Quarterly Update – Q1 '16

DAVENPORT
ASSET MANAGEMENT

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What a ride. The first quarter of 2016 started off with the sharpest January sell-off since 2009, before sharply reversing course in mid-February to finish the quarter in positive territory. All told, the S&P 500 Index fell 11.4% before rallying 13.8% to finish the quarter with a modest 1.4% gain. Investors started the year full of pessimism, worrying over a potential recession, a tightening in domestic monetary policy, and continued weakness abroad. These fears created an oversold condition with many investors underinvested or caught short, which led to a buying panic in February, fueling the strongest intra-quarter recovery in the Dow since 1933.

As we highlighted last quarter, "growth" vs. "value" remained a key theme in the markets during Q1. We witnessed a strong reversal in the performance of the two styles with Value (+0.8%) performing much better than Growth (-4.2%). Last year's high fliers (think FANG – Facebook, Amazon, Netflix & Google) sold off sharply and market leadership rotated to more defensive sectors: utilities, telecoms and consumer staples all performed well. Also of note, industrials and commodity-related names reversed course and helped to lead the bounce higher in the second half of the quarter. Our portfolios have benefitted from both of these trends, as we have put money to work in downtrodden and oversold sectors, rather than try to chase the market's latest darlings.

With many in the marketplace viewing the current economic recovery as fragile, the obsessive focus on monetary policy continues. Overseas counterparts enacted further easing measures during the quarter (e.g. the Bank of Japan experimenting with negative interest rates on new commercial banking deposits). More importantly for U.S. equity investors, the Federal Reserve continues to react in real-time to financial markets, and just a couple months after their initial 25bp rate hike, have returned to cooing dovishly. Thus far, the easy-money messaging appears to be working (once again) for stocks.

Earnings season is upon us, and Q1 earnings are forecasted to be down by 8.5%, significantly worse than the year-over-year declines we have witnessed for the past three quarters. These negative estimate revisions certainly played a role in the selloff, but encouragingly, stocks have been able to rally in the face of further cuts to numbers, indicating the market has adequately discounted Q1's weakness and is looking toward improvement throughout the rest of the year. Importantly for earnings, oil has bounced sharply off its lows (benefitting the energy and materials sectors), and the U.S. Dollar has backed off its highs (aiding our large multinational corporations).

We remain in a dynamic, uncertain macroeconomic landscape, and this year's presidential election certainly isn't reassuring nervous investors. While we continue to reiterate our view that we have entered a lower-return period for stocks after the uninterrupted gains of 2009-2014, our portfolio companies are performing well in today's environment, and many are thriving. The violent selloff and subsequent rally in Q1 serve as a reminder for us not to cave into emotion when things look bleak and to continue our investment course, which has served us well over time.

Market Returns	Q1 2016	YTD 2016
U.S. Large Caps	1.4%	1.4%
U.S. Mid Caps	2.2%	2.2%
U.S. Small Caps	-1.5%	-1.5%
Bonds	2.5%	2.5%
International Developed Markets	-3.0%	-3.0%
Emerging Markets	5.7%	5.7%

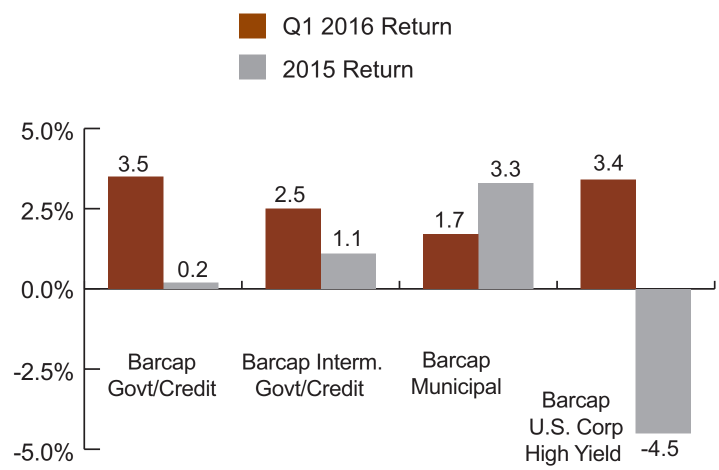
Source: Morningstar Direct. Please see Disclosures section for index definitions.

Treasury yields fell during the first quarter of 2016 as the "risk off" trade dominated activity in the U.S. bond market. Catalysts for the strong bid for U.S. Treasuries were: 1) a sharp selloff in global equities, 2) fears of an accelerating global economic slowdown, and 3) continued low inflation. The fact that domestic equities sold off by 11.4% caused many investors to seek the safety of US treasury issues. Treasury yields fell by 40 or more basis points for maturities of three years and longer.

Additionally, the Fed added the global economic landscape as a new component to their rate changing policy metric. This additional piece to the Federal Reserve's policy metric created more uncertainty about what the Fed's actions would be and the timing of those actions. Consequently, and to the chagrin of many market participants, the Fed has added uncertainty to their "data dependent" decision making. Now we just don't know what data they will be dependent on.

Portfolio structures were slightly extended during the quarter in anticipation of a less aggressive Federal Reserve. This was accomplished by purchasing high quality corporate bonds in the 5 to 7 year maturity range – still leery of being too aggressive in a low rate environment.

Q1 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.

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 **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**.