DAVENPORT PARTNERS

Davenport Advisors Stock Fund

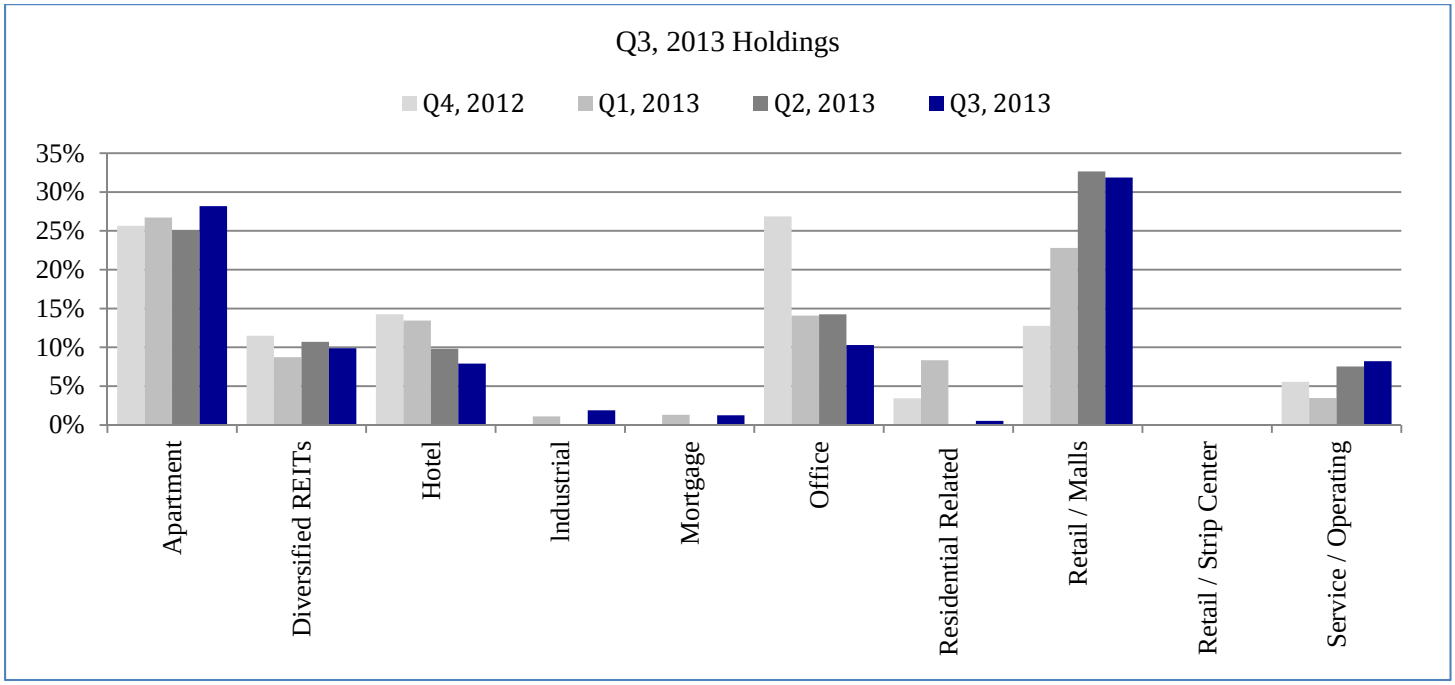
November 11, 2013

Update on the Fund:

As of September 30, 2013, the total value of the fund was approximately $3,309,000 (before fees and expenses). The fund was 84.4% invested in stocks, 15.6% in cash. We started the year at $3,010,000 (adjusted for contributions/distributions from or to LPs since January 1, 2013), so the value of the fund was up approximately 9.9% year-to-date.

Fund Holdings by Industry:

28.18%	Apartment	10.30%	Office
9.89%	Diversified REITs	0.52%	Residential Related
7.90%	Hotel	31.87%	Retail/Malls
1.89%	Industrial	0.00%	Retail/Strip Center
1.25%	Mortgage REITs	8.21%	Service/Operating Companies



Top 5 Holdings:

EQR - Equity Residential
TCO - Taubman Centers REIT
GGP - General Growth Properties
AIV – Apartment Investment & Management
BEE – Strategic Hotels and Resorts

EQR: Equity Residential is one of the largest owners of apartments in the US. EQR owns 398 properties consisting of 113,388 apartments.

In February 2013 EQR closed on the acquisition of 60% of Archstone, for a price of $9 billion. EQR's share of Archstone included 78 properties with 23,110 apartment units. In order to pay for this purchase, EQR raised over $1 billion through the sale of additional common stock, sold thousands of apartment units in non-core markets, arranged a new Line of Credit for $2.5 billion and also a new term loan for $750 million. The numbers are so big it's hard to fathom.

In the last quarter alone, Equity Residential sold 10 properties, comprising 4,131 apartment units for a total of $658 million. Imagine the people, time, energy and paperwork that goes into selling that many properties – brokers competing for the listings; analysts doing pro-formas; potential buyers touring the properties; attorneys drafting and negotiating purchase agreements; due diligence teams reading leases, interviewing tenants, reviewing operating statements and ALTA surveys; consultants walking the properties and producing Property Condition Reports; environmental engineers digging through government data banks looking for proof of prior spills and contamination; mortgage brokers obtaining loan quotes; appraisers searching for sales comps, attorneys drafting and negotiating loans, escrow agents processing thousands of documents. All of those people *doing all the work*, and all that work is coordinated and choreographed by the management of EQR.

TCO: Taubman Centers is the owner and manager of a portfolio of what is generally considered to be the highest quality malls in the country. TCO stock has been trading below its NAV/share for some time now. During TCO's quarterly earnings conference call with investors on July 26th, Robert Taubman, Chairman, President and CEO was discussing the discounted stock price, which at the time was trading around $75/share:

"…and obviously, if prices ever end up like they did in March 2009, we will be big buyers of (our) stock. We feel we missed an opportunity in those days. But it needs to be a **screaming buy** for us to really think about buying back stock…."

One month later on August 26th, after TCO stock had fallen even further during the summer doldrums and was now trading around $68/share, Taubman issued a press release announcing a $200 million share repurchase program. Robert Taubman is quoted saying "We believe that Taubman Centers shares are trading at a significant discount relative to the value of our assets, let alone the value we will create with our strong development pipeline". I guess Mr. Taubman must now think his company's stock is a "**screaming buy"**. (TCO is currently trading around $65/share, even lower!)

GGP: General Growth Properties is the second largest mall company in the U.S. On September 13th, General Growth issued a press release announcing the acquisition of 28,345,108 shares of stock during the 3rd quarter. Sandeep Mathrani, the CEO, said the Company is "acquiring the shares at a capitalization rate of approximately 6%. We believe this is a **discount** to private market valuation for high-quality retail properties."

Apparently Mall REIT stocks are "On Sale" right now.

AIV: Apartment and Investment Management Company is one of the largest owners of multifamily apartments in the US. On August 1st AIV reported that "Customer demand for Aimco apartments remains steady and renewal rent increases were greater than 5% for the eighth consecutive quarter". If we could report rent increases like that quarter after quarter for our property portfolio we would be jumping up and down. Yet AIV stock trades at more than a 15% discount to its NAV/share.

BEE: Strategic Hotels and Resorts specializes in luxury hotels such as Fairmont, Four Seasons, JW Marriot and Ritz-Carlton. It is widely rumored that Strategic's portfolio of hotels is or will be put up for sale. However, they announced recently that they were putting the Marriot Grosvenor Square Hotel in London on the market for sale. Quite possibly Strategic is in the process of selling their two European hotels on a stand-alone basis (the Marriot in London and the Marriot Hamburg in Germany) in hopes that the remaining portfolio, exclusively luxury hotels in North America would command more interest and a higher price. Or maybe that's just my country-centric wishful thinking.

DAVENPORT PARTNERS

Trading during the Quarter: We started the quarter with 61% stocks and 39% cash. We ended the quarter with 84% stocks and 16% cash. We did a lot of buying and not much selling. We only sold out of one position, Big Lots (BIG). We made enough on that trade to pay for most of the trading commissions incurred during the summer.

Comments:

Not Having to Do All the Work:

In *Security Analysis*, the often quoted investors' bible written in 1934 by Benjamin Graham and David Dodd, they argue "that common stock investments such as we have been discussing may properly be made at a considerably higher price than would be justified in the case of a private business, first because of the great advantage of *marketability* that attaches to listed stocks and, second, because the large size and financial power of publicly owned companies and financial power of publicly owned companies make them inherently more attractive than any private enterprise could be." They go on to say "there is some room for difference of opinion whether or not the ability to *control* a private business affords a full counterweight (in value analysis) to the advantage of marketability enjoyed by a listed stock. To those who believe marketability is more valuable than control, we might suggest that in any event the premium to be paid for this advantage cannot well be placed above, say, 20% of the value otherwise justified without introducing the danger of introducing a definitely speculative element into the picture."

There are more than 700 pages of this stuff in *Security Analysis* and Graham and Dodd do get wordy! To summarize, in buying and selling common stocks, marketability (i.e. liquidity) is an advantage, while lack of control is a disadvantage.

We would like to add another advantage to owning common stocks - the advantage of *not having to do all the work*. What is the premium to be paid to *not have to do all the work*? If marketability (the ability to buy and sell the stock in a click of the mouse) is worth up to a 20% premium, then shouldn't *not having to do all the work* to buy and sell the properties and manage the operations of the properties and the company be worth some additional premium? Now, of course, this particular attribute may not apply to most common stock investments. Most of us do not have the opportunity to buy a computer company, or a social networking company, or a bank in the private market. But we do have the opportunity to buy real estate of one form or another in the private market, for instance, a vacation house or a residential condominium that we might also rent, or a small apartment complex or an industrial building or an office condo. We have the choice to invest in property directly or to invest in property indirectly through purchasing the common stock of REITs. So the question of *not having to do all the work* may not be so relevant with most common stocks. But with buying and selling real estate, one does have a choice.

When we buy and sell properties in the private market, we *have to do all the work*. We get control - an advantage, but not marketability - a disadvantage, (it's time consuming to buy and sell properties in the illiquid private market) and we have to do all the work - a disadvantage. So when buying properties in the private market we get one advantage vs. two disadvantages and for that we pay a market price or 100% of Net Asset Value (NAV). In buying common stocks of property owning REITs in the public markets there are two advantages (marketability and not having to do all the work) vs. one disadvantage (lack of control) and for that it seems we should pay a premium to market price or more than 100% of Net Asset Value.

Now remember all that work Equity Residential did in the last quarter? We can buy Equity Residential in the Public Stock Market, and pay less than NAV, maybe even 90% of NAV right now. We get marketability AND we don't have to do any of the work, and yet we don't have to pay a premium to NAV to buy their common stock. In fact, currently we get to buy EQR at a discount to NAV.

That seems strange.

Twitter, Twitter: In the late 1990's every time we announced great earning at our former company Spieker Properties (NYSE: SPK), it seemed that our stock would go down. I remember thinking at the time that our earnings announcements were simply reminders to investors that they owned an "old economy" real estate company and that they should sell the stock in order to buy more "new economy" internet stocks. We all know how that turned out.

DAVENPORT PARTNERS

A very short lesson on Hotel REITs vs. Hotel C Corps:

Hotel REITs are "Asset Heavy", they own the hotel property – the land and the buildings. Most of their earnings come from owning real estate. Hotel C Corps are "Asset Light", they own the brand, franchise the brand ("The Flag"), and manage the day to day operations of the hotel. Hotel C Corps may own some properties too, but generally most of their earnings, about 60%, come from management fees and franchise fees. REITs do not pay taxes, instead they pass along their earnings in the form of dividends to shareholders, who then pay taxes. C Corps pay taxes at the corporate level and so typically do not pay out as much in dividends. Some examples of hotel REITs include FelCor Lodging Trust, Hospitality Properties Trust, Host Hotels and Strategic Hotels (one of our holdings mentioned above) and Sunstone Hotels. Some examples of C Corps include Intercontinental, Hilton, Hyatt, Marriot and Starwood.

C Corps sign long term contracts with property owners to Flag the hotel and manage the day to day operations. Hotel C Corps take a base management fee of about 1-4% of revenues, a brand franchise fee of about 1-2% of revenues, gets reimbursed for all the direct operating costs of running the hotel (staff and employees, maids, linen service, food and beverage costs, etc.), and get an incentive fee of about 10% - 20% of the property owner's profit (if any). With what's left over, the REIT, the property owner, pays for the property costs: utilities, maintenance and repairs, property taxes, capital improvements (which for hotels are extensive and recurring) and finally interest on mortgages and debt.

In full service hotels, about 65% of the revenues come from renting rooms and 35% of the revenues come from other charges, including food and beverage (room service, restaurants, bars), amenities (such as spas, golf courses, retail shops), and on site facilities (such as conference rooms, ballrooms for meetings, weddings and parties). Revenues vary based on average daily rate (ADR) and occupancy, in hotel speak, revenue per available room or RevPAR. Room rates are marked to market daily and occupancies change with the day of the week, the season and the ups and downs of the economy. In a recession or down market, hotel revenues decrease dramatically as businesses cut back, group and convention bookings go down and leisure travelers (families, tourists) stop taking vacations. The property owner still has to pay all the property operating costs and mortgage interest - costs which are relatively fixed - on much lower revenues. The property owners get squeezed. On the other hand, the C Corp managers continue to get management fees, brand franchise fees and their direct costs of operating the hotel reimbursed. C Corps do relatively better in a recession. The reverse should be the case in a growing economy, the C Corp fees go up with increasing hotel revenues and that is good, but REITs should benefit more, as their property costs and mortgage interest are relatively fixed, and so the increased revenues should drop to the bottom line.

Because being Asset Light is considered less risky than being Asset Heavy, C Corps have historically traded at about a 20% premium to REITs. Hotel REIT stocks got hammered going into the recession but now that the economy is gradually improving, REIT earnings should be growing relatively faster than C Corps. That could be why REITs are now trading at about parity with C Corps. In fact, many Hotel REIT stocks are now trading at or above their NAV/share. Over the last few years we have bought and sold quite a few Hotel REITs, including BEE, FCH, HST, HT and SHO. It may now be time to focus more on Hotel C Corps.

MPG, MPGpA: Brookfield closed on the merger of MPG on October 15th. Below is a portion of the Termination Filing with the SEC:

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 15

CERTIFICATION AND NOTICE OF TERMINATION OF REGISTRATION UNDER SECTION 12(g) OF

DAVENPORT PARTNERS

THE SECURITIES EXCHANGE ACT OF 1934 OR SUSPENSION OF DUTY TO FILE REPORTS UNDER SECTIONS 13 AND 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
Commission File Number: 001-31717

MPG OFFICE TRUST, INC.

(Exact name of registrant as specified in its charter)
355 South Grand Avenue, Suite 3300
Los Angeles, California 90071
(213) 626-3300

MPG Office Trust, Inc.
001-31717
Common Stock
17 CFR 240.12d2-2(a)(3)
2013-10-16
NOTIFICATION OF THE REMOVAL FROM LISTING AND REGISTRATION OF THE STATED SECURITIES The New York Stock Exchange hereby notifies the SEC of its intention to remove the entire class of the stated securities from listing and registration on the Exchange at the opening of business on October 28, 2013, pursuant to the provisions of Rule 12d2-2 (a). [X] 17 CFR 240.12d2-2(a)(3) That on October 15, 2013 the instruments representing the securities comprising the entire class of this security came to evidence, by operation of law or otherwise, other securities in substitution therefore and represent no other right except, if such be the fact, the right to receive an immediate cash payment. The merger between MPG Office Trust, Inc. and Brookfield DTLA Fund Office Trust Investor Inc. became effective on October 15, 2013. Each share of Common Stock of MPG Office Trust, Inc. was converted into $3.15 in cash per share. The Exchange also notifies the Securities and Exchange Commission that as a result of the above indicated conditions this security was suspended from trading on October 16, 2013.

7.625% Series A Cumulative Redeemable Preferred Stock, $0.01 par value
17 CFR 240.12d2-2(a)(3)
2013-10-16
NOTIFICATION OF THE REMOVAL FROM LISTING AND REGISTRATION OF THE STATED SECURITIES The New York Stock Exchange hereby notifies the SEC of its intention to remove the entire class of the stated securities from listing and registration on the Exchange at the opening of business on October 28, 2013, pursuant to the provisions of Rule 12d2-2 (a). [X] 17 CFR 240.12d2-2(a)(3) That on October 15, 2013 the instruments representing the securities comprising the entire class of this security came to evidence, by operation of law or otherwise, other securities in substitution therefore and represent no other right except, if such be the fact, the right to receive an immediate cash payment. Pursuant to the offer to purchase and merger agreement between MPG Office Trust, Inc. and Brookfield DTLA Inc., a wholly-owned subsidiary of Brookfield Office Properties Inc. which became effective on October 15, 2013, each outstanding share of 7.625% Series A Cumulative Redeemable Preferred Stock of MPG Office Trust, Inc. not previously tendered was converted into $25.00 per share. The Exchange also notifies the Securities and Exchange Commission that as a result of the above indicated conditions this security was suspended from trading on October 16, 2013.

One has to marvel at the extent of the devastation Rob Maguire inflicted on the Southern California real estate landscape. From all the locals who bought MPG stock when it first went public at $19/share, to others who purchased the stock each time Rob Maguire came forth with another bogus offer to buy the company, to all the banks and lenders who had to work through the foreclosure process and write down the loans, to the vendors who may not have been paid, or brokers who worked on deals only to find MPG could not follow through on their leasing commitments, and the tenants who suffered through landlord turnover….

The unfortunate tragedy of MPG has ended. **MPG** R.I.P.

Fund Details:

As of September 30th we owned 143,809 shares of stock in twenty-five companies, with an approximate cost basis of $2,611,000 and a market value of $2,788,000, (prior to pending purchases of $30,199 and pending sales of $25,576). During the third quarter of 2013 the fund received dividends of approximately $14,822.

DAVENPORT PARTNERS

We continue to have conference calls among the partners of Davenport Partners during which we review stocks in the portfolio, consider new companies, review industry trends, etc. Generally we have focused on buying good companies whose stocks are trading at or below their NAV/share. Lately we have had the opportunity to buy not just good companies, but Blue Chip REITs at or below their NAV/share.

Please feel free to contact us if you have any questions, would like to find out more about the fund's holdings or have a company whose stock you think we should consider buying.

Fund Philosophy

Invest in real estate related stocks. Real Estate Investment Trusts (REITs), Real Estate Operating Companies, Land and Natural Resource Companies, Hotel Companies, Banks, Lenders, Mortgage Companies, Retailers, Diversified Companies with real estate holdings, Construction Companies, Private Equity companies oriented toward real estate. Investments could include special situations, often illiquid stocks, companies in bankruptcy, or real estate stocks not widely followed by analysts or institutions or real estate sectors which are currently out of favor and/or not widely traded.

Key Information

Inception: August 1, 2009
Manager: John Davenport
Fees: 1%; 20% performance fee with Hurdle and High Water Mark
Minimum Investment: $10,000 initially, no minimum for additional investments
Timing: Initial and additional investments submitted at any time become effective at beginning of the next quarter
Liquidity: Withdrawals at year-end
Broker: Charles Schwab & Co.

Disclaimer Past performance is not an Indicator of future performance. Please read the subscription materials before Investing.