Davenport Advisors Stock Fund

July 1, 2010

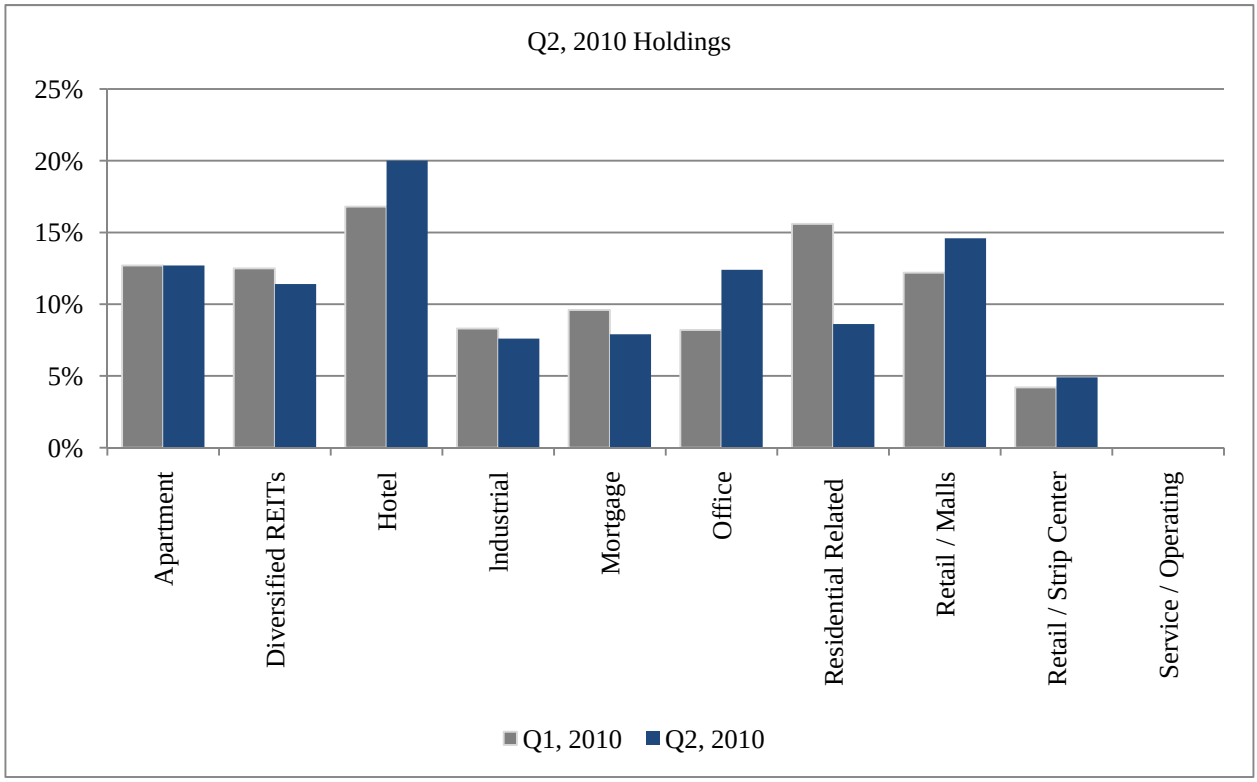
June 30th marks the end of the second quarter of the 2010 fiscal year for the stock fund and fourth quarter that our stock fund has been in operation. We made our first stock purchase on August 13, 2009.

Update on the Fund:

As of June 30th, the total value of the fund was $1,414,413. We had $1,107,781 invested in twenty five stocks, with a market value of $1,184,012. During the quarter we sold stock in three companies and purchased stock in four new companies.

Fund Holdings by Industry:

12.7%	Apartment	12.4%	Office
11.4%	Diversified REITs	8.6%	Residential Related
20.0%	Hotel	14.6%	Retail/Malls
7.6%	Industrial	4.2%	Retail/Strip Center
7.9%	Mortgage REITs	0%	Service/Operating Companies



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Top 5 Holdings:

Our Top 5 Holdings did not change this quarter as compared to last quarter.

GRT - Glimcher Realty Trust
HT - Hersha Hospitality Trust
HRP - HRPT Properties Trust
FUR - Winthrop Realty
FNF - Fidelity National Title

GRT is a mall REIT based in Columbus, Ohio. They were at risk of filing Chapter 11 last year but managed to pay down or extend into 2011 and later all of the debt which was coming due. This quarter they closed on a new $45 million, ten year loan, secured by a mall in West Virginia, allowing them to pay off the old loan and reduce outstanding borrowings on the company's credit facility. GRT pays a quarterly dividend of $0.10/share which equates to about a 12% yield on our basis.

HT owns and operates 73 hotels with 9,294 rooms. They focus mainly on mid to upscale hotels such as Marriot Courtyards, Residence Inns, Hilton Hotels and Hyatt Summerfield Suites, primarily in the Northeast between Boston and Washington DC. We began buying HT at $3.61/share. Our basis is now a little below $4/share. HT pays a minimal quarterly dividend of about $0.05/share which equates to about a 5% yield on our basis.

HRP is an Office and Industrial REIT. **FUR** is a diversified REIT. HRP and FUR are companies which we believe to be trading below their long term Net Asset Value ("NAV") per share. HRP and FUR pay quarterly dividends of $0.50/share and $0.1625/share, respectively.

FNF is the largest title company in the US, as well as a holding company for specialty insurance companies and many other investments. We believe FNF will benefit from the (expected) upturn in housing markets. Owning FNF is a play on the housing market without taking specific risk in homebuilder stocks. This quarter FNF sold its 32% interest in Sedgwick Claims Management for $224 million and booked a $95 million gain on the sale. FNF just raised its quarterly dividend by 20% to $0.18/share which equates to about a 5% yield on the current stock price.

Trading Gains/Losses:

During the quarter we sold our positions in NLY, JOE and SHO.

NLY: Annaly Capital is a real estate mortgage REIT which has performed remarkably well through the entire financial crisis of the last several years and has consistently paid quarterly dividends yielding above 15% per annum. Our in depth review of NLY's financial statements and quarterly reports indicated that, in Mortgage REIT language, NLY has "negative" gap, i.e. in the event of the return of inflation and an increase in interest rates both the value of NLY's portfolio and the net interest income they earn would go down. (Please see our commentary on the following page regarding Mortgage REITs.) NLY should continue to perform well in a low interest rate, low inflation environment. However, if inflation (or the fear of inflation) returns, NLY's stock price will probably react swiftly to the downside as it did recently in the first few weeks of May.

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JOE: St Joe is a real estate development company and one of the largest private landholders in Northwest Florida. JOE owns 577,000 acres of undeveloped land about 70% of which is within 15 miles of the coast of the Gulf of Mexico. The land includes 130 miles of frontage along the Gulf of Mexico and several bays, including 5.7 miles on beautiful white sandy beaches and 78 miles of frontage along the Intercoastal Waterway. A new international airport was just opened in May 2010 right in the middle of Joe's primary land holdings. JOE has entitlements in hand or in process for 31,600 residential units and 11.6 million square feet of commercial space. We bought JOE at an average price of a little over $27/share. At that price we felt we were buying a lot of entitled commercial land, beautiful forest land and waterfront property at a discount. The Gulf Oil Spill started on April 19th. During the weekend of May 1st and 2nd, news reporters were starting to speculate about the potential impact of the oil spill if it ever reached land. Although it felt like we were panicking at the time, we sold all of the stock on Monday May 3rd at a little above $30/share. By early June, as oil was heading for Florida's panhandle coastline the stock was in the low $20s.

SHO: Sunstone Hotels is a San Clemente based Hotel REIT which owns 29 upscale hotels such as Marriot and Renaissance. The stock had run up over 15% since we bought it in January, by which time the stock price exceeded our estimate of Net Asset Value/share. We decided to redeploy the money into other hotel stocks.

Comments:

Sell in May and go away? That is what we should have done. It was a rough quarter. The "Flash Crash", Euro debt crisis, the oil spill in the gulf, fears of a double dip recession, new financial regulations, political uncertainty; and the list goes on and on. Our fund reached a peak value of approximately $1,630,000 in early May, at which point we were up almost 22% for the year. Instead we ended the quarter down slightly. Fortunately we are still up 6% for the year, not great, but OK relative to the Dow Jones Average which as of June 30th was down 6% for the year.

What is wrong with this picture? On a daily basis, the partners of Davenport Partners are looking at office, industrial and retail buildings that are for sale throughout Southern California and Hawaii. When we find a building which looks interesting, we review the offering memorandum and then take a "drive by" or an on-site tour. If it still meets our criteria, we then run a pro forma. If our pro forma results in a price we could pay that is anywhere close to the suggested or asking price, we submit a written purchase offer. Despite our dogged efforts to purchase well located and attractively priced real estate, we have not been selected as the high bidder for many years! In general, the winning bidder is offering a purchase price, that according to our pro formas, often yield little return on the investment for the first year or two. Moreover, even assuming a successful execution of the business plan which would include several months negotiating a purchase contract, performing due diligence, securing financing, raising equity capital, closing the purchase, taking over the management, getting to know the tenants, rehabbing the common areas, leasing up the vacant space, and then when the property is finally stabilized after two to three years, the pro forma returns are still only in the 6-7% range. Yet with careful evaluation, you can buy stock in public companies with portfolios of quality buildings that are already well leased and currently stabilized at prices which equate to returns in the 6-7% range. One process takes a tremendous amount of work, the other a click of the mouse. We don't know which, but it seems that either private market values are too high or public market values are too low.

Mortgage REITs: Mortgage REITs borrow money from various sources and raise money through the sale of stock. They then invest that money in mortgage backed securities. They hope to profit from the difference (the spread) between their earnings (interest payments received) and their costs (interest payments on the borrowed money). The profit, after deducting the expenses of running the business, is then paid out to the stockholders in the form of dividends. Investors typically buy Mortgage REITs for their high dividend yields which often exceed the dividend yields on other stocks by 10% or more.

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There are several major risks with which Mortgage REITs contend. One risk is that the value of the portfolio of mortgage backed securities could decline as a result of greater delinquencies and defaults, for instance, as when the housing market tanked several years ago.

Another is the risk associated with changes in short term interest rates which result from changes in expectations about inflation or deflation. Mortgage REITs attempt to control or hedge risks associated with interest rate movements by matching the duration of the fixed and floating rate assets (mortgage backed securities) with the duration of the fixed and floating rate liabilities (borrowings). For instance, if they borrowed money using 5 year floating rate loans, they would want to invest that money in 5 year floating rate mortgage backed securities. Or, if they borrowed money using 10 year fixed rate loans, they would want to invest that money in 10 year fixed rate mortgage backed securities.

Mortgage REITs evaluate the interest rate risk in their portfolio using a term called interest rate sensitivity "gap". The "gap" is the difference between interest-earning assets and interest-bearing liabilities maturing within a given time period.

A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income, while during a period of falling interest rates; a positive gap would tend to affect net interest income adversely.

A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of falling interest rates a negative gap would tend to result in an increase in net interest income, while during a period of rising interest rates, a negative gap would tend to affect net interest income adversely.

Suppose a company had all floating rate mortgages and all fixed rate borrowings. If interest rates go up, then the company's income goes up while its borrowing rate stays fixed. Its spread (profit) goes up (positive "gap"). Conversely, suppose a company had all fixed rate mortgages and all floating rate borrowings. If interest rates go up, then the company's income stays flat while borrowing costs go up. Its spread (profit) goes down (negative "gap").

While the economy has not yet recovered, we believe that ultimately, we are in for a bout of worldwide inflation. If there is to be inflation then Mortgage REITs with positive "gap" should perform relatively better than those with negative "gap".

The Fund

As of June 30th we were 84% invested in stocks, 16% in cash. The total contributed capital in the fund was $1,245,000. We received additional capital contributions from several of our existing investors and one new investor for the quarter starting July 1st. We welcome additional contributions by existing investors, and of course, we would also welcome new investors.

We have more good ideas than capital. There are quite a few companies that we have identified as undervalued or mispriced, but we are trying to maintain some cash on hand at all times, so that, if there is a sudden drop in the market or in any one of our stocks, we have cash on hand to be able to take advantage of the buying opportunity.

We continue to have weekly conference calls among the partners of Davenport Partners during which we review stocks in the portfolio, consider new companies, and discuss and debate industry trends, etc. Generally we have

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focused on buying stocks which are trading below their NAV with a bias toward those who have taken the greatest hit to their stock price since the peak days of 2007.

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, 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.

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