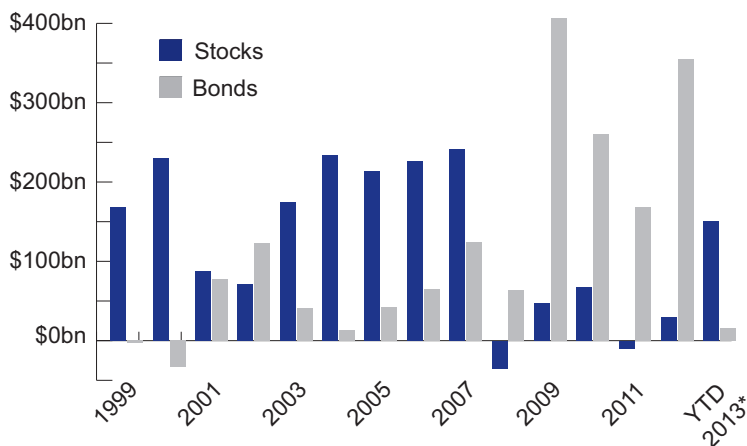


from Davenport Asset Management September 30, 2013

## Q3 Recap

Stocks across the globe posted impressive returns in the third quarter. Such positive performance is starting to sound repetitive now that the market continues to push higher each quarter despite significant hurdles and lots of headwinds. During the third quarter, the S&P 500 Index returned 5.24% and is now up 19.79% for the year. Small cap stocks nearly doubled the S&P 500 return, gaining 10.21% during the quarter and 27.69% year-to-date as represented by the Russell 2000 Index. International markets, as represented by the MSCI EAFE Index, gained 11.56%, one of the strongest quarters in recent memory, and have now, to the surprise of many investors, outperformed the U.S. over the past 12 months.

## Annual Inflows to Mutual Funds Broken Down by Stocks and Bonds



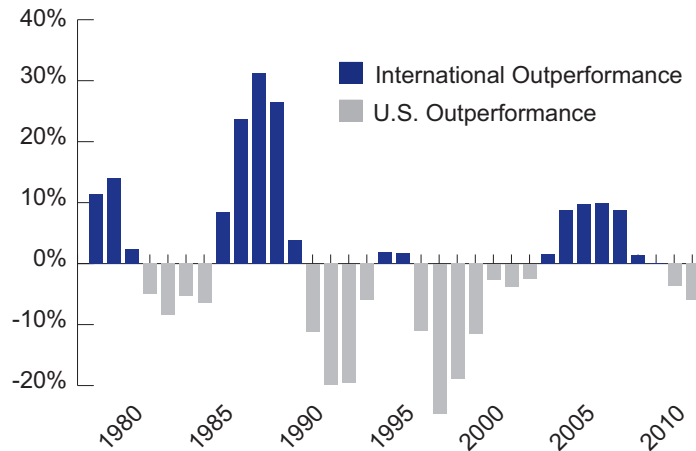
\*As of 8/31/13; Source: Morningstar Direct. See Disclosures for important information.<sup>1</sup>

At some point, the rally will come to an end, but right now the market seems able to shrug off virtually all potential threats. It may be “irrational exuberance”, or it may be that investors are realizing that stocks are the best long-term alternative for their money given the low yields on bonds and money markets and the lack of stability in “real assets” such as commodities and real estate. It seems as though investors are just beginning to become convinced that the 5-year stock market rally is real and can continue. Mutual fund and ETF flows indicate this is the case as 2013 is the first year that more money has gone into stocks than bonds after 5 years of massive bond fund inflows. We take some comfort in the fact that this type of trend, as the chart above indicates, typically goes on for years not months, and, as the second chart shows, we could be in the early stages of a longer trend. That said, we think it is certainly prudent to have lower expectations going forward as we think that the market has gotten ahead of itself and may have priced in future earnings growth.

## International Markets Finally Turning Around?

We continue to believe that exposure to international equities is an important component of a well-diversified portfolio and can support higher returns over the long term. However, over the past few years, we have written at length about the struggles of the international markets and the cyclical nature of international and domestic stock returns. History has shown a clear pattern of 4-7

## The Cycle of International Returns



Performance shows 3-year return of the MSCI EAFE Index minus 3-year return of the S&P 500 Index annually from 1978-2012 and YTD 2013 as of 9/30/13  
Source: Zephyr StyleADVISOR. See Disclosures for important information.  
Performance shown is historical and is no guarantee of future results.

year periods of leadership by one over the other. The chart above shows that, in the current cycle, we have experienced 4-5 years of domestic stock outperformance.

However, over the past 12 months, we may have seen this trend begin to shift as the MSCI EAFE, representing developed international markets, has returned 23.77% compared to 19.34% for the S&P 500. It could be that, as the economies in Europe and Japan go from negative to positive Gross Domestic Product (GDP) growth, those markets will continue to outperform. In addition, we have started to hear more positive commentary around the attractive valuations and opportunities that have been created in international markets over the past few years. This could be a very good time to own international stocks.

## Portfolio Review

We have been incredibly pleased with the performance of the FundAdvisor portfolios. Over the past 12 months, returns have ranged from 8.44% for the most conservative model (60% bonds), during a period when the overall bond market declined, to between 17.16% and 20.98% for the all-equity models. Within each model, all six of the U.S. equity funds have beaten the S&P 500 and the changes we made to reduce the sensitivity to interest rates in March of this year have been nicely positive thus far. Although emerging markets continue to be the laggard, we think they could have a nice recovery as Europe, Japan and the U.S. continue to show economic improvement. Emerging market stocks have a history of being volatile and can therefore move quickly, as we saw in September when the emerging markets fund in the portfolios gained 7.85% (see page 2 for fund performance). Instances like this highlight the importance of maintaining a disciplined process and asset allocation so as not to abandon a weak investment during times of underperformance.

As always, we encourage you to contact your Investment Executive with any questions you may have. We thank you for the confidence you hold in us and look forward to reporting back to you at year end.

# Returns

as of September 30, 2013

\*Returns greater than 1 year are annualized

| Fund / Index Name                | Rolling Returns |            |            |            |              | Fund / Index Performance at Net Asset Value** |        |          |          |           | Expense Ratio |                   |
|----------------------------------|-----------------|------------|------------|------------|--------------|---|--------|----------|----------|-----------|---------------|-------------------|
|                                  | Avg 1 Year      | Avg 3 Year | Avg 5 Year | Up Capture | Down Capture | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* | Gross         | Net               |
| <b>Large Cap</b>                 |                 |            |            |            |              |   |        |          |          |           |               |                   |
| American Funds AMCAP F2          | 7.99            | 5.41       | 2.39       | 98.05      | 93.93        | 24.82   | 26.86  | 17.48    | 12.50    | 8.15      | 0.50          | 0.50              |
| Diamond Hill Large Cap I         | 10.31           | 6.49       | 3.08       | 106.32     | 91.99        | 24.92   | 26.22  | 16.51    | 10.20    | 10.56     | 0.81          | 0.81              |
| FMI Large Cap                    | 9.60            | 7.12       | 4.44       | 93.16      | 77.19        | 20.00   | 20.94  | 15.08    | 10.55    | 9.88      | 0.96          | 0.96              |
| S&P 500 Index                    | 7.75            | 4.88       | 1.30       | 100.00     | 100.00       | 19.79   | 19.34  | 16.27    | 10.02    | 7.57      | -             | -                 |
| <b>Mid Cap and Small Cap</b>     |                 |            |            |            |              |   |        |          |          |           |               |                   |
| Munder Mid Cap Core Growth Y     | 11.36           | 7.60       | 3.37       | 90.62      | 84.40        | 23.24   | 26.01  | 17.20    | 12.06    | 10.90     | 1.07          | 1.07              |
| Royce Value Investment           | 11.92           | 8.76       | 5.18       | 98.59      | 92.15        | 18.03   | 21.81  | 12.14    | 9.81     | 11.75     | 1.17          | 1.17              |
| Keeley Small Cap Value A         | 12.58           | 6.83       | 1.59       | 108.85     | 106.03       | 24.55   | 32.17  | 19.03    | 8.20     | 11.89     | 1.39          | 1.39              |
| Russell 2500 Index               | 10.50           | 6.97       | 3.09       | 100.00     | 100.00       | 25.89   | 29.79  | 18.44    | 12.68    | 10.38     | -             | -                 |
| <b>International</b>             |                 |            |            |            |              |   |        |          |          |           |               |                   |
| Thornburg International Value    | 10.92           | 7.78       | 4.00       | 96.33      | 86.52        | 10.99   | 16.94  | 6.50     | 6.34     | 9.99      | 0.88          | 0.88              |
| Dodge & Cox International        | 11.77           | 6.51       | 2.07       | 113.39     | 106.28       | 17.15   | 27.76  | 8.75     | 8.11     | 10.62     | 0.64          | 0.64              |
| MFS Int'l New Discovery          | 13.57           | 9.21       | 4.65       | 105.53     | 88.24        | 14.54   | 19.63  | 12.13    | 12.83    | 12.43     | 1.14          | 1.14              |
| MSCI EAFE Index                  | 8.59            | 4.42       | 0.22       | 100.00     | 100.00       | 16.14   | 23.77  | 8.47     | 6.35     | 8.01      | -             | -                 |
| <b>Emerging Markets</b>          |                 |            |            |            |              |   |        |          |          |           |               |                   |
| T. Rowe Price Emerging Mkts      | 17.64           | 11.52      | 5.88       | 104.36     | 108.53       | -6.02   | -0.21  | -0.92    | 5.76     | 12.05     | 1.27          | 1.27              |
| MSCI Emerging Markets Index      | 17.06           | 12.51      | 7.93       | 100.00     | 100.00       | -4.35   | 0.98   | -0.33    | 7.22     | 12.80     | -             | -                 |
| <b>Intermediate Gov't/Credit</b> |                 |            |            |            |              |   |        |          |          |           |               |                   |
| Eaton Vance Glb Mcr Abs Rtn      | 5.87            | 6.13       | 6.21       | 83.34      | 6.02         | -1.27   | -1.59  | 0.96     | 3.65     | 5.31      | 1.02          | 0.72 <sup>1</sup> |
| Hartford Floating Rate           | 5.13            | 4.03       | 3.90       | -          | -            | 3.46  | 4.85   | 5.97     | 6.71     | -         | 0.73          | 0.73              |
| BarCap U.S. Intrm Govt/Credit    | 4.55            | 5.04       | 5.16       | 100.00     | 100.00       | -0.84   | -0.50  | 2.42     | 4.95     | 4.10      | -             | -                 |
| <b>Short-Term Bond</b>           |                 |            |            |            |              |   |        |          |          |           |               |                   |
| Vanguard Short-Term Inv Gr.      | 4.02            | 4.35       | 4.22       | 130.07     | 145.08       | 0.47  | 1.04   | 2.34     | 4.72     | 3.70      | 0.10          | 0.10              |
| Citigroup USBIG Gov/Corp 1-3     | 3.14            | 3.64       | 3.85       | 100.00     | 100.00       | 0.46  | 0.62   | 1.05     | 2.52     | 2.91      | -             | -                 |
| <b>Dynamic Allocation</b>        |                 |            |            |            |              |   |        |          |          |           |               |                   |
| BlackRock Global Allocation I    | 8.94            | 7.74       | 5.93       | 72.81      | 54.60        | 9.21  | 10.84  | 7.21     | 7.63     | 9.09      | 0.88          | 0.88              |
| IVA Worldwide I                  | -               | -          | -          | -          | -            | 12.83   | 14.28  | 8.31     | 12.00    | -         | 1.03          | 1.03              |
| Kinetics Paradigm No Load        | 11.58           | 6.08       | 1.04       | 119.67     | 112.32       | 31.64   | 34.38  | 15.62    | 10.06    | 10.40     | 1.78          | 1.64 <sup>2</sup> |
| Wells Fargo Avtg Abs Rtn A       | -               | -          | -          | -          | -            | 6.40  | 8.25   | -        | -        | -         | 1.53          | 1.49 <sup>3</sup> |
| Wintergreen Investor             | -               | -          | -          | -          | -            | 11.13   | 15.62  | 8.80     | 8.78     | -         | 1.89          | 1.89              |
| Ivy Asset Strategy I             | 12.94           | 11.22      | 9.05       | 90.29      | 64.12        | 13.62   | 19.07  | 10.54    | 9.39     | 12.00     | 0.74          | 0.74              |
| MSCI World Index                 | 7.93            | 4.56       | 0.71       | 100.00     | 100.00       | 17.29   | 20.21  | 11.82    | 7.84     | 7.58      | -             | -                 |

Performance shown is historical and is no guarantee of future results. Current performance may be lower or higher than the data quoted. To obtain performance data current to the most recent month end, please call (800) 853-2060.

# Disclosures

It is important to note that short-term and trailing performance will fluctuate. We expect all of the funds at some point to experience underperformance versus their benchmarks and peer groups. However, we believe that our research process has helped us identify funds that are likely to perform well over the long term. Our decision to remove a fund is not based on short-term performance, but on in-depth analysis using our Monitoring Criteria.

"Mutual funds are offered in the FundAdvisor program at net asset value, but are subject to an annual investment advisory fee of up to 1.25% with a minimum fee of \$125 per quarter. The Davenport wrap fee includes investment advice and brokerage execution. In addition to the FundAdvisor fee, clients will bear a proportionate share of each mutual fund's management and administrative expenses, including advisory fees paid to the mutual fund's investment advisors. This chart shows the actual performance of the shares at net asset value, and does not represent individual account performance. Past performance is no guarantee of future results. Current performance may be lower or higher than the data quoted. To obtain performance data current to the most recent month-end, please visit the following web sites: [www.americanfunds.com](http://www.americanfunds.com), [www.blackrock.com](http://www.blackrock.com), [www.diamond-hill.com](http://www.diamond-hill.com), [www.dodgeandcox.com](http://www.dodgeandcox.com), [www.eatonvance.com](http://www.eatonvance.com), [www.fiduciarymgmt.com](http://www.fiduciarymgmt.com), [www.hartfordinvestor.com](http://www.hartfordinvestor.com), [www.ivafunds.com](http://www.ivafunds.com), [www.ivyfunds.com](http://www.ivyfunds.com), [www.keeleyfunds.com](http://www.keeleyfunds.com), [www.kineticsfunds.com](http://www.kineticsfunds.com), [www.mfs.com](http://www.mfs.com), [www.munder.com](http://www.munder.com), [www.roycefunds.com](http://www.roycefunds.com), [www.thornburginvestments.com](http://www.thornburginvestments.com), [www.troweprice.com](http://www.troweprice.com), [www.vanguard.com](http://www.vanguard.com), [www.wellsfargo.com](http://www.wellsfargo.com), [www.wintergreenfund.com](http://www.wintergreenfund.com). The investment and principal value of an investment will fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Mutual Fund and Index returns are provided by Morningstar and Zephyr StyleADVISOR.

***You should consider each mutual fund's investment objectives, risks, charges and expenses carefully before investing. Each mutual fund's prospectus contains this and other important information, should be read carefully before investing or sending money, and can be obtained by contacting your Investment Executive, or by calling (800) 853-2060. 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. Investing in securities carries risk including the possible loss of principal.***

<sup>†</sup>The bond category includes all taxable and municipal bond funds. Cash flows represent movement of money into and out of mutual funds in the categories listed.

The illustrations contained herein are for informational purposes only and are not intended to constitute specific investment advice. Individual circumstances vary. The information contained herein is based upon data obtained from sources believed to be reliable, however there is no guarantee of its accuracy or completeness.

**Downside Capture Ratio** measures a manager's performance in down markets relative to the market (benchmark) itself over the preceding 10-year period. **Gross Expense Ratio:** The total annual operating expenses of a fund divided by its average net assets. **Net Expense Ratio:** The total annual operating expenses of a fund, less any fee waivers, divided by its average net assets. This is the expense ratio actually charged by the fund for the previous fiscal year. **Rolling Returns:** The annualized average return for a period ending with the listed year. **Upside Capture Ratio** measures a manager's performance in up markets relative to the market (benchmark) itself over the preceding 10-year period.

<sup>1</sup>Reflects net interest expense.

<sup>2</sup>The Investment Adviser to the Paradigm Portfolio has voluntarily agreed to waive management fees and reimburse Fund expenses so that Total Annual Fund Operating Expenses do not exceed the net expense ratio listed for the particular class. These waivers and reimbursements may be discontinued at any time.

<sup>3</sup>The Adviser has committed through February 28, 2014, to waive fees and/or reimburse expenses to the extent necessary to cap the Fund's Total Annual Fund Operating Expenses After Fee Waiver at 0.60% for Administrator Class. Brokerage commissions, stamp duty fees, interest, taxes, acquired fund fees and expenses (including the expenses of GMO Benchmark-Free Allocation Fund), and extraordinary expenses are excluded from the cap. After this time, the cap may be increased or the commitment to maintain the cap may be terminated only with the approval of the Board of Trustees.

**Index Definitions:** 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 **Citigroup USBIG Government/Corporate 1-3 years Index** measures the performance of bonds issued in the U.S. investment-grade bond market. 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 **MSCI Emerging Markets 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 **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. 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 2500® Index** measures the performance of the small to mid cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 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 an index, and its returns are not indicative of the performance of any specific investment.*

**Risk Considerations:** International funds invest primarily in equity securities of issuers outside the United States. International investments are subject to additional risks such as currency fluctuations, political instability, and the potential for illiquid markets. Funds that invest in foreign securities may involve greater risks, including political and economic uncertainties, as well as risk of currency fluctuations. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. Investments in bonds and other fixed income securities may fall in value if interest rates change. Generally, the prices of debt securities rise when interest rates fall, while their prices fall when interest rates rise. Longer term debt securities are usually more sensitive to interest rate changes. An issuer suffering an adverse change in its financial condition could see the credit quality of its securities deteriorate, leading to greater price volatility of the security. Funds investing in lower quality debt securities are more susceptible to these problems and their value may be more volatile.

The mutual fund categories are determined by Davenport using a combination of Morningstar categories and a returns-based style analysis provided by Zephyr StyleADVISOR.



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