Davenport Asset Management®

Davenport Mutual Funds

Q2

June 30, 2011

Writing letters is a tricky business these days. When we started conjuring up thoughts for this letter, investors were panicking about budget turmoil in the Eurozone and fresh signs of an economic slowdown. At one point, the market was down over 6% in the month of June alone. As we were finishing our commentary, the S&P 500 had just managed its best weekly gain in roughly two years (up 5.6%) and all was safe again. All told, the market finished the quarter with little to show for the wild ride in June. The S&P 500 was roughly flat and the Russell 2000 was down a modest 1.6%. On a year to date basis, the S&P 500 and Russell 2000 were up 6.0% and 6.2%, respectively, at quarter end. So, what should investors be watching now?

Some believe we are entering a "soft patch". Indeed, signs of slower economic growth have emerged. Recent data regarding housing, manufacturing, auto sales, and employment has been disappointing relative to expectations. To top it all off, the Federal Reserve recently lowered its economic growth forecast for this year from a range of 3.1-3.3% to a range of 2.7-2.9%. Recent weakness may just be a hiccup within an ongoing uptrend. Some of it may be attributable to anomalies such as weather and supply chain disruptions stemming from Japan, but it reminds us that a recovery will likely be subdued and uneven. Many are interested to see how the economy/market will fare if monetary stimulus is removed. Some believe it's time to "take our medicine", implying we may enter a protracted period of slow growth forced in part by government austerity around the world. While an official declaration of "QE 3" probably won't be politically palatable (and hopefully unnecessary), loose monetary policy will likely persist.

Policymakers are in a tough spot. On one hand, inflation hawks have been calling for tighter monetary policy, fearing that relentless stimulus will lead to runaway inflation. On the other hand, prospects of deflationary pressures and weak growth argue for an extended period of accommodative monetary policy. We have long argued the conflicting forces of global de-leveraging (i.e. the natural aftermath of a debt bubble) and unprecedented monetary stimulus (i.e. trying to avoid the aftermath) would create a tug of war between inflation and deflation. Hence, we have been cautious about making big bets in areas like commodities, which may seem appealing when inflation is the fear du jour, but can easily whipsaw investors when the inflation/deflation seesaw goes the other way. We continue to advocate a balanced approach and our funds aren't designed to benefit from any particular "flation". As always, we are focused first and foremost on individual companies that we think generate attractive returns.

Why own equities when there are so many economic headwinds? We think they are a good deal. While we think there's money to be made across the market cap spectrum, large cap stocks still seem particularly cheap. If they show even modest growth, there ought to be room for valuation expansion. We think shares of companies with strong and rising dividends remain very appealing. Low interest rates, which may persist for a while, make these companies an attractive income alternative. We are also still hopeful that depressed industries such as automobiles, housing, and lending will one day show signs of life. While these industries continue to bounce along the bottom, metrics like new home and auto sales won't run below long-term trends forever. We have recently added to companies in each of these areas given recent weakness and seemingly attractive risk/reward profiles.

Hopefully, some of the conditions that held the economy/market in check recently will abate and allow us to have a decent second half in 2011. If the old saying "stocks climb a wall of worry" holds true, we should have some climbing in front of us. We got a taste of this in the waning days of the 2nd quarter. Recent weakness offered buying opportunities, which seemed fewer and farther between earlier this year. We are excited about a number of individual companies that we think could create meaningful value for us in years to come. We may not repeat the outsized gains of 2009 and 2010 as stocks follow the economy down the road of the "new normal", but we still think we can generate solid returns.

Thank you for your continued trust.

The Core Fund ("Fund") closed out the volatile second quarter with a 0.82% gain, outpacing a 0.10% increase for the S&P 500. On a year to date basis, the Fund was up 5.26% versus 6.02% for the S&P 500. While not pleased to be lagging a bit on a year to date basis, we were glad to see the Fund show some relative resilience during a tougher time.

Health Care was the best performing group on an absolute basis. Solid gains in WellPoint Inc (WLP) and Johnson & Johnson (JNJ) led that category. Much of the solid relative performance during the quarter can be attributed to good stock selection within weak sectors. Driven by strong results and increased guidance, specialty chemical company Albemarle Corp (ALB) continued its advance as most stocks in the materials sector fell victim to renewed fears of an economic slowdown. Despite a disappointing showing from big tech bellwethers, holdings such as Accenture PLC (ACN) and Check Point Software Technologies Ltd (CHKP) posted strong gains in the quarter. Admittedly, we have been frustrated with the way big tech has performed in light of strong balance sheets and solid earnings growth. Ultimately, we think having exposure to quality franchises such as Apple Inc (AAPL), Google Inc (GOOG) and Microsoft Corp (MSFT) will pay off given the aforementioned characteristics. Oddly, these names seem to have morphed into value (in some cases deep value) stories. We don't think the growth slowdown that the market seems to be discounting will be as soon or abrupt as is being discounted.

Financials continued to struggle. Issues contributing to this include renewed fears of higher capital requirements, Greek default hysteria, and disappointment over the magnitude of dividend increases. We are underweight banks, but continue to believe compelling risk reward opportunities exist within the sector. Bank of America Corp (BAC) and Wells Fargo & Co (WFC) are two examples of companies with well publicized headwinds that should exhibit earnings power well above current levels as things stabilize and ultimately improve. While it has been a frustrating ride to this point, it is difficult to imagine the economy getting much better without some participation from the banks.

We look to purchase companies with quality franchises, strong management teams and unique growth/value creation opportunities at attractive prices. While you are rarely confronted with "the perfect stock" in all of these regards, we feel the two purchases during the quarter embody these characteristics nicely. Moreover, each company has attractive value drivers beyond a slow improvement in the economy. At the beginning of the quarter we purchased Chesapeake, VA based discount retailer Dollar Tree Inc (DLTR). We believe this company has one of the most exciting growth stories in the retail space. The business model has generated impressive results throughout the economic downturn, and also has a history of successfully weathering periods of inflation. Going forward, we believe significant value creating opportunities remain. Due to the company's unique merchandising flexibility, we believe recent operating margin levels are sustainable and should lead to expanding EPS and returns on capital. Near quarter end, we purchased Stanley Black & Decker Inc (SWK). Though there is a cyclical component to this story, we believe there are substantial value creation opportunities beyond a reliance on an improving economy. Following the acquisition of Black & Decker in March of 2010, SWK became the largest producer of hand tools and power tools accessories. In addition to proving to be timely, we believe the acquisition will be a significant value enhancer in light of cost synergies and cross-selling opportunities across the combined company's end markets. Over the next few years, we expect these developments in tandem with a modest recovery in the residential construction/do-it-yourself market to produce robust cash flows.

As we head into the second half of 2011, we feel as "balanced" as we have ever been. We have no large "sector bets" and the Fund is neither geared towards strong economic growth, nor is it extremely defensive. We think this is appropriate given our anticipation of a positive but slow global growth environment. Given this expectation, we remain extremely focused on optimising the Fund on a company by company basis.

Performance*

For Period Ending	6/30/2011	
	DAVPX	S&P 500
Quarter To Date	0.82	0.10
Year To Date	5.26	6.02
One Year	28.71	30.69
Three Years	3.69	3.34
Five Years	4.07	2.94
Ten Year	4.08	2.72
Since Inception (1/15/98)	4.40	4.29

Gross Expense Ratio: 1.01%

*Periods greater than one year are annualized.

Past performance is historical and not representative nor a guarantee of future results. Current performance may be lower or higher than the data quoted. Performance current to the most recent month end may be obtained by calling 1-800-281-3217. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost.

DAVPX Recent Purchases & Fund Characteristics

New Positions

Dollar Tree Inc (DLTR), a Chesapeake, Virginia based discount retailer, boasts of the most exciting growth stories in the space. The company has put up impressive results in recent quarters, however, significant value creating opportunities remain with respect to organic growth, new store expansion and ongoing share repurchases. Due to the company's unique merchandising flexibility, we believe recent operating margin levels are sustainable and should lead to expanding EPS and returns on capital as the aforementioned developments transpire. In light of the company's large growth runway and solid execution, we believe the valuation is undemanding at current levels.

Stanley Black & Decker Inc (SWK) became the largest producer of hand tools and power tools accessories (company has other substantial businesses in security and industrial tool markets) following the acquisition of Black & Decker in March of 2010. In addition to proving to be timely (deal announced in late 2009), we believe the acquisition will be a significant value enhancer in light of cost synergies and cross-selling opportunities across the combined company's end markets. Over the next few years, we expect these developments, in tandem with a modest recovery in the residential construction/do-it-yourself (DIY) market, to produce robust cash flows, allowing for reinvestment into growing segments (primarily security) in addition to increased dividends and share buybacks. Furthermore, we have a strong degree of confidence in management given the company's solid track record of integrating acquisitions (company has averaged 6% operating margin improvement across acquired businesses in the 50 plus acquisitions it has done since 2002) and history of returning cash to shareholders (company has returned an average of 45% of FCF through dividends and repurchases since 2001).

Increased Positions

CarMax Inc (KMX) is the largest retailer of used cars in the U.S.; however, it only controls 2% of the $275 billion market for 1-6 year old cars. This immense market opportunity, coupled with the company's superior business model and solid track record of execution and constant improvement has always attracted us to this story. More recently, the company has resumed its growth strategy and has begun to see the benefits of increased traffic and pricing. Over time we believe earnings power is substantial as the company takes its business model to various other markets.

General Dynamics Corp (GD) is a high quality industrial bellwether with stable, category leading products addressing the Defense (Info systems and technologies, combat vehicles, shipbuilding & marine systems) and Business Aviation (Gulfstream, aftermarket & OEM) end markets. Despite further evidence that the company's high margin Gulf Stream business has bottomed, the shares continue to reflect defense budget concerns while ignoring earnings potential resulting from a recovery in business jet demand.While a tragic accident involving one of the company's G650 airplanes may cause some deliveries to be pushed into 2012, it appears unlikely that the aircraft's design is fundamentally flawed. As such, we believe the resulting weakness in the stock has provided an attractive opportunity to add exposure. At less than 10x 2012 consensus EPS, we believe the risk/reward profile is tilted in our favor; especially when considering the company's strong balance sheet, quality defense franchises, and significant earnings potential in Gulf Stream.

The recent purchases profiled above represent securities purchased during the quarter. The securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

Fund Sector Weightings*

Sector	Weighting %
Consumer Discretionary	12.4
Consumer Staples	8.2
Energy	11.6
Financials	13.3
Health Care	11.0
Industrials	12.3
Information Technology	19.5
Materials	5.5
Telecom Services	4.0
Utilities	0.0
Cash & Equivalents	2.6

Top Ten Holdings*

Holding	% of Net Assets
Exxon Mobil Corporation	2.6
QUALCOMM Inc	2.5
Brookfield Asset Management Inc**	2.5
CarMax Inc	2.4
Schlumberger Limited	2.3
Chevron Corporation	2.2
Albemarle Corporation	2.2
United Technologies Corp	2.2
International Business Machines Corp	2.2
Danaher Corporation	2.2

**Sector Weightings and Holdings are as of June 30, 2011. They are subject to change on a daily basis.*
***Foreign Holdings*

The Value & Income Fund ("Fund") advanced 1.35% during the second quarter, nicely outpacing the 0.10% gain for the S&P 500 and the 0.52% gain for the Lipper Equity Income Index. On a year to date basis, the Fund is up 6.78% versus a 6.02% move for the S&P 500. We are pleased to have another solid quarter in the books, especially in light of the macro turmoil that rocked markets later in the quarter. As we had hoped, dividend paying stocks continue to attract investor attention in this low interest rate environment.

Walter Investment Management Corp (WAC) was by far our best performing stock during the quarter. WAC posted a 35%+ gain as investors began to feel more comfortable with the company's new business model and potential earnings power. This performance, alongside a strong move from Fidelity National Financial Inc (FNF), helped mask what otherwise was a disappointing quarter from the financial sector. Bank holdings such as Bank of America Corp (BAC), Wells Fargo & Co (WFC) and JPMorgan Chase & Co (JPM) experienced meaningful declines. We elected to use this weakness to add to our position in WFC. Unlike the Financials, our Consumer Staples holdings exhibited uniform strength led by impressive gains in SYSCO Corp (SYY) and H.J. Heinz Co (HNZ). Energy was a weak spot during the quarter as shares of EnCana Corp (ECA) sold off following the announcement that the company's previously announced joint venture with PetroChina had fallen through. While this was a disappointment, we still like the long term prospects for natural gas and ECA has one of North America's largest natural gas positions.

At times, we like to invest in "contrarian" situations with well publicized headwinds that appear to be well discounted. In keeping with this theme, we initiated a position in defense contractor Raytheon Co (RTN) and added to our position in WFC. RTN is a major U.S. defense contractor with roughly $25 billion in annual sales. Though the majority of 2011 sales are expected to go to the U.S. government, we believe the company's diversified product mix and quality legacy platforms help provide protection from future budget cuts. Furthermore, the company's above average international exposure should continue to augment revenue growth given solid foreign demand. RTN boasts industry leading margins, enjoys a rock solid balance sheet and has an impressive history of returning cash to shareholders through buybacks and dividends. Given a solid dividend (yields 3.5%) and cheap valuation (purchased at approximately 10x consensus EPS estimates for 2011), we believe the shares have significant upside potential and should also behave a bit more defensively than other more expensive industrials in the event of a market pullback.

We also used weakness in the shares of WFC to add to our position. At 2.5%, WFC is our largest holding within the financial sector. Through the first half of the year, the banking sector has underperformed the market, returning to price levels not seen since late last year. Though we concede that returns on equity may not return to peak levels any time soon, we believe banks such as WFC are still capable of producing decent returns which are not reflected in their valuations. While the current consensus may reflect some optimism, we think long term earnings power is significantly higher than current levels. In sum, we think the valuation is attractive in light of the company's leading retail banking franchise, significant earnings power and ability to raise the dividend over time.

We also added to our position in Royal Dutch Shell PLC (RDS'B) during the quarter. Following weakness across the sector, the shares came to trade at less than 8x 2012 EPS estimates with a yield of 4.7%. We felt this was a good opportunity to add exposure to this high quality company integrated with one of the more attractive cash flow growth profiles in the space. Given lower capital requirements and a strong slate of new projects, cash flow should grow significantly in coming years, supporting further dividend increases. Beyond meaningful new projects, increased production and higher commodity prices, we also expect results to benefit from an above average earnings exposure to refining and chemicals.

We are pleased with results to date and think the case for dividend-paying stocks is as strong as ever. As always, we continue to believe stocks in solid companies that have potential for both dividend growth and capital appreciation will perform well in a variety of scenarios.

Performance

For Period Ending	6/30/2011	
	DVIPX	S&P 500
Quarter To Date	1.35	0.10
Year To Date	6.78	6.02
Since Inception (12/31/10)	6.78	6.02

Gross Expense Ratio: 1.31%

Past performance is historical and not representative nor a guarantee of future results. Current performance may be lower or higher than the data quoted. Performance current to the most recent month end may be obtained by calling 1-800-281-3217. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost.

DVIPX Recent Purchases & Fund Characteristics

New Positions

Raytheon Co (RTN) is a major U.S. defense contractor with roughly $25 billion in annual sales. Though the majority of 2011 sales are expected to go to the U.S. government, we believe the company's diversified product mix and quality legacy platforms provide protection from future budget cuts. Furthermore, the company's above average international exposure should continue to augment revenue growth given solid foreign demand. RTN boasts industry leading margins, enjoys a rock solid balance sheet and has an impressive history of returning cash to shareholders through buybacks and dividends. Given a solid dividend and cheap valuation (10x consensus EPS estimates for 2011), we believe the shares have significant upside potential and should also behave a bit more defensively than other more expensive industrials in the event of a market pullback. The stock currently yields 3.5%.

Increased Positions

Royal Dutch Shell PLC (RDS'B)** is a leading integrated energy company and the largest producer of liquid natural gas (LNG). Amid 7 straight years of production declines and a 2004 reserve downgrade, the company continued to invest heavily in value creating projects. 2010 marked the first year of upstream production growth in 7 years, beginning what we believe to be a multi-year period of outsized production, free cash flow and dividend growth. Beyond meaningful new projects, increased production and higher commodity prices, we expect results to benefit from an above average earnings exposure to refining and chemicals. The stock currently yields 4.7%.

Watsco Inc (WSO) is the largest independent distributor of heating, ventilation, air conditioning (HVAC) and refrigeration equipment, parts, and supplies in the U.S. Headquartered in Coconut Grove, Florida, the company was founded in 1947 as a parts manufacturer and entered the distribution business in 1989. Most of the executives have been with the company for an extended period of time and the company has about 23% ownership by insiders. WSO is still led by the CEO that bought the company in 1973. WSO has an estimated 7% market share in a $26 billion market and has 18 employees at its headquarters. The stock currently yields 3.4%.

Wells Fargo & Co (WFC) is one of the largest banking institutions in the country, leading the industry in mortgage origination and servicing, small business lending and other financial services. Over the last several weeks, the banking sector has underperformed the market, returning to price levels not seen since late last year. Weak consumer data, sluggish revenue growth and fears surrounding the impact of higher capital requirements on ROEs are primarily to blame. Though we concede that ROEs may not return to peak levels any time soon, we believe banks such as WFC are still capable of producing decent returns which are not reflected in their valuations. WFC currently trades at under 8x 2012 EPS estimates. While this estimate is probably optimistic, we think long term earnings power is significantly higher than current levels. In sum, we think the valuation is attractive in light of the company's leading retail banking franchise, significant earnings power and ability to raise the dividend over time. The stock currently yields 1.7%.

The recent purchases profiled above represent securities purchased during the quarter. The securities identified and described do not represent all of the securities purchased, sold or recommended for advisory clients and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

Fund Sector Weightings*

Sector	Weighting %
Consumer Discretionary	8.6
Consumer Staples	15.5
Energy	15.8
Financials	12.3
Health Care	7.8
Industrials	15.6
Information Technology	5.9
Materials	2.1
REITs	3.9
Telecom Services	4.1
Utilities	2.1
Cash & Equivalents	2.5

Top Ten Holdings*

Holding	% of Net Assets
Royal Dutch Shell PLC**	2.9
Tortoise Energy Infrastructure Corp**	2.6
V.F. Corporation	2.6
GlaxoSmithKline PLC**	2.5
Wells Fargo & Company	2.4
Chevron Corporation	2.4
Willis GroupHoldings PLC**	2.3
Altria Group Inc	2.3
Norfolk Southern Corp	2.3
McDonald's Corporation	2.2

**Sector Weightings and Holdings are as of June 30, 2011. They are subject to change on a daily basis.*
***Foreign Holdings*

The Equity Opportunities Fund ("Fund") was up 2.52% in the 2nd quarter, compared to a 0.10% gain for the S&P 500 and a 0.42% gain for the Russell Midcap. Year to date, the fund was up 9.90% at quarter end compared to an 8.08% gain for the Russell Midcap and a 6.02% gain for the S&P 500. Similar to the broader market, the fund started the quarter on a hot note, but gave back some gains as the economy showed signs of sputtering.

Fortunately, a number of meaningful holdings had solid returns in spite of macroeconomic worries. Consumer stocks such as Expedia Inc (EXPE), Penn National Gaming Inc (PENN), and O'Reilly Automotive Inc (ORLY) were on this list. Of these, EXPE was the biggest gainer as the market applauded its plan to spin off its TripAdvisor business. Millicom International Cellular SA (MIICF), a wireless carrier, was also a significant contributor when it positively surprised investors with better than expected margins and subscriber additions. Alternately, Lamar Advertising Company (LAMR) was the biggest drag on results. Holdings in cyclical sectors, such as energy and industrials, struggled as economic weakness became evident. We added to the biggest percentage decliner in this group, Babcock & Wilcox Co (BWC), on weakness. BWC's power business should improve as utility spending bounces back; moreover, new clean air rules should create a new market opportunity. Positions sold early in the quarter, including Foster Wheeler AG (FWLT), Lazard Ltd (LAX) and RSC Holdings Inc (RRR), proved to be good decisions given subsequent market weakness, bolstering our cash position.

Having cash on hand has been a plus recently. It has allowed us to add to some of our favorite companies at attractive prices. For example, concerns about near-term auto sales heavily pressured CarMax Inc (KMX), allowing us to add to our position at just below $27. More recently, we beefed up positions in LAMR and NewMarket Corp (NEU). LAMR shares were down alongside concerns surrounding softness in local advertising, but even when assuming a tepid recovery, the stock looks very cheap relative to the company's cash generation. Also, the ongoing conversion to digital billboards provides a high return reinvestment opportunity. We were able to buy more of NEU with the stock 13% off its highs. NEU looks very cheap at 10x earnings and we think structural change to the industry has changed the company's profitability profile. Also, NEU will soon be debt free and is generating far more cash than it needs.

We have the flexibility to consider many types of investments, including smaller cap special situations. Thus, we recently purchased a position in Walter Investment Management Corp (WAC). Following the closing of the acquisition of Green Tree Solutions, WAC will transform from a mortgage REIT to a "high-touch" servicer of consumer loans. A fee-based business that entails little credit risk, the market opportunity is growing as loan delinquencies rise and banks look for help with servicing/collecting balances. The deal has created some confusion, and the elimination of the company's dividend prompted selling by income-oriented investors, creating an opportunity. Over time, we think the combined entity could generate earnings north of $3/share. As this is recognized and the company finds support in the analyst community, we think this stock could have meaningful upside. Fortunately, we've already seen the stock attract some attention, and strong gains in the waning days of June allowed it to be a solid contributor for the quarter.

Brookfield Residential Properties Inc (BRP), another "off the radar" name we purchased, is a land developer and homebuilder formed by the recent combination of Brookfield Homes and the residential real estate assets of Brookfield Properties. Combined, BRP is geographically diversified and controls over 100,000 lots. Its Canadian business has allowed it to remain profitable through the downturn, while U.S. assets could be a source of material upside should housing recover. Housing sentiment remains negative, but limited new development could ultimately yield a shortage of finished lots, which would bode well for land-rich BRP. We also like the involvement of Brookfield Asset Management Inc (BAM) (owns 72% of BRP), one of our holdings, and a very highly regarded value creator. The association should help BRP access capital and acquisition opportunities. We paid roughly 1.1x book value for our stock; hence we think our downside is limited.

We are pleased with performance and happy to have taken advantage of some buying opportunities. We are excited about our recent purchases, which we think could deliver solid gains in coming years. We expect market volatility will persist given numerous economic headwinds and will likely continue to keep a little cash on the sidelines. This will enable us to act quickly should any of our favorite companies go on sale.

Performance

For Period Ending	6/30/2011	
	DEOPX	S&P 500
Quarter To Date	2.52	0.10
Year To Date	9.90	6.02
Since Inception (12/31/10)	9.90	6.02

Gross Expense Ratio: 1.31%

Past performance is historical and not representative nor a guarantee of future results. Current performance may be lower or higher than the data quoted. Performance current to the most recent month end may be obtained by calling 1-800-281-3217. The investment return and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost.

DEOPX Recent Purchases & Fund Characteristics

New Positions

Brookfield Residential Properties Inc (BRP) is a geographically diversified land developer and home builder created by the recent combination of Brookfield Homes and the residential real estate assets of Brookfield Properties. The transaction created the 6th largest residential platform by land and housing assets in North America. We believe the new entity is well-capitalized and should attract a broader investor audience. The company is currently profitable, and could see meaningfully higher earnings power in a better environment.

Omega Protein Corp (OME), a Houston, Texas based global protein play, benefits from increased protein consumption due to rising global living standards. OME produces and markets fish meals, fish oils and fish solubles. The company sells its products to a variety of growing industries such as aquaculture, pet food, swine, beef and dairy. World population growth alongside substantial increases in the GDP of developing countries should continue to support global demand for meat and seafood, while the world supply of fish meal and fish oil (key feed ingredients to the aforementioned industries) has been declining for years. This supply/demand imbalance has already resulted in meaningful price increases; however, we believe we are in the early innings of a multi-year earnings cycle for OME.

Walter Investment Management Corp (WAC) will transform from a specialty mortgage REIT into a "high-touch" servicer of consumer loans after the closing of the acquisition of Green Tree Solutions later this year. The investment community was surprised by this transaction as it entailed a departure from the company's prior business model in addition to the elimination of the company's dividend. Though management has yet to prove their ability to execute, the new business model is asset light, takes on little credit risk, and has recurring revenues and high margins. The company is also well positioned to benefit from the high level of credit challenged assets on bank balance sheets in addition to structural changes in the servicing industry that should shift assets toward servicers. We believe downside is limited and that the potential upside results in a compelling risk/reward profile.

Increased Positions

Babcock & Wilcox Co (BWC) has two distinct businesses: power generation (64% of sales and 51% of profit) and government operations (36% of sales and 49% of profit). The power generation business provides utilities with design, engineering and construction services for coalfired and nuclear generators. The government business provides nuclear solutions to the U.S. government. It makes nuclear components for submarines and manages government nuclear facilities.

CarMax Inc (KMX) is the largest retailer of used cars in the U.S.; however, it only controls 2% of the $275 billion market for 1-6 year old cars. This immense market opportunity, coupled with the company's superior business model and solid track record of execution and constant improvement has always attracted us to this story. More recently, the company has resumed its growth strategy and has begun to see the benefits of increased traffic and pricing. Over time we believe earnings power is substantial as the company takes its business model to various other markets.

Lamar Advertising Co (LAMR) is a leading outdoor advertising company. The stock has fallen sharply given concerns about local advertising trends, but local ad revenue, while recovering slowly, is recovering nonetheless. We are still attracted to LAMR's ongoing opportunity to convert billboards to a digital format, which are seeing strong demand from advertisers and generate great returns on capital. Even when using conservative revenue and cost assumptions, we think this company can generate north of $3.00/share of FCF next year.

NewMarket Corp (NEU), based in Richmond, Virginia, makes petroleum additives and lubricants used mainly in automobiles. Structural changes to the industry (fewer competitors and less production capacity) give us confidence in the staying power of earnings. The stock looks cheap relative to the company's earnings potential, volume growth remains impressive, the company is doing a solid job of passing through higher raw material costs, and it's generating a tremendous amount of cash. We expect cash will be coming back to shareholders in the form of dividends or buybacks.

O'Reilly Automotive Inc (ORLY) sells auto parts and accessories to both mechanics and "do-it-yourself" customers through roughly 3,500 stores in 38 states. This stock has been a great performer in recent years and proved to be very resilient during the downturn. Recently, however, the shares pulled back after Q4 results raised fears of cooling earnings momentum and higher gas prices raised consumer concerns.We think recent weakness presents an opportunity in an attractive multi-year growth situation.

Sprint Nextel Corp (S) is the 3rd largest carrier in the U.S., serving over 45 million customers. The company spun off its fixed-line local phone business in 2006, acquired Virgin Mobile in 2009, and owns roughly 56% in Clearwire Corp (CLWR). S has lagged wireless peers for many years, but new network initiatives and an enviable spectrum position could put this company in a good spot going forward. Furthermore, the valuation is not very demanding and downside risk seems to be manageable relative to the potential upside.

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Fund Sector Weightings*

Sector	Weighting %
Consumer Discretionary	24.8
Consumer Staples	3.3
Energy	4.2
Financials	11.3
Health Care	3.7
Industrials	10.3
Information Technology	15.4
Materials	5.0
REITs	2.4
Telecom Services	8.7
Utilities	2.0
Cash & Equivalents	2.3

Top Ten Holdings*

Holding	% of Net Assets
CarMax Inc	4.6
Penn National Gaming Inc	4.3
Acacia Research Corporation	3.6
Hanesbrands Inc	3.4
Markel Corporation	3.4
Sprint Nextel Corporation	3.3
Millicom International Cellular SA**	3.3
O'Reilly Automotive Inc	3.3
Fidelity National Financial Inc	3.2
NewMarket Corporation	3.1

**Sector Weightings and Holdings are as of June 30, 2011. They are subject to change on a daily basis.*
***Foreign Holdings*

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Past performance is no guarantee of future results.
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