Davenport Asset Management
Quarterly Update | Q2 2017

June 30, 2017

Equities added to their gains in the second quarter. The S&P 500 Index advanced 3.1%, bringing its year-to-date gain to 9.3%. Solid corporate earnings reports seemed to support gains. In fact, first quarter earnings growth for the S&P 500 was the highest in six years. This supported the thesis we espoused last quarter for a hand off to an earnings driven market. We are also pleased to report that our equity portfolios are demonstrating solid absolute and relative performance so far in 2017.

For much of the quarter we witnessed ongoing leadership from "growth" stories, particularly in the technology sector. Year-to-date, technology leads the market with a 16.2% gain. In an environment reminiscent of 2015, a handful of momentum-oriented tech names seemed to dominate market performance. On June 9th, the Wall Street Journal noted that only five stocks (Facebook, Amazon, Apple, Google and Microsoft) accounted for 41% of the S&P's gains to that point. Looking at this market dynamic through a different lens, the tech-heavy Lipper Large Cap Growth Index was up 17.2% at quarter end versus 5.7% for the Lipper Large Cap Value Index.

Why the outperformance of growth? For one, President Trump's stalled policy agenda has led many to reduce growth expectations for other areas of the market. This dynamic has created a perceived scarcity of growth and willingness to pay a premium for companies with ongoing momentum. Meanwhile, subdued inflation and the Federal Reserve's efforts to remove monetary stimulus are weighing on economic growth projections, which are more vital to cyclical areas of the market such as energy, industrials and financials. There's also the simple fact that the tech juggernauts have become increasingly dominant, creating a "winner take all" environment. Amazon's (AMZN) recent proposal to acquire Whole Foods (WFM) is a case in point. While AMZN shareholders generally applauded the deal, shares of other grocers and retailers fell sharply on fears of Amazon's disruption expanding to new product categories.

Of note, markets started to cool late in the quarter and the pro-growth/momentum trade stumbled. The technology names mentioned above sold off meaningfully as June came to a close. Our technology weighting varies by portfolio, but we generally don't chase momentum and have been concerned that the growth/technology trade was too crowded. However, we do not expect a 1999-like tech bust for a couple reasons. One, today's tech leaders are much more profitable than the high fliers of the "dot com" bubble and their valuations are much more reasonable. Two, we do not expect growth rates for these companies to slow meaningfully, suggesting they should continue to command a premium to the market.

Where to now? Markets, particularly some of the more extended areas, may be due for a pause. However, we think timing the market is a futile exercise and still believe valuations are reasonable in the context of ultra-low interest rates. We also remain optimistic that both economic and earnings growth will surprise to the upside and drive further gains for equities. Thanks for your trust and enjoy your summer.

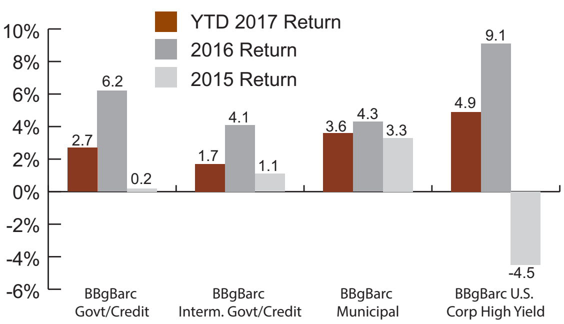
Market Returns	Q2 2017	YTD
U.S. Large Caps	3.1	9.3
U.S. Mid Caps	2.7	8.0
U.S. Small Caps	2.5	5.0
International Developed Markets	6.1	13.8
Emerging Markets	6.3	18.4
Intermediate Term Bonds	0.9	1.7

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

Bond Market Update

Short rates rose from 0.75% to 1.01% during the quarter while thirty year rates dropped from 3.01% to 2.84%. The catalyst for the curve flattening was the Federal Reserve's increase in the Federal Funds rate by twenty-five basis points in June. The Fed continues to be relatively accommodating but added they intend to start reducing their balance sheet in the fall.

2017 Bond Index Returns



Source: Bloomberg Barclays. Please see following page for index definitions.

Economic data for the quarter showed continued optimism by both consumers and businesses as the unemployment rate fell to 4.3% - the lowest since 2001. First quarter GDP was revised to 1.4% and inflation remained below the Fed's 2% target. Our economy is expected to accelerate throughout the rest of the year and inflation should continue to moderate. Gas prices have been relatively stable and had a positive impact on both inflation and consumer spending. The price of oil dropped from $57.40 a barrel at the beginning of the year to $42.53 at the end of June.

Our conservative strategy has been to invest in a combination of floating rate notes and longer date corporate securities with limited exposure to Treasury issues. We believe this structure may benefit from the change in the shape of the Treasury curve as short rates rise and longer rates stay close to current levels.

Important 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. 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.

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**. International Developed Markets represented by the **MSCI EAFE Index**. Emerging Markets represented by the **MSCI EM Index**. Bonds represented by the **Bloomberg Barclays Intermediate Government/ Credit Index**.

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. 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 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 2000® Index and Russell Midcap® Index are trademark/service marks of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. 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 **Bloomberg Barclays U.S. Corporate High Yield Index** measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. The **Bloomberg Barclays 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 **Bloomberg Barclays Municipal Index** covers the U.S. dollar-denominated long-term tax exempt bond market. The **Bloomberg Barclays U.S. Government/Credit Bond Index** measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities.

An investor cannot invest in these indices and their returns are not indicative of the performance of any specific investment.