

2015

YEAR IN REVIEW



DVI

DAVID VAUGHAN INVESTMENTS

MANAGING INVESTMENT MANAGEMENT

From the Desk of: **WILL WILLIAMS**
President & CEO

2015 – An Uphill Battle

One of comedian George Gobel's famous lines was "Do you ever feel as if the whole world was a tuxedo and you were a pair of brown shoes?" To say the least, DVI felt a bit out of sync with the way the rest of the world was viewing the capital markets throughout most of last year. Equity investors in particular clambered for a handful of high Price/Earnings multiple growth stocks that provided little if any dividend support, a sharp contrast to our low valuation high dividend yield bias. This difficult investment backdrop was exacerbated by the fact that the energy sector, a traditional source of above average dividend yield and reasonable earnings multiples, faced stiff headwinds during most of the year as the price of WTI Crude declined by 30.5 percent to nearly \$37 per barrel. As a consequence, large capitalization value stocks trailed growth stocks for the year by nearly 10 percentage points.

Value vs Growth

	Value	Blend	Growth	Value vs Growth
Large Cap	-3.80%	1.40%	5.70%	-9.50%

Source: Standard & Poor's

The ebb and flow of equity style excess and trailing investment results (value versus growth), have been a constant in modern capital market history. Over the long-term, statistics support the conclusion that a value based investment process outperforms growth stocks by nearly 8 percent on an annualized basis. However, there are a handful of five year rolling periods of time, like the end of 2015, in which there is no absolute excess returns earned by embracing this perspective. I use the term absolute as return alone does not define the inherent advantage of the valuing investing framework. Less price volatility would also be a positive attribute. Using Russell style indices back to their inception, the standard deviation of a large cap value index is approximately 15 percent less than a comparable growth index. Research would suggest rational investors place more value on risk reduction than they do upside market capture ratios. As we know from past experience, however, both markets and investors are not always consistently rational.

Recoveries in Value Stocks since 1945



Source: Kenneth R. French Data Library | Valued defined as high book equity to market equity | Rolling 5-year holding periods, annualized unless noted | Relative performance of the 20% highest book equity compared to the 20% lowest

The Key to 2016 – Corporate Earnings Growth

Currently, the equity market's short-term focus is transfixed on the back 'n' forth between the pace of future U.S. interest rate hikes and the general economic slowdown in China. However, the prospect for stock market price appreciation in 2016 will most likely come down to the ability for corporate America to continue to churn out ever increasing corporate earnings. In years like 2012 through 2014, as evidenced by the table below, investors were willing to pay a premium for the earnings growth of the market and P/E multiple expansion contributed significantly to annual price increases. With the market back to a more normal valuation (17.32x) and price volatility once again raising its ugly head, it is hard to imagine investors willing to pay up for that earnings growth. As 2015 unfolded, earnings estimates for 2015 changed very little as analyst expectations for a slow growth environment were consistently applied throughout the entire year. In contrast, expectations for 2016 were much higher. At one time, growth estimates for 2016 were forecasted to be in the low teens. With global growth perceived to be slowing, current estimates are for roughly three to four percent EPS growth. We hope that those projections in hindsight turn out to be too conservative.

Tracking S&P 500 Corporate Earnings

	S&P 500 Earnings Per Share	% Increase	S&P 500 Index Price	Price % Increase	S&P 500 P/E Multiple	Expansion/Contraction
2009	\$59.34		1115.10			
2010	\$83.60	40.88%	1257.64	12.78%	18.79	-28.10%
2011	\$94.85	13.46%	1257.60	0.00%	13.26	-13.46%
2012	\$102.47	8.03%	1426.19	13.41%	13.92	5.37%
2013	\$108.47	5.86%	1848.36	29.60%	17.04	22.43%
2014	\$116.78	7.66%	2058.90	11.39%	17.63	3.46%
2015	\$118.04	1.08%	2043.94	-0.73%	17.32	-1.79%
Cumulative % ROR:		98.92%		83.30%		
2016	\$122.62	3.88%	NA	NA		

Source: FactSet

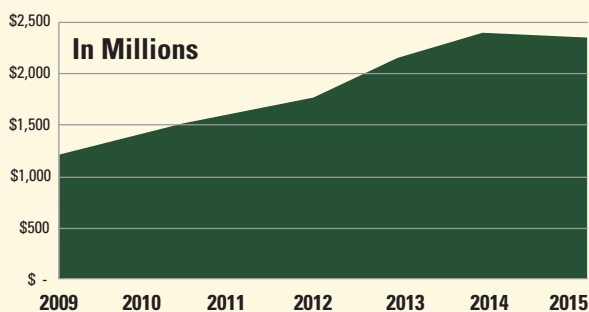
Looking Back Over the Past Ten Years

Every so often I look in the rear view mirror and try to gauge how we are doing. It has been an unprecedented time in the capital markets and sometimes merely surviving feels like an accomplishment. Have we made a few mistakes along the way? Absolutely, but my hat goes off to the members of the DVI Investment Committee who have provided the thought leadership and calm conviction during these frequent market disruptions. I guess our verified investment results will speak for themselves, but I am most proud of the portfolio risk reduction that has occurred during this time span. Managing risk is our signature competency and I don't envision that changing anytime in the near future.

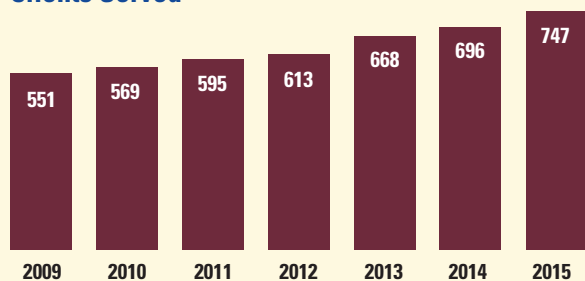
Key Firm Statistics *(Data as of December 31, 2015)*

- \$ 2.35 Billion in Total Billable Assets
- \$ 1.97 Billion Discretionary Assets Under Management
- Average Discretionary Client Size AUM: \$ 2.28 Million
- # of Client Relationships: 747
- # of DVI Associates: 25

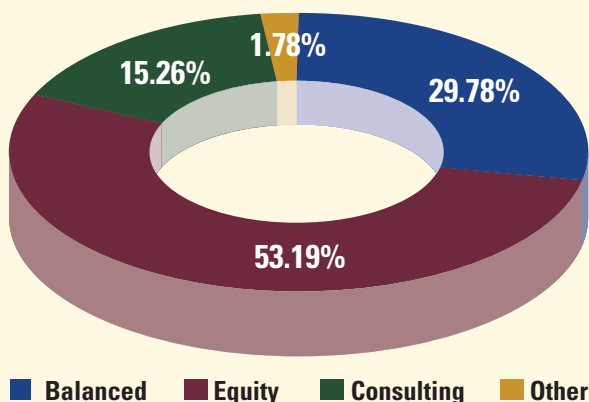
Total Billable Assets



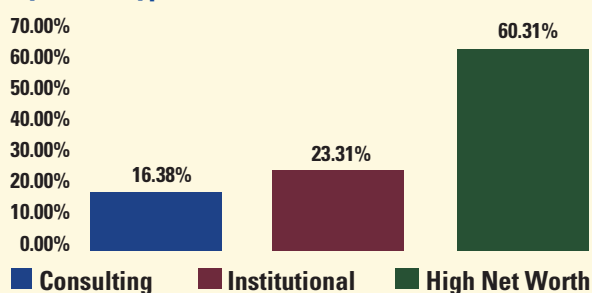
Clients Served



By Investment Strategy



By Client Type



2015 ACCOMPLISHMENTS

Continued Ownership Transition

■ The ownership "Glide Path" that we crafted and approved in 2014 was successfully implemented in 2015. This long-term ownership succession plan is a merit based annual process that transitions a portion of the remaining equity ownership from the Vaughan family to the management leadership team of DVI. In combination with prior one-time equity issuance initiatives, we now have a comprehensive ownership transition plan mapped out to the year 2021. The recycling of share ownership, both Vaughan family and insider, is an important element in the future success of the company. Our ability to attract and retain the best and the brightest and to maintain DVI's unique partnership culture is predicated on all shareholders' willingness to transfer share ownership to the next generation of firm leadership.

Firm Governance

■ Back in 2010, we embraced the idea of creating a best-in-class fiduciary Board for DVI with plans to add three independent directors. Very few privately held asset management firms had gone down this path, most that I am familiar with adopted purely advisory Boards with very little input or control. We tacked in the opposite direction, as it was our belief that knowledgeable objective feedback was an invaluable resource to our management team. We couldn't be more pleased with our current group of independent directors, whose time and talent we have leveraged to our benefit. As we look back over the past few years, we are convinced more than ever that we made the right move and our plans are to add an additional independent director in early 2016.

Human Capital

■ **Stephen K. Hinrichs, CFA** was promoted to become DVI's first Director of Investment Research. Steve is a veteran of the firm, joining us back in 1998 as a portfolio analyst and has excelled in both research and portfolio management responsibilities in recent years. He will be working with Chief Investment Officer Brian A. Christensen, CFA, to establish the research priorities and deliverables for DVI's portfolio of investment strategies.

■ **Margaret L. Rogers** joined the firm as our Relationship Manager in the Winter Park, Florida office. Maggie has nearly ten years of experience in the financial services industry in addition to her academic achievements at both Emory University and the University of Florida. She is well versed in both investment management and financial planning topics and will serve as the primary day-to-day contact for our clients in the Florida marketplace.

■ **Kathryn J. Planck** is our most recent hire coming to DVI in December of 2015. Katy has joined our expanded Client Service team located in the Peoria, Illinois office and will provide additional operational capacity and support. Katy has a solid background in the financial services industry most recently serving as a retirement plan conversion specialist with Country Financial.

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OFFICERS & SHAREHOLDERS

Lawrence "Will" 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

Michael A. Price
Chief Administrative Officer

Stephen K. Hinrichs, CFA
Director of Investment Research

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 "Will" 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

Quiet Quality

DVI

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2015 ACCOMPLISHMENTS *(continued)*

Strategic Plan Execution

■ The bottom line has always been that we wanted to build something very special. A firm rooted in the concept of "Doing the Right Thing" on behalf of our clients versus a traditional business model in which big was always better and rapid growth always preferred over incremental improvement. As we address strategic planning, our outcomes always seem to be more about continuous incremental improvement rather than a "Giant Leap for Mankind" type of attitude. 2015 was no different in that regard. However, unique to this past year, many of the initiatives undertaken ended up being framed as multi-year initiatives with 2015 being focused more on assessment and evaluation rather than full implementation. So from a deliverables standpoint, much of our efforts over the past year will not be visibly apparent to our stakeholders until 2016.

Technology Initiatives: Enhancing our understanding of how all of our customer and portfolio management data is stored and developing skills that will allow us to gain more flexible access to this information will enhance both the client experience and our ability to effectively manage the business. By mid-year 2016, two outcomes of this initiative will become visibly apparent. One, a new enhanced client quarterly report package and two, a new secure client portal as part of the redesigned DVI website.

Organizational Chart: On the human capital front, we spent a good part of the year assessing and analyzing our current organizational chart, trying to determine what sort of enhancements or reconfigurations would make sense for the future. Out of this process came several outcomes, none more visible than our move to create a Director of Investment Research position. We determined that our research efforts needed additional depth and capacity and we are committed towards further building out our capabilities within this functional area.

Investment Processes and Procedures: We have always been intrigued by the concept of creating a pooled investment vehicle for our clients, allowing access to our value and income equity strategy under circumstances when individual security portfolios are not cost effective or feasible. Our goal is not mass distribution, but an efficient investment vehicle that would enable us to assist with client related smaller investment sums. We are determined to build out this new capability in 2016.

Client Experience: We often use the term "Year in the Life" to describe DVI's initiative to improve the processes and procedures that support all that we do for our clients. Not only do we desire to improve the implementation of our core services, but to think through systematic enhancements to the menu of ancillary services that we added over the years. This is one of the most complex and far-reaching initiatives that we have embarked upon in years and we are optimistic that we will make real progress in the coming year.

Philanthropy

■ A big part of DVI's culture is a commitment towards giving back, a legacy left to us by DVI's founder. In addition to our signature event, DVI's Hike for Hunger, countless hours of volunteer time are committed by the associates of DVI to a number of worthy charities. We are pleased that DVI's Board once again authorized an additional investment into the David J. Vaughan Charitable Fund. It is our hope that in the future a permanent endowed fund would be available to support non-profit organizations in the communities that we serve.

