

Davenport Equity Opportunity Hunts for Cash Generators

This fund looks for firms that generate cash and know how to use it.

BY RIVAN V. STINSON

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So far, the start of 2022 has been rough for stocks big and small – and for those in the middle, too. The Russell Midcap, an index of roughly 800 stocks with an average market value of \$25 billion, fell 7.6% through Feb. 4.

That’s not shocking, says George Smith, who runs **Davenport Equity Opportunities Fund** (DEOPX) with comanager Chris Pearson, as the era of super-low interest rates and other economic stimulus measures comes to an end.

Yet the fund’s long-term goal is the same: deliver double-digit returns by finding out-of-favor companies with great management teams and room to grow.

The fund’s two managers, along with a team of nine analysts, pay particular attention to free cash flow (cash profits remaining after investments to maintain and expand the business). They want to know how much cash a company generates and how that money is used.

For Smith and Pearson – who must both agree on whether to buy or sell a stock – a good prospect would deploy its free cash to buy another business, create a new product or find new avenues of distribution. They see mid caps as having a runway for growth.

For example, they like the way fund holding Lamar Advertising (LAMR), an outdoor billboard company, has continued to upgrade its static billboards in favor of more-profitable digital-screen models. The tech allows Lamar to accommodate multiple advertisers on a single billboard or to run special promotions (during election season, say, or for an event).

The portfolio is concentrated, with just 27 stocks

currently. The duo say that allows them to thoroughly analyze each company. And both managers are willing to wait out challenges they believe will be temporary.

Concert promotor Live Nation (LYV), another holding, fell after news of the deadly Astroworld festival last fall, where several concertgoers were crushed in the crowd. “It was terrible news, but Live Nation has taken measures to make things safer, so we know it’s a priority for management,” says Pearson.

Standing firmly in their convictions has paid off. The fund has returned 20.5% annualized over the past three years, beating its benchmark, the Russell Midcap, by more than four percentage points a year.

SMALL-COMPANY BLEND FUNDS

Ranked by three-year returns

Rank/Name	Symbol	Annualized total return		Max. sales charge	Exp. ratio
		1 yr.	3 yrs.		
1. Paradigm Select	PFSIX	9.6%	21.7%	none	1.15%
2. Janus Henderson Contrarian T	JSVAX	8.4	21.5	none	1.00
3. Davenport Equity Opportunities	DEOPX	9.0	20.5	none	0.88
4. Eventide Dividend Opportunities N	ETNDX	11.3	19.7	none	1.15
5. Government Street Mid-Cap	GVMCX	14.9	18.7	none	1.07
6. Leuthold Select Industries	LSLTX	17.8	18.2	none	1.50
7. Thompson MidCap	THPMX	11.9	17.0	none	1.15
8. Goldman Sachs Mid Cap Value A	GCMAX	19.4	17.0	5.50%	1.21
9. Tarkio	TARKX	3.5	16.9	none	1.00
10. Calvert US Mid Cap Core Rspnb Idx A	CMJAX	5.3	16.8	4.75	0.49
RUSSELL MIDCAP		8.5% 15.7%			
CATEGORY AVERAGE		9.1 13.8			

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As of Feb. 4

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