

2013

YEAR IN  
REVIEW



**DVI**  
DAVID VAUGHAN INVESTMENTS



From the Desk of: **WILL WILLIAMS** | President : David Vaughan Investments, Inc.

# 2013 YEAR IN REVIEW

## A CONSTANT STATE OF TRANSITION | *Facing Challenges*

After a year like 2013, one might come to the conclusion that DVI's transition from a small family owned firm to a management lead professional service corporation is now complete. Once again surpassing prior year revenue and profitability measures, the firm's financial stability appears to be well entrenched. However, as I passionately remind board members, shareholders and associates alike, the world is not standing still. Our past success is just that, in the past. Our responsibilities have grown; more people than ever are counting on us to deliver. It is not time to rest on our laurels, but rather to constantly seek improvement in everything that we do every day.

### CHALLENGES AHEAD....

**The External Marketplace** | We continue to struggle with effectively communicating DVI's value proposition. Some view DVI as just another generic financial institution, undistinguishable from the myriad of banks, brokerage and advisory firms in the region. Our natural strengths are as financial analysts and problems-solvers, not as publicists. Few know the size, scope and complexity of what the DVI team manages today, despite the fact we are one of the 100 largest privately held registered investment advisory firms in the United States.<sup>1</sup> Despite being in the investment business, most of our industry's focus is placed on either product development, distribution or direct marketing and sales. They look at DVI as an enigma, with its emphasis on investment manufacturing and ancillary advisory services. Instead of investing in ways to get the word out, we continue to believe in the merits of taking care of our current clients and relying on superior results to take care of the rest.

**Human Capital** | In 2013, we came to the realization that growing talent from within, creating an organic career path, was going to be one of our most important firm wide initiatives. In years past, we relied almost exclusively on other firms training and developing future DVI professional staff. In recent years, we have not only been frustrated with the caliber of potential future hires but also their cultural fit into our unique working environment. We made our first direct hire from university in 2013 and have plans in 2014 to continue to develop our pipeline to exceptional young talent. This might be a longer term solution, but we recognize the benefits of taking this approach.

**Managing Investment Management** | Despite strong U.S. domestic equity markets for most of the year, 2013 was not a year without challenges. Equity investors had limited entry points into the market as pull backs and market corrections were few and far between. Emerging equity markets, once the Promised Land for disgruntled U.S. investors, provided disappointing relative results. Fixed Income investors were under pressure for most of the year as intermediate and long duration securities produced negative rates of return as interest rates increased from historic lows. Those that had anticipated higher rates of inflation were disillusioned as the majority of commodities, including gold, fell into bear market territory. Throughout it all, DVI's Investment Committee maintained a firm and steady hand on the rudder and provided exceptional results for our clients.

Much of our industry has moved away from company research, bottom-up stock picking and portfolio construction; a series of skills that I describe as investment manufacturing. The trend for many years now has been to place a far greater emphasis on more macro related activities, primarily portfolio asset allocation. The technical skills required to successfully manufacture a portfolio of individual securities is significant. At DVI, we attempt to leverage this unique skill set and apply it across the myriad of investment related tasks that come across on our desks on a daily basis. Sometimes it revolves around the management of a concentrated position, the exercise of stock options or the efficient execution of a tax strategy. Regardless of the topic, we are grateful to have direct access to this level of expertise.

**Built to Last** | As I have expressed in the past, we endeavor to manage a firm "Built to Last". And in doing so, we recognize that we will need to dare to be different to reach that end goal. We understand that we will not be all things to all people and there will be only certain market niches appropriate for our unique ensemble of skills. Without question, we have a distinct and unique culture at DVI, and that is a good thing. In effect, we will continue to embrace those differences from our peers. Years ago David Vaughan wrote "Quiet Quality" on the back of an envelope and asked me what I thought of it as a DVI slogan. After 25 years, I continue to think it just right.

Thank you for your encouragement and continued support.

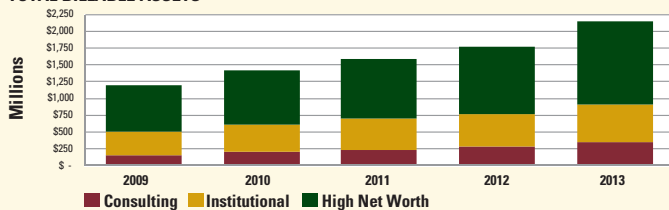
<sup>1</sup> 2013 Listing of RIAs sorted by discretionary and nondiscretionary assets under management as assembled by Financial Advisor Magazine.

## A SAMPLING OF INVESTMENTS MADE IN 2013

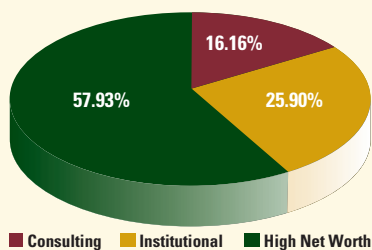
- **At year end 2012, we secured the ownership to the third floor of our headquarters building.** With its acquisition, we were in the position to craft a master plan for the building as a whole. In 2013, we implemented the first phase of that plan, retrofitting the third floor to house both relationship management and client service offices in addition to a new kitchen and collaborative work space, "DVI Commons."
- **With privacy and security first and foremost on our mind,** we also installed new doors and card swipe technology to limit access to DVI's interior work space.
- **On the technology front, security of client information is also of the utmost importance.** In the latter half of 2013, we adopted as a best practice the use of "sharefile" a new e-mail software that allows us to send client sensitive information to both clients and their advisers in a secure fashion.
- **Rounding out our significant investment in investment data platforms such as Bloomberg and Thompson Reuters, we added Morningstar Direct as a new research and reporting tool.** This has enabled us to provide more in depth and user friendly reporting to our Foundation and Retirement Plan clients.

## DVI BY THE NUMBERS (As of December 31, 2013)

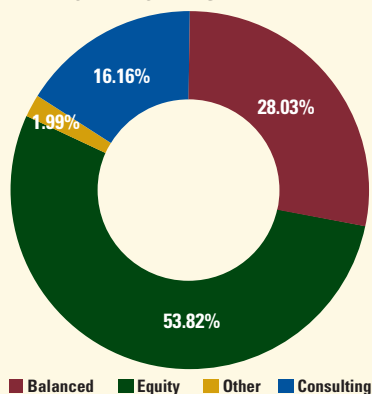
### TOTAL BILLABLE ASSETS



### BY TYPE OF CLIENT



### BY INVESTMENT STRATEGY



■ **\$ 2.16 Billion in Total Billable Assets**

■ **\$ 1.81 Billion Discretionary Assets Under Management**

■ **Average Discretionary Client Size AUM: \$ 2.8 Million**

■ **# of Clients: 668**

■ **# of DVI Associates: 22**

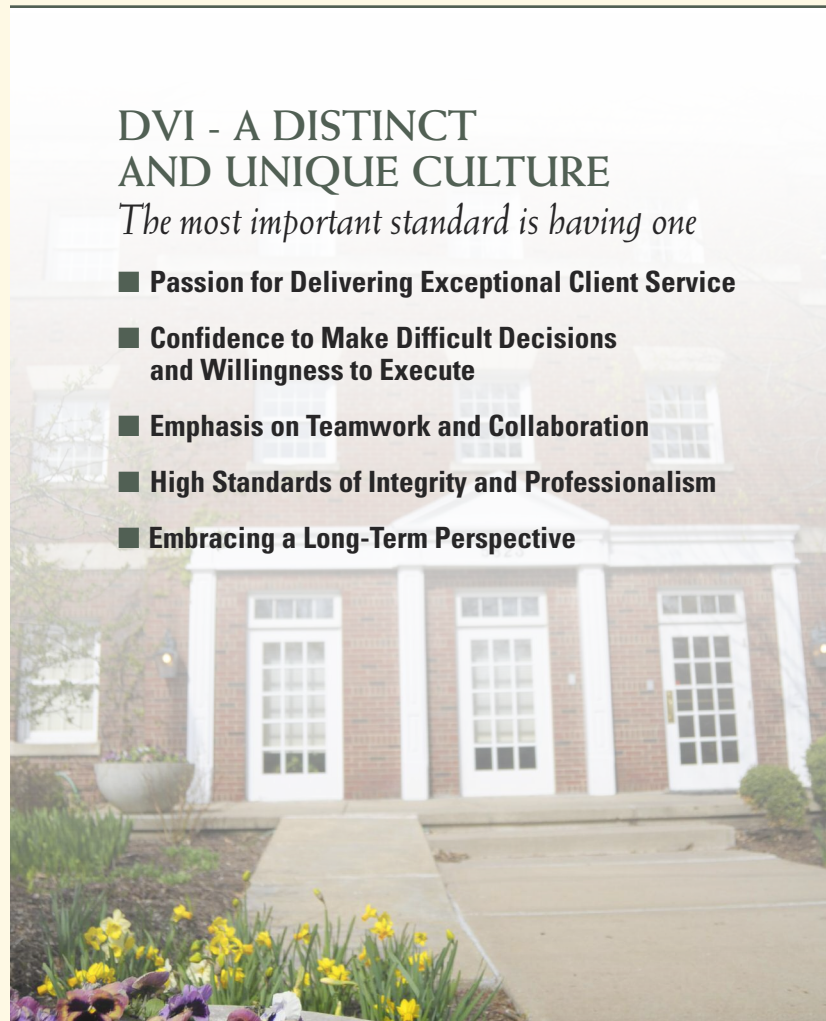
## STRATEGIC INITIATIVES FOR 2014

- **Adding a New Chief Administrative Officer** As the firm has grown larger and more complex, the advantages of a full-time experienced business manager have become abundantly clear.
- **Right Sizing Staffing Levels** We aspire to be more proactive in our hiring processes, staying ahead of the curve. Establishing firm specific ratios for portfolio management, relationship management and client service should benefit us as we staff for the future.
- **Developing Closer Working Relationships with Client Service Providers** As the needs of our clients become more complex, it is paramount that we are more effective in facilitating better communication with CPAs and attorneys alike, resulting in improved unbiased decision making.
- **Enhancing of DVI's Customer Relationship Management Systems (CRM)** The key to the success of a team based advisory solution is effective communication among both the front and back office. DVI has utilized various CRMs over the past decade and anticipates further investment in new or existing CRM platforms to enhance internal workflow and provide a superior client experience.

## DVI - A DISTINCT AND UNIQUE CULTURE

*The most important standard is having one*

- **Passion for Delivering Exceptional Client Service**
- **Confidence to Make Difficult Decisions and Willingness to Execute**
- **Emphasis on Teamwork and Collaboration**
- **High Standards of Integrity and Professionalism**
- **Embracing a Long-Term Perspective**



## TURNING COMPLEX INTO SIMPLE

If there is just one goal, it is to achieve simplification for our clients. Whether the client is a high net worth individual or a sophisticated institution, it really all comes down to identifying what is important, developing a plan to reach those goals and creating understandable reports to measure progress against those objectives. If DVI is successful converting the daily natural chaos of investments, taxation, legal structure, income distributions, etc., into an

understandable series of events, we might not be perfect, but we will be head and shoulders above our peers.

In recent years, it has become increasingly important to round out our investment management offering with select ancillary services to provide a more robust offering for our clients to meet their ongoing needs. *A case study is presented below as a practical illustration of the type of all encompassing solution that DVI provides today.*

### ■ DVI WORKING CASE STUDY

**Business Owner in Transition** | After sale of family owned business, husband and wife embark on a new phase in their life from wealth accumulation to wealth preservation and distribution.

#### INVESTMENT MANAGEMENT MANDATE

##### ■ BALANCED INVESTMENT STRATEGY

**Custom Equity / Tax-Exempt / Taxable Fixed Income Mix (60 Equity/40 Fixed Income)**

**Highly Appreciated Equity Securities / Concentrated Portfolio Holdings**

##### Tactical Allocation

*Allocation of Growth Equity Exposure into Trusts Already Outside of Estate*

*Allocation of High Dividend Yield and Taxable Fixed Income into Roth IRA*

#### ANCILLARY ADVISORY SERVICES

##### ■ ACCOUNT AGGREGATION

Comprehensive Reporting and Accounting on All Family Accounts

##### ■ COLLEGE FUNDING

Funding and Investment Management of 529 Plans

##### ■ CHARITABLE GIFTS

Non-Grantor Charitable Lead Annuity Trusts (CLAT)  
Annual Designated In-Kind Gifts (IRA Direct or Taxable)

##### ■ QUALIFIED RETIREMENT PLAN

Rollover to an IRA Rollover  
Conversion to Roth IRA

##### ■ ESTATE TAX MINIMIZATION

Series of Grantor Retained Annuity Trusts (GRAT)  
Annual Exclusionary Gifts

##### ■ LIFE INSURANCE

Confirming Ownership & Beneficiary Designation  
Selective Transfer of Ownership

##### ■ COMMUNICATION

Ongoing Dialogue with Family Advisors (CPA/Attorney)

## DVI EXISTS TO SERVE OTHERS

David J. Vaughan, the founder of DVI, paved the way for us to embrace community involvement and philanthropy. His passion was obvious and his fields of interest were broad. In 2013, DVI made a record investment in the communities we serve through direct charitable support. Our signature fund raiser, DVI's Hike for Hunger in support of the South Side Mission, was once again a success, reaching an all-time high

in terms of both funds raised and participation. Beyond direct underwriting, DVI shareholders through their active leadership involvement with a myriad of non-profit organizations raised millions of dollars in support of worthy causes. In 2014, we will continue to explore strategies that will enable us to be thoughtful and constructive supporters of the communities in which we serve.

### SHAREHOLDERS

#### Lawrence Williams IV

President & CEO  
Tenure with DVI – 24 years

#### Brian A. Christensen, CFA

Senior Vice President & CIO  
Tenure with DVI – 21 years

#### Patrick J. Smarjesse, CEBS

Vice President  
Tenure with DVI – 19 years

#### Todd M. Sheridan, CFA

Vice President  
Tenure with DVI – 14 years

#### James D. Sinclair, CPA

Treasurer & CCO  
Tenure with DVI – 17 years

#### Stephen K. Hinrichs, CFA

Portfolio Manager  
Tenure with DVI – 15 years

### BOARD OF DIRECTORS

#### David J. Vaughan, Jr., MD <sup>1,2</sup>

Board Certified Physician  
Board Chairman since 2007

#### John V.N. McClure <sup>1,2,3</sup>

Retired, Northern Trust Corp.  
Director since 2007

#### Lawrence Williams IV <sup>1</sup>

DVI  
Director since 2007

#### Brian A. Christensen, CFA <sup>2</sup>

DVI  
Director since 2011

#### Virginia Johnson Pillman, CPA <sup>3</sup>

Retired, Duchossois Group and  
Ernst & Young  
Director since 2011

#### Wayne E. Baum <sup>1,3</sup>

Chairman, Core Construction  
Director since 2012



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