we mentioned last quarter, we felt there was a "fear bubble" creeping into the markets as investors continued to chase share prices of "defensive" companies higher. We were concerned the share prices of these stable companies may have more risk in them than many realize, given fairly lofty valuations. In Q3 our fears were realized; the Telecom, Utilities and Consumer Staples sectors were the only areas of the market that witnessed declines, to the tune of 3-5%.

We continue to think that it is a contrarian view to believe the world gets a little better from here. We have expressed this view in our portfolios as we have been finding relative value in the more economically-sensitive sectors of the market this year. Our tilt towards those areas across the portfolios aided performance in the quarter, with the best-performing sectors including Information Technology, Financials, Industrials and Materials.

Going forward we continue to find reasons to be cautiously optimistic. Corporate earnings are forecasted to grow in Q4 (after nearly two years of declines). The uncertainty of the election will soon be behind us, and the economy appears to be able to handle a quarter-point increase in short-term interest rates if the Fed follows through on their indications of a rate hike in December (after holding rates flat year-to-date). Valuations remain reasonable in light of the easy monetary conditions, pessimism continues to abound and ample cash remains on the sidelines, all of which could assist returns if the global economy continues to heal.

Market Returns	Q3 2016	YTD
U.S. Large Caps	3.9	7.8
U.S. Mid Caps	4.5	10.3
U.S. Small Caps	9.1	11.5
International Developed Markets	6.4	1.7
Emerging Markets	9.0	16.0
Interm. Term Bonds	0.2	4.2

Source: Morningstar Direct. Please see Important Disclosures on following page for index definitions.

Bond returns for the third quarter of 2016 were low relative to the strong returns for the first and second quarters. High grade returns for the quarter were around 0.20%. Treasury rates were slightly higher as intermediate rates, two year to ten year maturities, were higher by an average of 14 basis points. The ten year Treasury, the universal rate for asset pricing, ended June 30th at 1.5% and closed at the end of September at 1.6%.

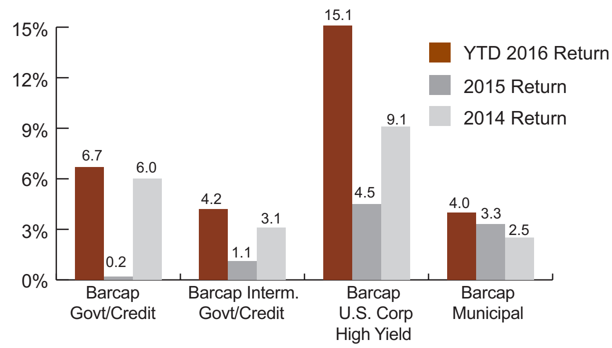
Economic data for the quarter portrayed a domestic economy that continues to add workers, has upward pressures in unit labor costs, a manufacturing sector showing signs of some weakness, and a consumer comfortable with their current and future conditions. While domestic GDP is running around 1.7%, it is expected to pick up during the last part of 2016.

The Federal Reserve was expected to raise rates at their September meeting but didn't. The issue is really that a 25 basis point change in the federal funds rate has a de minimis impact – other than confirming that the economy is stable. The fact that they didn't raise rates has raised credibility with the Fed. This inactivity has investors skittish about what to expect and has led to a sideways patterns in both stock and bond prices. It is now anticipated they may raise rates after the presidential election.

The value of global sovereign debt trading at negative yields was around $12.0 trillion dollars at the end of September. Global central banks are trying their best to stimulate their respective countries economies and negative interest rates appear to be the chosen method.

Portfolio changes during the quarter were to allocate assets to floating rate notes in anticipation of higher rates. These securities, which have their rates pegged to three month LIBOR, are our way of hedging the rate rise expected in December.

YTD Bond Index Returns



Source: Barclays Capital. Please see Disclosures section for index definitions.

Important Disclosures

Disclosures: Any opinions expressed here are statements of judgment on this date and are subject to future change without notice. This information may contain forward looking predictions that are subject to certain risks and uncertainties which could cause actual results to differ materially from those currently anticipated or projected. The information contained herein has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. There is no guarantee that a company will continue to pay a dividend. The investment return and principal value of an investment will fluctuate. Investing in securities carries risk including the possible loss of principal. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. The portfolios may invest in foreign securities which are subject to additional risks such as currency fluctuations, political instability, differing financial standards and the potential for illiquid markets.

Performance shown is historical and is no guarantee of future results. Investing in securities carries risk including the possible loss of principal. Performance is shown net of fees.

Index Definitions: U.S. Large Caps represented by the **S&P 500 Index**. U.S. Mid Caps represented by the **Russell Midcap Index**. U.S. Small Caps represented by the **Russell 2000 Index**. Bonds represented by the **Barclays Capital Intermediate Government/Credit Index**. International Developed Markets represented by the **MSCI EAFE Index**. Emerging Markets represented by the **MSCI EM Index**.

The **Barclays Capital U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt, including corporate and non-corporate sectors. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging market countries are included. Original issue zero coupon bonds, step-up coupon structures, and 144-As are also included. The reported returns reflect equities priced in U.S. dollars and do not include the effects of reinvested dividends. The **Barclays Capital Intermediate Government/Credit Index** is an unmanaged index composed of debt securities with maturities from one to ten years issued or guaranteed by the U.S. Treasury, U.S. Government agencies, quasi-federal corporations and fixed rate dollar denominated SEC-registered corporate debt that are rated investment grade or higher by Moody's Investors Service and Standard and Poor's Corporation or Fitch Investor's Service, in that order. The **Barclays Capital Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital U.S. Government/Credit Bond Index** measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year. The **Lipper Equity Income Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Equity Income Fund category. The **Lipper Large Cap Growth Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Large Cap Growth Fund category. The **Lipper Large Cap Value Funds Index** is an unmanaged index of the 30 largest funds in the Lipper Large Cap Value Fund category. The **Morgan Stanley Capital International Europe, Australia and Far East (MSCI EAFE) Index** is an unmanaged index composed of the stocks of approximately 1,000 companies traded on 20 stock exchanges from around the world, excluding the U.S., Canada, and Latin America. The **Morgan Stanley Capital International Emerging Markets (MSCI EM) Index** is a capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors. The reported returns reflect equities priced in US dollars and do not include the effects of reinvested dividends. The **Russell 2000® Index** measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market. The Russell 2000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. The **Russell Midcap® Index** measures the performance of the 800 smallest companies in the Russell 1000, which represent approximately 25% of the total market capitalization of the Russell 1000. The Russell Midcap Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. 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 these indices and their returns are not indicative of the performance of any specific investment**.

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