DAVENPORT PARTNERS

Davenport Advisors Stock Fund

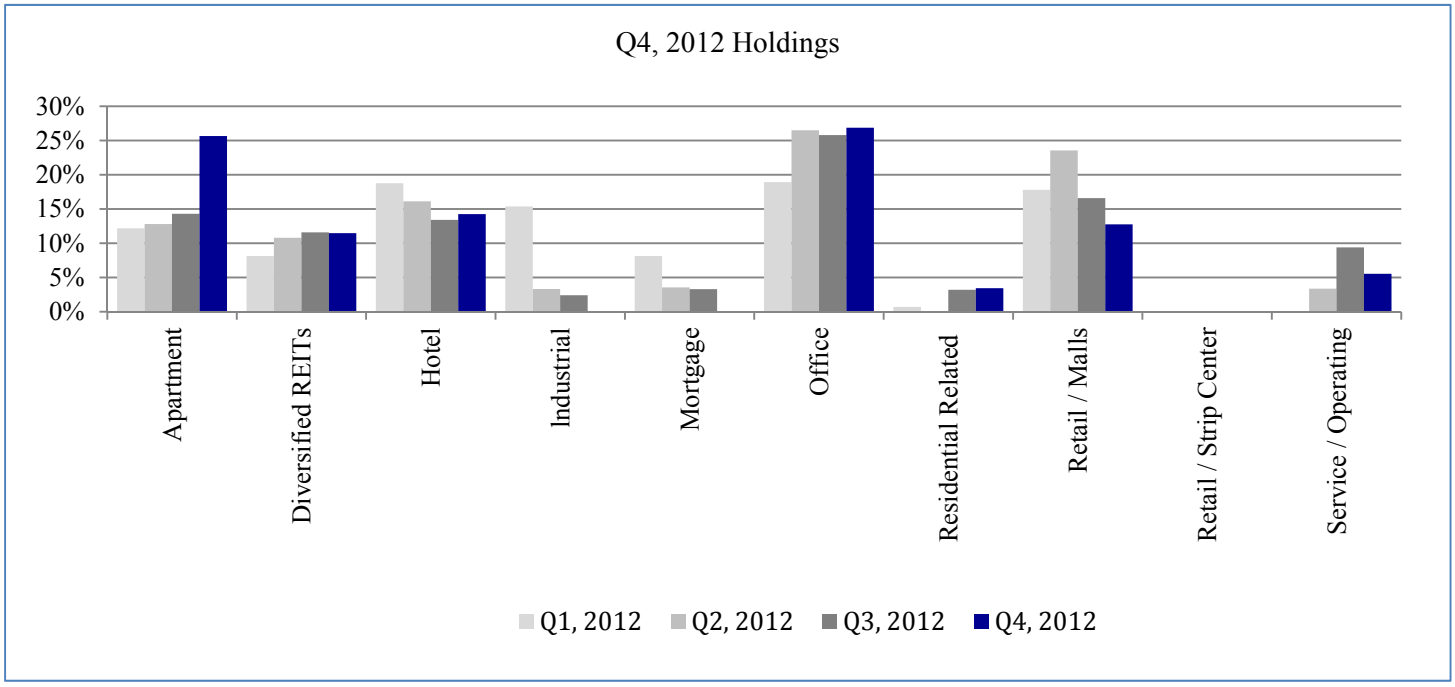
January 31, 2013

Update on the Fund:

As of December 31, 2012, the total value of the fund was approximately $2,353,000 (before fees and expenses). The fund was 58% invested in stocks, 42% in cash. We started the year at $1,915,000 (adjusted for contributions/distributions from or to LPs since January 1, 2012), so the value of the fund was up approximately 22.9%. In addition we paid a distribution of 2.1%.

Fund Holdings by Industry:

25.7%	Apartment	26.8%	Office
11.5%	Diversified REITs	3.4%	Residential Related
14.3%	Hotel	12.8%	Retail/Malls
0.0%	Industrial	0.0%	Retail/Strip Center
0.0%	Mortgage REITs	5.5%	Service/Operating Companies



Top 5 Holdings:

BEE - Strategic Hotels and Resorts
CWH - Commonwealth Properties
EQR - Equity Residential
GGP - General Growth Properties
MPG - MPG Office Trust

EQR: Equity Residential is one of the largest owners of apartments in the US. The fundamentals in the apartment sector are still good with most Apartment REITs continuing to report rent growth and high occupancies. Last summer, another large, but privately held apartment owner, Archstone, filed with the SEC to go public. In November EQR announced that they were buying 60% of Archstone, along with AvalonBay Communities, another public REIT, who was buying the other 40%, for a combined price of $16 billion. EQR's share of Archstone includes 78 properties with 23,110 apartment units. In order to pay for this purchase, EQR has sold an additional 21.85 million shares of stock at $54.75 per share raising $1.2 billion and announced the sale of a portfolio of 8,010 apartment units in non-core markets for $1.5 billion and arranged a new Line of Credit for $2.5 billion and a new term loan for $750 million. All of this activity - a few billion here, a few billion there - since November 26th when the purchase was announced.

BEE: Strategic Hotels and Resorts is a small (by public REIT standards) company which owns a very high quality portfolio of luxury hotels. They would be a coveted purchase for any of the much bigger hotel REITs such as Host, Marriot or Starwood. Their long time President and CEO, Laurence Geller suddenly resigned in November. Laurence Geller has long been considered an "unwilling seller". The Chairman of the Board, Rip Gellein, assumed the additional role of CEO. Rip Gellein has in the past sold another public hotel company to Starwood Hotels. He is considered a "willing seller". One must consider that there is a high possibility of this company being sold in 2013.

CWH: Commonwealth Properties, is an Office and Industrial REIT, located in Newton, Ma. CWH owns a portfolio of 304 office buildings and 134 industrial properties throughout the country. It also owns significant portions of several other publicly traded REITs including GREIT, SIR, etc.

GGP: General Growth Properties is the second largest mall company in the U.S. Last August, Pershing Square, one of GGP's largest shareholders attempted to have GGP sell itself to Simon Properties. General Growth's Board shunned Pershing Square and said they were not for sale. In January, Brookfield Asset Management, GGP's largest shareholder announced that they had bought warrants representing the right to buy 18 million shares of GGP stock from Pershing Square. Due to this transaction, Pershing Square has agreed to be a passive shareholder for at least the next four years.

MPG: MPG is an office REIT based in Los Angeles. MPG continues to take steps that make the company look like a more desirable acquisition candidate. They announced trustee sales on three properties: 500 Orange Tower in Orange and the release of liability to repay its $110 million mortgage loan, and Two California Plaza in downtown LA and the release of liability to repay its $470 million mortgage loan, and 3800 Chapman in Orange and the release of liability to repay its $44.4 million mortgage loan. (We owned 3800 Chapman while at Spieker Properties. We bought the building empty and leased it 100% to Home Depot. Our cost basis was much lower, it was about $11 million, $33 million less than the loan from which MPG just escaped!). MPG also sold its 20% interest in One California Plaza in downtown LA netting about $41 million in cash.

Trading during the Quarter:

We were scared going into December. We thought there was more downside to the Fiscal Cliff NOT being resolved, than there was upside in the Fiscal Cliff being averted.

This is what we wrote in our Q2 2012 Quarterly Report:

"If you think stocks might fall, then the aggressive way to profit from the fall is by shorting stocks. But if you short stocks and the stocks go up, you actually lose money.

*Or, if you think stocks might fall, and you sell some of your stocks and hold some cash, then you can profit by buying back the same stocks after they go down. If you are wrong and stocks go up, then you just don't make as much money as the stocks go up, because some of your portfolio is in cash.**

Moving to cash is risky (in a conservative sort of way).

**Of course, selling stocks results in realized taxable gains or losses. In normal years one might want to avoid or postpone all taxable gains, however, with the impending end of the Bush tax cuts, this might be the one year that it is prudent to realize taxable gains."*

With the above in mind, we were net sellers during the quarter. We sold our positions in ARI, CIM, CBRE, DRH, FR, HF, MSW, PLD, RSE and UDR.

We also sold GRBEQ and PCFO. These two companies were dead or walking dead and we sold to get the tax losses:

GRBEQ: Grubb & Ellis went bankrupt and was bought by Newmark Knight Frank in early 2012. Somehow Newmark bought all the Grubb & Ellis entities but not the stock. The stock continued to trade and has been priced at less than a tenth of a penny for a long time. We don't know why somebody is buying Grubb & Ellis stock for less than a penny. It's that anonymous person on the other side of the trade. What do they know that we don't know? If I lived in Manhattan and hung out with investment bankers I might know the answer to that question.

PCFO: Pacific Office Properties is another dog we have been following for a long time, hoping that something would cause the stock price to go up, even if just long enough for us to get out. But this company, one of Jay Shidler's many, is underwater and no amount of PR or other shenanigans was going to get the stock to trade up. We threw in the towel and sold our shares for 22 cents per share and then even worse, at 13 cents per share, just to realize the tax losses.

MSW: Another one of our holdings was actually sold and we were cashed out at a small profit. Mission West Properties was a public REIT with over 100 office and R&D type properties, mostly in the Silicon Valley. MSW had been rumored to be for sale for several years. They announced a sale in November and the sale closed toward the end of December at about $9.20/share.

Comments:

Dividends: We decided to pay a dividend last quarter. We paid a distribution roughly equivalent to 75% of the dividends the fund earned last year.

We may or may not decide to pay a dividend this year. However, I have to admit, I like to get checks in the mail, especially around the Holidays. If I have any vote on whether or not to pay a dividend this year, and my kids are still in dance or club volleyball or water polo or driving a car or playing golf or in college…

Homework Revisited: In our last Quarterly Report we examined the concept of NAV. Remember Company A and Company B?

Market Value of Properties/Square Foot	**Company A**	**Company B**
Cap Rate for Market Value of Owned Properties	10.00%	4.50%
Market Value of Owned Properties	$5,376,240	$24,473,067
Total Square Feet of Portfolio	56,877,000	58,500,000
Market Value of Properties/Square Foot	$95	$418

At these Cap Rates, you are buying Company A's nationwide portfolio of office buildings for just $95/sf and yielding a 10% return. That is really quite absurd! We have never been able to buy well leased office buildings in the private market at that low price/sf and at a 10% return.

On the other hand, Company B's portfolio of office buildings are commanding a quite high average price of $418/sf and yielding a meager 4.5% return.

For those who are still dying to know which company is which, and still sitting on the edge of your seats, or having trouble sleeping, Company A is Commonwealth REIT (CWH) and Company B is Boston Properties (BXP).

Below are photos of typical Company A and Company B buildings.

Company A (CWH) – Denver, Colorado

Company A (CWH) – San Diego, CA

Company B (BXP) - Manhattan

Company B (BXP) – Washington D.C.

So which Company do you buy? CWH with the stock trading at 57% of its NAV/share and paying a 7% dividend?

Or BXP with the stock trading well above its NAV/share and paying a 2% dividend.

CWH offers fundamental value and higher current yield. BXP offers the highest quality buildings, top notch management and the potential for more growth, but at a very low current yield.

The answer is - you might buy both!

CWH's current stock price is much less than its NAV/share. As long as Commonwealth doesn't do something really stupid, all things being equal, at some point the stock price should go up.

But what about BXP, why would you buy the stock trading well above its NAV/share?

Suppose a REIT had $20 billion in property and they are capitalized with $10 Billion in debt and $10 billion in equity (i.e. 100 million shares at $100/share = $10 billion). The company's NAV is $100/share and the company trades for $100/share. Suppose this REIT runs a "tight ship" and does all the right things: they have a very shareholder friendly Board of Directors, management is highly respected and not overpaid for the size of the company, they maintain a low leveraged balance sheet and do not take excessive risk with too many new developments or venturing into new product types. They have high quality buildings in great locations and keep their buildings well leased. The company does all the right things and over time the stock price moves up to $120/share. Whereas before, the stock traded at its NAV ($100/share), it now trades for $120/share, well above NAV. The management of this company is smart, and they realize, "We can sell stock at a price above NAV, and take that money and go buy buildings in the private market at NAV". Let's say they buy several Manhattan office buildings for $2.2 billion. They do a public offering of stock and sell 10 million shares at $120/share raising $1.2 Billion. They borrow another $1 billion and close on the properties. Now the company owns $22.2 billion of property and $11 billion of debt, so the NAV of the company is now $11.2 billion ($22.2 - $11). The company has 110 million shares outstanding (100 million plus the new 10 million shares). The new NAV/share is $11.2 billion/110 million or $101.82/share. Note that their NAV prior to the buildings purchase was $100/share. After they sold stock and purchased the buildings, the NAV goes up $101.82/share.

This is what you would call a virtuous cycle - sell stock at above NAV, buy buildings in the private market at NAV, increase NAV/share. The company and the stock are priced for perfection. If - and this is a big if - If management maintains the quality of their buildings and keeps running a tight ship, they ought to be able to keep the virtuous cycle going.

Company B, Boston Properties, is like the company in the above example: it is priced for perfection – and as long as they keep doing all the right things and they don't blow it – they should be able to keep growing NAV and the stock should keep going up.

Fund Details:

As of December 31st we owned 158,083 shares of stock in eighteen companies, with a cost basis of $1,230,766 and a market value of $1,371,241. During the fourth quarter of 2012 the fund received dividends of $8,532.

We continue to have weekly 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 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.

DAVENPORT PARTNERS

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.