DAVENPORT PARTNERS

Davenport Advisors Stock Fund

March 1, 2012

Update on the Fund:

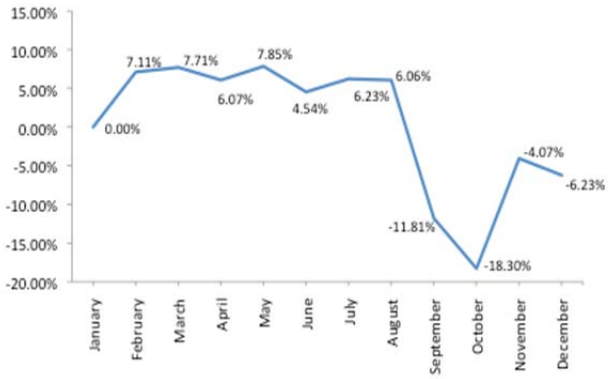
As of December 31, 2011, the total value of the fund was approximately $2,060,000. The fund was 83% invested in stocks, 17% in cash. As of January 1, 2011 the "High Water Mark" (as adjusted for distributions/contributions during the year) was approximately $2,190,559, which means that for the year 2011 the value of the fund was down by $130,559 or down 6%.

According to the text books, REITs and real estate stocks are supposed to be fairly stable, providing dividend income and consistent growth through long term appreciation of the underlying property values.

Not this year. Talk about a wild ride.

In May our fund was up approximately 9%. At that point we began to sell stock. (Sell in May and go Away!) By the end of June, the fund was 75% in stocks, 25% in cash.

And then came Summer with its daily Headline Fears: "Double Dip Recession?", "S&P downgrades the United States Government!", "Middle East Uprisings", "Occupy Wall Street", "Greece and the Euro Debt Crisis" - all did a number on the stock market. Financial stocks were hit particularly hard, and our real estate stocks were hit worse.



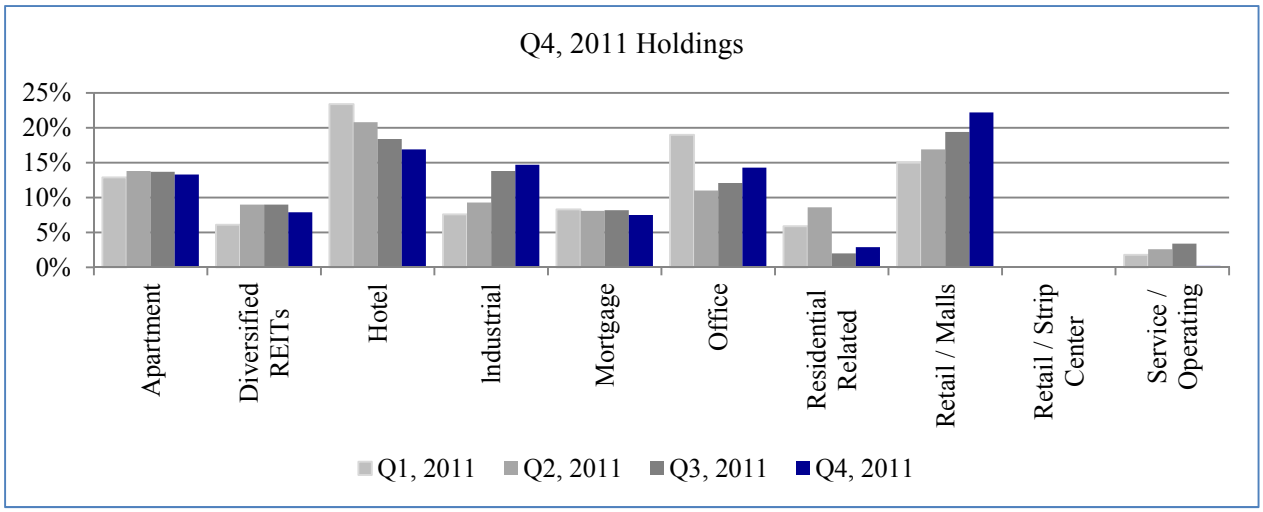
This shift to cash may have helped to moderate our losses, but still, by October the fund was down 18% - a 26% drop in value in just five months! Fortunately, our fund did better in the last three months of the year, but not enough to get us back in positive territory.

2012 has been good so far. From negative 6% at the end of the year, the fund is now up about 7%, a 13% increase in just two months.

Take a deep breath, the wild REIT ride continues.

Fund Holdings by Industry:

13.3%	Apartment	14.3%	Office
7.9%	Diversified REITs	2.9%	Residential Related
16.9%	Hotel	22.2%	Retail/Malls
14.7%	Industrial	0.0%	Retail/Strip Center
7.5%	Mortgage REITs	0.2%	Service/Operating Companies



Top 5 Holdings:

AIV - Apartment Investment & Management
GGP - General Growth Properties
FR - First Industrial Realty
GRT - Glimcher Realty Trust
MPG - MPG Office Trust

AIV is one of the largest owners of apartments in the US. Apartment fundamentals continue to improve throughout the US. We are becoming a Renter Nation and this is good for apartments. Market RevPAF (Revenue Per Available Foot, the apartment measure of rental rates and occupancy) are increasing and nearly back to peak numbers experienced before the recession. Private market apartment values are up substantially and have returned to pre-recession levels. AIV just declared a 50% increase in their dividend.

GGP is the second largest mall company in the U.S. They own 169 malls including the Ala Moana Mall in Honolulu (for those planning their next trip to Hawaii). We wrote about GGP in the 2011 Q2 Report. GGP completed the spin-off of 30 B and C malls into a new company called Rouse Properties. The fund received 0.0375 shares of RSE for every share of GGP that we own. This is the second spin off company we have benefited from since GGP came out of bankruptcy in November of 2010.

FR: First Industrial Realty owns and manages 67 million square feet of industrial buildings throughout the US. The company trades at an implied cap rate valuation in excess of 8%. We cannot buy industrial properties in the private market for anywhere close to a cap rate of 8%. Most industrial properties trade around a 6-7% cap rate. Since lower cap rate equates to higher prices, FR seems to be trading at a large discount to its private market value. With a market capitalization of about $3 billion FR appears to be a logical acquisition for a larger industrial REIT or private equity real estate fund such as Blackstone.

GRT: Glimcher Realty Trust is a retail mall REIT based in Columbus, Ohio. Glimcher owns twenty four malls and three community centers with leasable area totaling 21.5 million square feet. GRT got in trouble in 2009 during the Great Recession when their leverage ratio approached 100%. The leverage ratio is the company's debt compared to its total market capitalization, akin to Loan to Value, as in the LTV of your home loan. At a leverage ratio of 100%, they were at risk of having to file for bankruptcy. Since then they have de-levered their balance sheet by issuing equity (selling stock), selling entire malls, and selling partial interests in other malls and retaining management. GRT's leverage ratio now stands at 50%. The stock trades at about a 20% discount to its NAV/share.

MPG is an office REIT based in Los Angeles. They are the largest owner of class A office buildings in downtown Los Angeles. MPG owns the 45 story KPMG Tower, the 42 story One California Plaza and the 54 story Two California Plaza, to name just a few. We wrote about MPG extensively in our 2011 Q1 stock fund report and again in our 2011 Q3 report.

MPG has a joint venture with Charter Hall Office REIT in which they own five different office projects, amounting to approximately 25% of MPG's portfolio by square footage. MPG manages all of the properties. In October, MPG announced that Charter Hall had agreed to sell its 80% interest in all the properties to Beacon Capital Partners. MPG agreed to sell its 20% interest in two of the properties, Wells Fargo Center in downtown Denver and San Diego Tech Center. MPG will retain its 20% interest and management rights in the other three properties with Beacon as its new joint venture partner. Beacon is a $15 billion private real estate investment fund based in Boston who owns primarily Class A and trophy office projects. MPG's remaining properties would complement nicely with Beacon's portfolio.

Trading during the Quarter:

During the quarter we sold our positions in **KRC** and **SWY.** We received shares in Marriot Vacations Worldwide (**VAC)** as a result of a spin off from Marriot Hotels.

SWY: We have a debate going between two of the investors in the fund. One is in retail real estate on the West Coast, and the other is in retail real estate on the East Coast. West does not like Safeway's niche and thinks Whole Foods is killing them on the high end and Wal-Mart is cannibalizing them on the low end. East liked Safeway because they have great real estate and they are unlocking its value with creative deal making. We were neutral on the stores and their operational strategies but like that the company has tremendous cash flow and is aggressively buying back its stock. However, the stock price went up a little bit, so we sold.

KRC: Kilroy Realty is an office and industrial REIT which is based in Los Angeles and focuses on the West Coast. One of the former Spieker Properties officers, Eli Khouri, joined Kilroy last year as Chief Investment Officer. We know Eli well, and we know Eli is aggressive, so we decided to start accumulating the stock. But before we had acquired much the stock had a quick run up so we decided to take a trading profit and hope for another chance to buy the stock later.

Comments:

As of December 31st we were 83% invested in stocks, 17% in cash. We had $1,741,600 invested at cost in 257,332 shares of stock of twenty-four companies, with a market value of $1,713,475. During 2011 the fund received dividends of $57,000. On the sale of stock, the fund had realized short term gains of $63,000 and realized long term gains of $143,000 (all approximate).

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: $25,000 initially, no minimum for additional investments
Timing: Initial and additional investments submitted at any time become effective at beginning of 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.