2014 YEAR IN REVIEW

DVI

David Vaughan Investments

INGREDIENTS OF SUCCESS

From the Desk of: WILL WILLIAMS
President & CEO.

Back in late 2006 and early 2007, I attended several industry specific conferences on advisory firm transition. At these conferences I had the opportunity to schedule one-on-one meetings with several industry experts. I am not so sure these investment bankers and consultants were really ready for me. I would begin to tell my saga, the success story of DVI and the unfortunate recent developments. The unexpected death of its founder and sole shareholder, a concentrated client list, a bottom-up stock picking firm now without its lead stock picker and a young professional management team who had never managed alone. Most would shake their head back and forth or make that long whistle sound of despair. DVI was truly a firm in transition!

Now, more than eight years have passed and the firm continues to grow and prosper. An organization that many industry veterans believed was a disaster waiting to happen, not only has survived, but has gone on to be quite successful. How have we beaten the odds? What has unfolded to make DVI an unlikely success story?

Corporate Governance

One of the key ingredients for our stability during these trying times was the development and evolution of a corporate governance structure that emphasized the role of independent directors. With their experience and know how, they not only challenged the management team, but proved to be an invaluable resource of knowledge and experience. Adopting a public company mindset, adding more structure and discipline to our processes, has proved beneficial to our many stakeholders.

A Partnership Culture

In the intellectual capital business, no one individual consistently has the best ideas. Working effectively as a team derives the benefits of collaboration and leads to the best outcomes for the end client. Add into the mix the ownership mindset, the economic incentive to go above and beyond, and you have a recipe for real success!

Patient Capital

A transition of this magnitude always relies on patient long-term capital. The Vaughan family has consistently supported the management team's efforts to adopt ownership best practices. They collectively recognized the positive advantages of a wider distribution of equity ownership among key employees for the long-term benefit and stability of DVI.

The Glide Path

In 2014, we worked diligently throughout the year building upon these ingredients of success to map out a future state for DVI. Our desire was to build upon the several one-time equity issuance initiatives that had been rolled out since 2006 with a new more comprehensive plan. We adopted the term "Glide Path" to describe this future ownership structure of the firm.

This vision of the future is built upon several key beliefs

- We continue to believe private ownership of the company is in the best interest of our primary stakeholder, our valued clients.

- A legacy minority ownership interest held by the Vaughan family and their descendants is in the best long-term interest of the firm and just recognition for the value created by the founding family. Vaughan Family Shareholders: *Anne M. Vaughan, David J.Vaughan, Jr. MD, Melissa V. Garrigan, Julia M. Rodgers.*

- A well-executed internal succession plan is the most visible demonstration to both clients and DVI associates alike of the willingness to place our clients' interest ahead of our own economic interests.

It is our goal that by the end of 2021, the "Glide Path" will have been fully executed and we will have achieved a best in class steady state in DVI's ownership structure.

Overcoming the Stigma of "Getting Too Large?"

As DVI grows in size - more clients, larger assets under management and greater number of employees - clients who have been with us since the very beginning often ask me, "Are you ever concerned that you are getting too large?" "Will you be able to provide the same individualized attention in the future that you provide today?".

First of all, I am very sensitive to this line of questioning. I truly believe one of our competitive advantages is being small and nimble.

Our business is personal and we want to keep it that way. Growth for us is more of an indication that we have done a few things very well and the marketplace has been receptive to our willingness to do things differently, as we say "Daring to be Different." Our firm is driven by our unique culture rather than guided by a strategic plan laden with hyper growth initiatives. Back in 1990, we never aspired to be a two plus billion dollar assets under management firm as part of some BHAG (Big Hairy Audacious Goal) exercise. We got here the old fashioned way: sticking to our knitting, working hard, willing to be innovative and keenly focusing on our clients' needs. No one at DVI is getting too big for their britches. Our sense of pride for our recent accomplishments pales in comparison to our sense of responsibility to the institutions and countless families that rely on our judgment and daily prudent decision-making. We humbly recognize the necessity that we must do a better job in the future than we are doing today.

2014 Accomplishments

Human Capital

- Michael A. Price was hired to become DVI's first Chief Administrative Officer responsible for the day-in, day-out operations of the firm.

- Jeffrey J. Huizenga, CFP joined our relationship management team in the Central Illinois office.

- DVI implemented a new short-term incentive bonus plan for all associates with funding predicated on the achievement of specific firm related key performance metrics.

Strategic Plan Execution

- With the assist of our strategic partner ActiFi, DVI was able to successfully complete all ten of the strategic plan initiatives for 2014. Projects ranged from an examination of our current Customer Relationship Management (CRM) system and action steps to improve its effectiveness, to examining our current staff roles and responsibilities and re-allocating certain tasks to those investment professionals with both time and talent.

Philanthropy

- DVI established the **David J. Vaughan Charitable Fund** in honor and recognition of the charitable legacy left by its founder. It is hoped that this will be the initial seed for an endowment fund that will provide future support to the communities in which we serve.

A Sample of Strategic Initiatives for 2015

- As an **investment manufacturer**, we can never lose sight of the importance of both our fundamental qualitative research and innovative quantitative research. In 2015, we will deploy significant resources to evaluate the effectiveness of our qualitative research and to re-examine the multifactor models driving our proprietary stock ranking system.

- Our greatest asset is our people. We are committed to improving our entire **continuing education program**. From our in-house knowledge sharing program that we refer to as DVI-U, to the quality of the industry conferences we attend, we must do a better job providing the knowledge base to our associates that will allow them to address the complex needs of our clients.

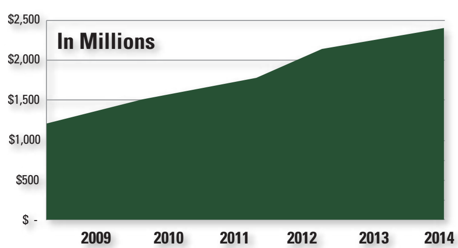
- Despite the fact that we are in the investment management business, **technology and the management of information and documents** has to be a core competency. We began the process in 2014 by examining our CRM system and in 2015, we will add the development of an enhanced document management system, both processes and controls, to our list of top priorities.

- The lifeblood of the future of DVI is the recruitment and ongoing retention of the very best talent in our industry. From that pool of exceptional individuals will emerge the next generation of leadership for DVI. Our **human capital initiative** will not only include a reassessment of the current organizational chart and individual roles and responsibilities but will also develop operating metrics that will allow us to be more proactive in our hiring practices.

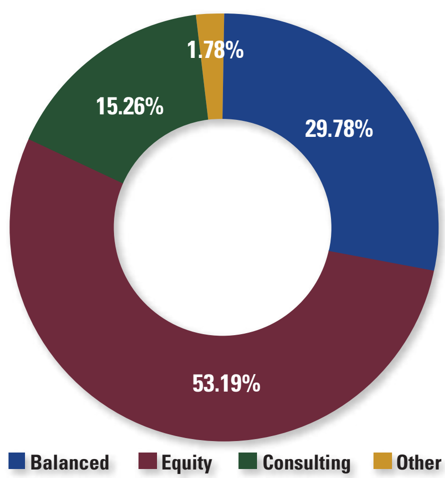
Key Firm Statistics *(Data as of December 31, 2014)*

- $ 2.40 Billion in Total Billable Assets
- $ 2.04 Billion Discretionary Assets Under Management
- Average Discretionary Client Size AUM: $ 2.93 Million
- # of Client Relationships: 696
- # of DVI Associates: 24

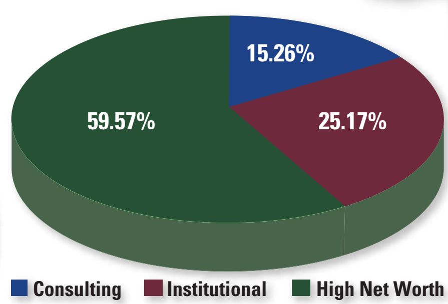
Total Billable Assets



By Investment Strategy



By Client Type



CAPITAL MARKETS TOPIC – *The Death of Active Investment Management?*

The topic that will be at the heart of many discussions in the investment advisory business in 2015 will be the question, "Is stock picking dead?". If investors voting with their pocketbooks is any indication, active money managers are clearly out of favor. Barron's magazine reported that investors have been pulling funds from actively managed U.S. stock mutual funds for nine straight years. In the 2014 Investment Company Institute Fact Book, they reported that between 2007 and 2013, index domestic equity mutual funds and Exchange Traded Funds (ETFs) received $ 795 billion in cumulative net new cash while actively managed domestic equity mutual funds experienced a net outflow of $ 575 billion. Bloomberg reported through the first ten months of 2014 that this trend continued with over $ 170 billion of capital inflows into equity index funds and ETFs versus a relatively puny $ 2.5 billion to actively managed equity funds.

If we can use history as a reliable guide, active money management usually outperforms passive equity strategies during the following types of market environments:

- Rising Interest Rates
- Increasing Market Volatility
- Outperformance by Smaller Market Capitalization Companies
- Declining Markets
- High Stock Performance Dispersion within each Economic Sector
- Peak Market P/E Multiples

Over longer periods of time, certain active investment strategies have a tendency to provide excess returns. As an example, those that embrace a value investing methodology tend to produce superior investment results in comparison to the results of the overall market. This seems logical as the contrarian mindset that is essential for a successful value oriented investment process is directly at odds with an index construction process which is based upon market capitalization. With most indices, you are investing in stocks that have been the best market performers over the most recent period of time. In many instances, this means you are investing in the most highly valued names held in the indices.

As a strong advocate of risk focused active investment management, DVI has a tendency of reminding investors there are two R words, Risk and Reward. Investors never complain about having too much beta (risk) when the market is going up, but tend to sell the higher beta asset classes when the market is in decline. We have found that managing the underlying risk of the portfolio using bottom-up stock selection has real advantages and generally results in portfolio performance that yields higher rates of return per unit of risk (Sharpe Ratio) produced by the traditional large cap benchmarks.

There is much to be said for the efficiencies and convenience of passive investment strategies. There is almost a "set it and forget it" aspect to it which is quite attractive. However, I was intrigued by the recent observation made by Burton Malkiel, the Princeton economics professor and famed author of the book, *A Random Walk Down Wall Street*, as he points out, "What we know in investing is when stuff becomes popular, it usually doesn't work as well."

OFFICERS & SHAREHOLDERS

Lawrence Williams IV
President & CEO

Brian A. Christensen, CFA
Senior Vice President & CIO

Patrick J. Smarjesse, CEBS
Vice President

Todd M. Sheridan, CFA
Vice President

James D. Sinclair, CPA
Treasurer & CCO

Stephen K. Hinrichs, CFA
Portfolio Manager

Michael A. Price
Chief Administrative Officer

BOARD OF DIRECTORS

David J. Vaughan, Jr., MD *1,2*
Board Certified Physician

John V.N. McClure *1,2,3*
Retired, Northern Trust Corp.

Lawrence Williams IV *1*
DVI

Brian A. Christensen, CFA *2*
DVI

Virginia Johnson Pillman, CPA *3*
Retired, Duchossois Group and Ernst & Young

Wayne E. Baum *1,3*
Chairman, Core Construction

1. Compensation Committee | 2. Nominating Committee
3. Audit & Compliance Committee

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