A strong offering bounces back.

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Analyst

Summary Silver

Davenport Equity Opportunities' well-equipped team executes its high-conviction approach effectively.

Managers George Smith and Chris Pearson provide strong leadership. Smith joined Davenport in 1997 and has led this offering since its late-2010 inception. Pearson started as an analyst at the firm in 2006 and became comanager in 2014. Both have demonstrated strong stock-selection skills and a knack for effectively executing their process. Stock selection has consistently impressed across most sectors, including consumer discretionary, where the managers have extensive experience. A strong team of 12 analysts provides solid support. The team has grown in recent years and has a healthy mix of industry veterans and newer hires. With few departures and a proven ability to develop and retain younger analysts, the team is well-positioned for the future.

The team's deep resources fuel its research-centric approach. It seeks quality, competitively advantaged companies with strong balance sheets. Managers will purchase or add to positions in these companies when they believe the stock's valuation is attractive relative to their projected cash flows and earnings. This approach is patient and effective. Each stock is extensively researched and debated, with only the team's best ideas making it into the portfolio. Indeed, the strategy typically holds just 25-30 stocks, well below the 100 names owned by the median mid-blend Morningstar Category peer. This stock-picking approach results in meaningful sector bets relative to its Russell Midcap Index benchmark. For example, the team typically avoids stocks in the healthcare, energy, and utilities sectors because it believes most midsized companies in these sectors don't meet its investment criteria for having strong competitive advantages and cash flow predictability.

The strategy's avoidance of certain sectors and its concentrated nature can lead to wild performance swings, but it has paid off over longer periods. The strategy's 10.9% annualized gain since its late-2010 inception through October 2023 easily topped the Russell Midcap Index's 9.6% and the typical peer's

7.9%. After ranking in the bottom decile of peers in 2022, the strategy has rebounded strongly, with its 6.5% return for the year to date through October ranking in the top decile of category rivals.

Rated on Nov 14, 2023, Published on Nov 14, 2023

A robust, long-term approach backs this strategy and earns an Above Average Process rating.

Process Above Average

Managers George Smith and Chris Pearson have successfully employed their high-conviction, research-focused process for many years. The team prefers companies with strong balance sheets and attractive cash flow profiles. Its process leverages robust research and a deep understanding of industry trends, aided by the long tenures of many of its members. Given the concentrated nature of the portfolio, the team's depth of research and ability to effectively manage position sizes stand out. It often takes advantage of pullbacks in stocks to build or initiate positions. The team favors industries where its philosophy works well, such as consumer discretionary stocks, which is where the managers have the most expertise. The team believes this sector is rife with companies with strong balance sheets that can prudently increase cash flows over time while maintaining competitive advantages.

The team's approach is collaborative and patient. Managers work with analysts to vet new ideas and maintain research on stocks that meet their criteria. They often prioritize management quality, favoring firms with strong ownership cultures. The team primarily holds midsized companies but is comfortable purchasing promising small caps as well. It also regularly allows its mid-cap winners to grow into large caps. Managers are undeterred by negative market sentiment and have shown success in initiating or adding to positions when they believe share prices do not reflect long-term outlooks.

This strategy pays little heed to the Russel Midcap Index's sector weightings, making for a distinctive portfolio. Managers George Smith and Chris Pearson concentrate positions in high-conviction stocks, allowing their bottom-up research to drive the portfolio's composition. The team keeps tabs on factor risks (such as interest-rate exposure) and macroeconomic trends but is comfortable maintaining significant sector differences relative to its benchmark.

Consumer discretionary and financials stocks fit the team's investment criteria well, and it typically piles into these sectors. As of September 2023, the strategy's 28% allocation to the financials sector outweighed the index's 15% and typical mid-blend category peer's 13% by a considerable margin. However, the team avoids certain industries within financials, such as banking, because it believes questionable balance-sheet strength and earnings volatility make these stocks less appealing.

The managers' willingness to let their winners ride differentiates this strategy from many peers. As of September 2023, large- and giant-cap stocks made up a combined 27% of assets, well above the index's 9% and typical peer's 8%. Still, a sizable allocation to small-cap stocks helped balance the total portfolio's composition. As of September, the strategy's average market cap of $17.2 billion sat between the index's $17.5 billion and typical peer's $10.3 billion.

Rated on Nov 14, 2023, Published on Nov 14, 2023

A disciplined pair of managers and strong supporting cast earn an Above Average People rating.

People Above Average

Managers George Smith and Chris Pearson are well-versed in their high-conviction approach. Smith and Pearson joined the firm as analysts in 1997 and 2006, respectively. Smith has led this strategy since its late-2010 inception, and Pearson was promoted to comanager in 2014. Their backgrounds include covering stocks in the consumer discretionary, industrials, and communications sectors, three sectors that prominently feature in this concentrated strategy. The managers collaborate with analysts to make portfolio decisions, and their patient, highly selective process fosters deep research and productive debate.

A strong 12-person analyst team supports Smith and Pearson in vetting investment ideas. The analyst team has experienced minimal personnel turnover, and its ability to retain young analysts stands out. Its healthy mix of experienced industry veterans and recent graduates position it well for the future. While it has added three analysts since 2021, the team averages an impressive 20 years in the industry and 15 years at the firm. The team has shown strength across the market-cap spectrum, too, delivering impressive results on its small-cap mandate Davenport Small Cap Focus DSCPX.

Both Smith and Pearson invest between $500,001 and $1 million in the strategy.

Rated on Nov 14, 2023, Published on Nov 14, 2023

This Parent's Pillar rating has been corrected.

Parent Above Average

Ample experience and a measured approach earn Davenport an Above Average Parent rating.

Richmond, Virginia-based Davenport & Company's roots date back more than 150 years. The firm has long served brokerage clients in the mid-Atlantic United States, and its successful expansion into investment management during the 1980s has been supported by high employee retention and a prudently managed lineup of strategies. The firm has been judicious with product launches, offering just five funds since 1998 with solid risk-adjusted results and reasonable fees. Davenport's brokerage executes most of the funds' trades; however, it pays no commissions, and measures are in place to manage conflicts of interest.

Davenport's investment team sports long tenures and deep industry experience while spanning multiple generations. This creates a strong environment for succession planning and helps alleviate key-person risk. As many firms dealt with significant outflows in 2022, Davenport's funds had modest inflows through September. With $9 billion in assets under management, the firm continues to focus on gradual growth, recently adding to its distribution ranks to explore other platforms and further diversify its client base. Its history of measured growth and robust team of investors give confidence in Davenport's ability to continue providing attractive options for investors.

Rated on Jan 5, 2023, Published on Jan 5, 2023

This strategy's long-term results are compelling.

Performance

From its December 2010 inception through October 2023, the strategy's 10.9% annualized return easily outpaced the Russell Midcap Index's 9.6% and the typical mid-blend category peer's 7.9%. While the team keeps meaningful sector bets relative to the index, stock selection drives long-term performance. Stock selection impressed across most sectors including consumer discretionary, where both Smith and Pearson have ample experience.

The team's high-conviction approach can lead to significant performance swings, but it has proved capable of adhering to its process, and periods of underperformance are often followed by strong rebounds. For example, during 2022 the strategy ranked in the bottom decile of peers as many of its long-term winners and top holdings like Sherwin-Williams SHW sold off. The team took advantage of these drawdowns to add to stocks such as Sherwin-Williams and reinitiate positions in stocks such as DraftKings DKNG, whose share price had fallen more than 80% from its 2021 peak. Many of its purchases proved timely, and the strategy's 6.5% return for the year to date through October trounced the index's 1.3% decline and typical peer's 1.1% drop.

Published on Nov 14, 2023

It's critical to evaluate expenses, as they come directly out of returns.

Price

Based on our assessment of the fund's People, Process, and Parent Pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Medalist Rating of Silver.

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Davenport Equity Opportunities Fund has several promising attributes that may appeal to sustainability-focused investors.

Morningstar Manager Research

Sustainability Summary

This strategy has an above-average Morningstar Sustainability Rating of 4 globes, indicating that the ESG risk of holdings in its portfolio is relatively low compared with those of its peers in the US Equity Mid Cap category. ESG risk measures the degree to which material environmental, social, and governance issues, such as climate change, biodiversity, human capital, as well as bribery and corruption, could affect valuations. ESG risk differs from impact, which is about driving positive environmental and social outcomes for society’s benefit.

One key area of strength for Davenport Equity Opportunities Fund is its low Morningstar Portfolio Carbon Risk Score of 8.33 and very low fossil fuel exposure over the past 12 months, which earns it the Morningstar Low Carbon Designation. Thus, the companies held in the portfolio are in general alignment with the transition to a low-carbon economy.

One potential issue for a sustainability-focused investor is that Davenport Equity Opportunities Fund doesn’t have an ESG-focused mandate. Funds with an ESG-focused mandate are more likely to align with the expectations of an investor who cares about sustainability issues.

The fund exhibits moderate exposure (4.47%) to companies with high or severe controversies. Controversies are incidents that have a negative impact on stakeholders or the environment, which create some degree of financial risk for the company. Examples of types of controversies include bribery and corruption scandals, workplace discrimination and environmental incidents. Severe and high controversies can have significant financial repercussions, ranging from legal penalties to consumer boycotts. Such controversies can also damage the reputation of both companies themselves and their shareholders.

Published on Oct 31, 2023, Based on data as of Aug 31, 2023

Trailing performance (%) Net of fees

Last Month End: 10/31/2023	1 Month	QTD	YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
Davenport Equity Opportunities	-4.19	-4.19	6.48	6.39	7.63	10.71	8.88	10.87
Russell Mid Cap®	-4.99	-4.99	-1.28	-1.01	6.04	7.14	8.05	9.55

Last Quarter End: 09/30/2023	1 Month	QTD	YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception*
Davenport Equity Opportunities	-3.05	-3.52	11.14	19.19	7.91	9.91	9.75	11.32
Russell Mid Cap	-5.05	-4.68	3.91	13.45	8.09	6.38	8.98	10.06

An investor may obtain performance data current to the most recent month end by calling (800) 846-6666, or by visiting our website at www.investdavenport.com. Performance shown is historical and is no guarantee of future results. Current performance may be lower or higher than the data quoted. 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. The fund's gross expense ratio is 0.89%.

For a full list of Davenport Equity Oportunities Fund holdings, please go to https://www.investdavenport.com/download/deopx-holdings/?wpdmdl=4566

The Morningstar Analyst Rating™ is not a credit or risk rating. It is an evaluation performed by Morningstar's Manager Research Group based on five pillars: process, performance, people, parent, and price. This evaluation determines how they believe funds are likely to perform relative to a benchmark over the long term on a risk-adjusted basis. They consider quantitative and qualitative factors. For active funds, an Analyst Rating of Gold, Silver or Bronze reflects the expectation that the fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The Analyst Ratings are overseen by an Analyst Rating Committee and are monitored and reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/962834.pdf. The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a fund, (ii) involves unknown risks and uncertainties which may cause the Manager Research Group's expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell the fund.

Risk Considerations: The fund may not achieve its objective and/or you could lose money on your investment in the fund. Stock markets and investments in individual stocks are volatile and can decline significantly in response to market, foreign securities, small company, exchange traded fund, investment style and management risks. Small and mid cap company stocks may be more volatile than stocks of larger, more established companies. Please see the prospectus for further information on these and other risk considerations.

The thoughts and opinions expressed in the article are solely those of the person speaking as of October 31, 2023. The discussion of individual companies should not be considered a recommendation of such companies by the Fund's investment adviser. The discussion is designed to provide a reader with an understanding of how the Fund's investment adviser manages the Fund's portfolio.

There can be no assurance with regard to future market movements. Mutual fund investing involves risk. Principal loss is possible. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund and may be obtained by calling 800-846-6666. Read it carefully before investing.

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