

## Manager Q&A:

Getting to Know  
Davenport Asset Management



**George L. Smith III, CFA**

Senior Vice President,  
Chairman, Investment Policy  
Committee

For more than 38 years, Davenport Asset Management, the professional money management division of Davenport & Company, has been managing client assets using the same investment strategies used to manage the firm's profit sharing plan. George Smith, the chairman of the firm's Investment Policy Committee, discusses how Davenport Asset Management has been successful over the years and what sets Davenport's investment philosophy apart.

**Q What makes Davenport different from other investment managers?**

A Our process and experience distinguish us from other managers. We have over 38 years of experience as a money manager. As a firm, Davenport has been in existence since 1863 and the name on the front door has stayed the same since the beginning. Not many firms can say that. We employ a straightforward, long-term approach to investing. Our process centers on patient, disciplined investment selection and managing our portfolios to outperform the market over a complete cycle while taking less risk than their benchmarks.

**Q What are the most important qualities you look for when researching a company?**

A Our research is founded on the belief that, when you buy a stock, you are buying a part of the business and not a piece of paper. We focus on four key attributes:

1. Attractive business models with sustainable competitive advantages
2. Management - talent and integrity with owner mentality
3. Valuation - attractive price and strong free cash flow
4. Capital Allocation - above-average and/or rising returns on capital

**Q Where do you get your investment ideas?**

A Ideas can come from any industry or sector of the market. We focus on finding high-quality businesses that we can own for an extended period of time. We conduct original research on investment ideas and themes as well as draw from select third-party research. This open architecture approach to idea generation is designed to provide a consistent flow of ideas and promote innovative thinking.

**Q What are you looking for when you meet with a company's management team?**

A We want a management team that is passionate about their business and whose interests are aligned with shareholders - we want them to have "skin in the game." During these visits, we are looking for a management team that has a clear plan for shareholder value creation. But our research doesn't stop there. We also talk to competitors, industry experts, and investors.

**Q How long does your research process take before you buy the stock?**

A It depends. Overall, we take a measured and thorough approach before we invest in a company. Sometimes the process can take days, while other times it may take months. We try and avoid overpaying for a stock so we might wait until the price is more favorable. Sometimes we follow a company for years and never make a purchase.

**Q What is your time horizon for an investment?**

A As long as possible. We are not traders ... we are long-term investors. We want to own companies with lots of runway for growth that we believe in for a lengthy period of time. In fact, we have owned some companies in our portfolios for more than 20 years. Whereas some money managers are focused on short-term performance measures and try to beat certain indices every single quarter, we are managing long term and have shown success at beating our benchmarks over time.

**Q When do you sell a stock?**

A The decision to sell a stock can be more difficult than buying a stock. We try to buy at lows and sell at highs, but perfect timing is impossible. Reasons we will sell or decrease our position include a potential change in company fundamentals such as a deterioration in the company's balance sheet or market position, strong performance resulting in an outsized position or an alternative opportunity with superior risk/reward becomes available.

**Q Have you made mistakes?**

A Sure. Investment management is a very humbling business. We will never be right 100% of the time, but with more than 38 years of experience under our belt, we have learned from our mistakes and it has made us better investors.

**Q What should investors expect from an investment manager?**

A Experience, transparency, similar goals, clear communication and accessibility. In addition, investors should seek out money managers who invest their own money alongside their clients.

As of April 2023

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