

## Ownership Cultures

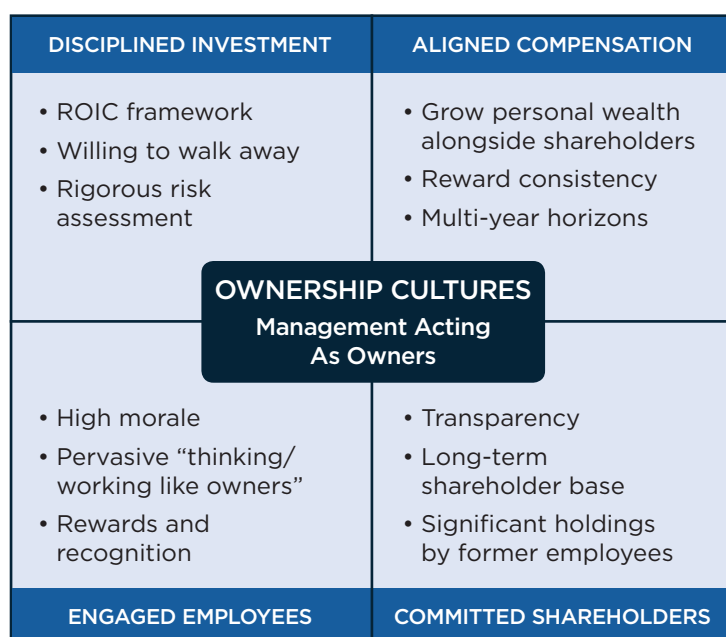
### Aligning Management Teams with Shareholders for Long-Term Success

When it comes to assessing potential investment targets, most investment managers, registered investment advisors and broker/dealers have straightforward, long-term goals: superior long-term performance, steady business growth and minimal risk. To tilt the odds of success in their favor, some investors take an approach that features a value bias, a quality focus, or an emphasis on smaller companies with ample growth opportunities. At Davenport Asset Management, we seek to invest in Ownership Cultures.

#### What We Like about Ownership Cultures

- Balanced approach to business growth
- Management teams with a long-term focus
- Shareholders that purchase as owners, not investors
- High level of equity ownership among management, employees, founders and other key stakeholders
- Long-term compensation plans tied to share price and/or other equity-based measures

It has been our experience that Ownership Cultures develop and maintain incentive systems that align the goals of managers, employees and shareholders, creating a solid, sustainable platform and motivating individual and team performance. The results? Increased per-share profitability, consistent stock price appreciation and lower-risk business growth.



#### Identifying an Ownership Culture Requires More Than a Screen

At Davenport Asset Management, we seek cultures that mirror our own long-term growth horizon goals. Identifying these opportunities often requires more than just a screen. It includes an assessment of the following:

- 1. SKIN IN THE GAME** – Management compensation is tied to stock performance, whether through actual stock ownership or a compensation structure tethered to stock price performance. Either way, compensation from long-term equity performance should be substantial.
- 2. MANAGING RISK** – Management teams that tend to think about risk differently. Because they have much at stake, they tend to be more focused on capital preservation and prudent balance sheet management than peers. This prompts them to not only avoid overpaying during frothy times, but also to make opportunistic investments during downturns when assets may be cheaper.
- 3. THINKING LONG TERM** – Short-term results are viewed as small steps on a long journey. Rather than succumb to the short-term pressures of Wall Street, these management teams make decisions with an eye toward long-term rewards. This can mean re-investing profits in people and assets for the sake of eventual value creation.

All told, we believe these factors contribute to an ownership mentality that creates an opportunity for superior long-term results with less risk along the way.

## Why Ownership Cultures Matter

In a letter to investors written nearly 30 years ago, Davenport Asset Management founder Joe Antrim emphasized the importance of assessing a company’s leadership and employees in order to determine the likely success of the business. Today, we continue to use Ownership Culture as a framework for identifying potential investment opportunities.

Our emphasis on Ownership Culture has been confirmed by leading research companies. Global consulting firm McKinsey & Company recently noted, “The evidence makes it clear that companies with a long strategic horizon create more value.”<sup>1</sup> They also discussed the pervasive focus on short-term results in business today, pointing to a recent survey conducted by Duke University in which nearly 80% of 400 CFOs said they were willing to reduce potentially value-creating activities in order to hit short-term earnings targets.

**“A company, at the margin, is just a group of people brought together to perform a common task ... An important part of our job (as investors) is to know as much about these people as we can in order to be able to better judge their company’s potential.”**

- Joe Antrim  
*Founder of Davenport Asset Management  
 May 8, 1989 Letter to Investors*

## ...AND IT’S WHO WE ARE

At Davenport, we have no place for double standards. We ask of ourselves exactly what we ask of the companies in which we invest. For more than 150 years, Davenport & Company has been 100% employee-owned. Davenport’s employee profit sharing plan (PSP) was created in 1972 and later served as the foundation of Davenport Asset Management. Since its inception, our employee PSP has remained exclusively invested in the same equity, fixed-income and asset-allocation strategies we offer clients. Like our clients and the owners, management and employees of the companies in which we invest, we have a strong interest in growing capital while managing risk.

## A Competition Correlation: Ownership Culture and Investment

	Markel Corp (MKL) <sup>2</sup>	Brookfield Asset Management Inc. (BAM) <sup>2</sup>	Watsco Inc. (WSO) <sup>2</sup>
<b>Insider</b>	Markel Family	Flatt / Cockwell	Albert Nahmad
<b>Business Description</b>	Insurance holding company	Alternative Asset Manager	HVAC distributor
<b>Stock Ownership</b>	3%	11%	12%
<b>Executive Compensation</b>	Executives predominantly compensated through 5-yr. growth in book value per share	>70% of executive compensation is long-term incentive compensation	CEO compensation is directly tied to growth in Earnings Per Share (EPS), approximately \$65k per 1 cent increase from prior year
<b>Key Compensation Metric Evaluation</b>	Book Value compounded at 16% over the past 20 years	Shareholder returns compounded at 19% over the past 20 years	Shareholder returns compounded at 20% over the last 20 years
<b>Worth Mentioning</b>	Stock ownership guidelines include 5x base salary for executives and 2-3x base salary for senior management	Current and former employees own 20% of diluted shares. Stock ownership guidelines require equity ownership 5x base salary	Stock compensation is truly long term. Shares issues vest after an 8-yr. period

The information above is provided by company annual reports and proxy filings. The securities mentioned are for illustrative purposes only.

<sup>1</sup> Marc Goedhart, Tim Koller, and David Wessels, “The real business of business,” McKinsey on Finance, March 2015, mckinsey.com.

<sup>2</sup> Davenport is not affiliated with the companies illustrated.

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