
2011: YEAR IN REVIEW

From the desk of: Will Williams, President
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GROWTH ON MANY FRONTS

Many financial service organizations downsized in 2011, but DVI continued on a path of measured growth. We now serve roughly 600 clients and directly manage or act in an oversight capacity on approximately \$1.6 billion in assets. Client retention rates remain exceptionally high—a visible and gratifying testament to our relationship management practices. To meet our clients' high expectations for service and accommodate a growing business, we increased the size of both the investment accounting and client service teams. The DVI Management Committee also grew with the addition of Todd M. Sheridan, CFA, a long-time colleague and officer of the company. He brings a passion for investment research and portfolio management that strengthens the collective expertise of the entire team. I have the privilege of leading this group, which also includes Brian A. Christensen, CFA; James D. Sinclair, CPA; and Patrick J. Smarjesse, CEBS.

THE DVI DISTINCTION

Despite a capital markets backdrop that was difficult at times and volatile to say the very least, DVI's conservative and transparent business model resonated with both existing and new clients alike, and we finished the year with a record amount of new assets.

Clients tell us there are many reasons why they chose to work with DVI. Few firms of our size have maintained their private and independent status allowing the delivery of unbiased investment advice. Fewer still have investment professional staffs that are both experienced and well credentialed, representing a level of expertise rarely found in any one firm. DVI might be singular in presenting a 30-year audited performance track record of managing equity portfolios, indicating a willingness to demonstrate our strategy's effectiveness during both good markets and bad. The DVI leadership team has worked together arm-in-arm for more than a decade and has successfully established a culture of ownership that treats its clients' assets as if they were their own. We take pride in the DVI value proposition and believe that as investors compare the alternatives, the more rigorous and thorough the due diligence process, the better the outcome for DVI.

A CHALLENGING INVESTMENT BACKDROP

Risk exposure was top of mind for most investors in 2011 as money continued to pour into assets classes that have traditionally served as safe havens, such as fixed income and short-term cash management vehicles. In fact, non-interest-bearing deposits at our nation's largest financial institutions soared, as corporate America continued to prefer the unlimited account protection provided by the FDIC rather than enjoying any investment return.

With this as a backdrop, many equity managers convinced their clients they could essentially flip a "risk-on" switch during the upswings to earn higher-than-market returns, then reposition their portfolios into "risk-off" mode when the going got tough. This advice proved to be too good to be true; the vast majority of people who followed it had a disappointing year. The DVI team continued our tradition of reducing risk by building quality portfolios and managing them with patience and discipline. Although the investing environment was shaped by powerful negative forces like the Washington budget debacle, the downgrade of the U.S. credit rating and the European debt crisis, DVI refused to respond with

short-term tactical decisions others in our industry favored. Instead, we continued to execute our proven strategy, and by year end, delivered solid investment returns to our clients.

We are proud of what we accomplished in 2011, as it was another year that tested the merits of our investment convictions. We have often been viewed by our peers as being somewhat behind the times as we pursue long-term investment strategies proven for generations. Now that these same peers are increasingly attracted to our dividend-paying, value-oriented, core equity strategy we have mixed emotions. Should we feel like we are on the cutting edge or should we be concerned?

SOUND CAPITAL POSITION AND OWNERSHIP STRUCTURE

Financial stability is a key strength, especially in a turbulent economic environment. Peace of mind comes from knowing your investment firm is debt-free and continues to generate enough working capital to meet growing reinvestment needs. Strength in our industry is also defined by the thoughtfulness of the ownership structure. As you might recall, we recapitalized the firm in 2010 and provided the five management shareholders with the majority of the voting stock. We also established a Stock Appreciation Rights Plan to extend ownership to other senior DVI investment professionals over time. A move to best-in-class governance went hand-in-hand with these changes. In early 2011, we stated our intention to restructure the board with three outside directors: one Vaughan family member and two representatives from the Management Committee. We welcomed our second outside director during the year, Virginia Pillman, a former tax partner with Ernst & Young and past vice president of The Duchossois Group, Inc., a privately held, family-owned company with holdings in the consumer products, technology and service sectors. Her experience managing tax, legal and investment issues for high net worth individuals and endowments complements that of John McClure, a former senior executive officer from Northern Trust who joined our board in 2008. The third outside director position will be filled during the first quarter of 2012.

LOOKING TO THE FUTURE

DVI will mark a special milestone in 2012, as it was 35 years ago—in 1977—when our founder David Vaughan first registered as an investment advisor with the U.S. Securities and Exchange Commission. We carry his legacy forward with confidence, understanding that our greatest challenge is to attract, retain and groom a new generation of DVI leaders who share our investment philosophy and our commitment to clients and community.

Turnover in the current leadership team is not anticipated, but we know it is in our clients' best interests to have a solid succession plan in place. That plan will continue to take shape as we seek to perpetuate the firm our clients have come to trust—an independent, privately owned organization, staffed with experienced professionals who provide unbiased advice, act in our clients' best interests and strive to be good stewards of the wealth that has been entrusted to us.

Thank you for your loyalty to DVI. We appreciate the opportunity to serve you.



Quiet Quality