

DVI

DAVID VAUGHAN INVESTMENTS

OUTLOOK
ANNUAL INSIGHTS



THOUGHTS FROM THE BALCONY

After nearly 65 years of collective experience of managing the financial assets of others, we have both observed and have been directly impacted by a tremendous amount of disruption and change in the investment industry: some good and frankly, some not so good. We



often kid one another that we have become Statler and Waldorf, the two elderly Muppet characters who reside in a theater balcony and provide their cantankerous and unfiltered perspective on those things going on around them.

Increasingly, one of our great frustrations is that investors, in general, tend to lump together investment firms as if they were one homogeneous service provider, with very little to differentiate one from another. We cannot argue with the fact that we all invest client money, but in most instances, that is where the similarity both begins and ends.

We often describe DVI as a manufacturer as we attempt to articulate the investment process that goes into our equity or balanced investment strategies. Rather than rely on off-the-shelf investment products, DVI builds proprietary investment solutions utilizing individual securities.

Increasingly, the description of DVI as a manufacturer goes well beyond simply investment management. The cultural DNA of DVI is to hire problem solvers who have the intellectual aptitude and experience to manufacture innovative financial solutions to solve the complex needs of our clients. This thought leadership and the toolbox of ancillary services that goes along with it have become meaningful contributors to the overall DVI value proposition.

And it is important to add, these solutions have a singular focus: addressing our clients' needs first and foremost. We never operate with a self-serving agenda. At DVI, our mantra is, "do the right thing." For others with different motivations, that may seem to be a fuddy-duddy concept. For us however, it truly reflects the essence of who we are and differentiates us from our industry peers.



Will Williams
Chairman, President & CEO



Brian Christensen, CFA
Senior Vice President & CIO

Handwritten signatures of Will Williams and Brian Christensen in blue ink.

INVESTMENT STRATEGY – Themes from 2019

The Concept of Mean Reversion

2019 was a phenomenal year for the U.S. stock market and closed out a decade where common stock investment returns far exceeded long-term historical averages. At year's end, the market had enjoyed a 13.56 percent annualized rate of return or a cumulative gain for the decade of over 250 percent.



In hindsight, it should not have been that big of a surprise. In the prior ten years, often described as the "Lost Decade", the S&P 500 actually lost value, returning an annualized negative 0.95 percent. DVI remains a firm believer in mean reversion where index returns vary around a long-term average. So, after disappointing below-average returns, statistically it does not seem unreasonable for those results to be followed by extraordinary gains.

Know What You Own

"Know What You Own" has always been a meaningful catchphrase for DVI. The stocks of only five companies - Apple, Microsoft, Facebook, Amazon, and JP Morgan - contributed to nearly one quarter of the S&P 500's outsized performance in 2019. 296 of the 508 stocks in the S&P 500 actually underperformed the index. This is most apparent in the results of the equal weighted index that trailed the market cap weighted index by almost one-third.



The Technology sector was by far the best performing sector in the S&P 500 returning 50.29 percent. Individually, Apple and Microsoft represent 40 percent of the entire S&P Technology sector. Investors who are allocating new cash to an S&P Technology sector index fund, are now placing 40 percent of their money in just two companies – each of which have returned 135 percent over the past three years. As markets have moved higher with little headwind, the importance of "knowing what you own" is simply good risk management. The push of assets into passive investment strategies, where investors do not fully know what they are buying and how diversified those holdings truly are, remains an ongoing concern.

Patience and Discipline

Our long-term investment time horizon and the fact that we embrace the concept of company investing versus stock trading allows us to stay the course during temporary price declines of individual positions.

Many of the companies that were portfolio laggards in 2018 proved to be worth the wait as they rebounded strongly in 2019. This turn of events was not isolated to any one particular industry group or economic sector but occurred as company specific fundamentals improved beyond Wall Street's expectations.

These dramatic reversals of fortunes remind us that the market tends to overshoot, driven

more by investor emotion than fact. The lesson learned? Exercising a bit of patience and discipline has taught us that not every laggard position should be discarded from the portfolio. In fact, maybe those are the best purchase decisions for the following year.

2019 MILESTONES

Developing a Culture of Accountability

In 2019, we began the strategic initiative of embracing accountability throughout our organization. It was clear to us that enhancing firmwide accountability would have several positive outcomes including:

- Improved overall business execution and employee engagement
- Expanded opportunities for learning and career growth among all Associates
- Increased transparency of project status resulting in a higher project completion rate

This past year was our initial step in this process with a more comprehensive and refined effort to be rolled out in 2020. We recognize we have room for improvement and enhancements over time will be made, but we know we are moving in the right direction with this new management tool.

Space Needs and Five-Year Staffing Plan

DVI ended the year with 32 Associates and our human capital plan for 2020 includes the addition of a five Associates for the full year. As



we took a stab at forecasting future growth over the next five years, both in our Central Illinois and Central Florida offices, we came to the practical conclusion that we are simply running out of office space.

The partners of DVI will build a new separate building, "the David J. Vaughan Annex," that will house additional conference rooms, restrooms and employee group meeting areas. This new addition will be physically linked to our main office building but will be nestled back into the woods of Forest Park. With the addition of this new space, we will now have the flexibility to re-design existing office space and common areas into more efficient group work spaces.

"Excuse Our Mess" signs will be a fact of life for most of 2020, but we hope the new square footage and new configuration will be a welcome addition!

DVI/MCB Partnership Update

Our partnership with Morton Community Bank (MCB) continues to move forward as we celebrated our second anniversary in the fall of 2019.

Beyond a source of long-term patient capital to assist DVI in their ongoing ownership succession plan, there are strategic underpinnings to the partnership as well. All along it was DVI's desire to

have access to a greater toolbox to serve our clients. Through our collaboration with MCB, we now have access to a full range of trust services provided by MCB Trust & Wealth Management. In addition, DVI has been able to leverage MCB's commercial banking expertise and design custom lending solutions to meet the specific needs and circumstances of DVI's high-net-worth client base.

There will certainly be more to come as the partnership evolves and matures, but the shared goal of creating innovative financial solutions for our valued clients is a common thread between our two organizations.



2020 FORWARD LOOKING PRIORITIES

The Importance of Human Capital

As DVI the business continues to grow, the list of objectives over the years have increasingly become dominated by one subject area: human capital. In the asset management business, our most valuable asset walks out the door each and every day!

It never occurred to us twenty years ago that we needed to be as good a manager of people as we were a manager of financial assets. Maybe naively, we never contemplated that in the not-so-distant future we would have nearly 40 Associates as part of the DVI team.

As a consequence, some of our highest priority initiatives for 2020 are as follows:

- Supervisory skills development
- Leadership succession planning
- Ongoing ownership transition
- Executing our 2020 staffing plan and formally defining for the first time the "DVI Way"

And even though DVI will attempt to measure our success or failure on these initiatives, the ultimate judges will be our valued clients, through the client experience that they receive and their faith and confidence in our ability to be their trusted financial advisor for decades to come.

GOVERNANCE

At DVI, we are strong believers that superior governance contributes to superior results. It is not lost on us the distinct advantage of maintaining a Board of Directors dominated by Independent Directors. They are conflict free, and their sole focus is representing and protecting the long-term interests of all DVI stakeholders.

We are most appreciative of our Board of Directors for their guidance, professional insights and ongoing support. They are making a positive impact on DVI and are significant contributors to DVI's ongoing success story, "A Firm Built to Last."

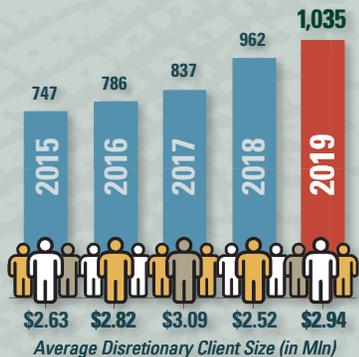
KEY FIRM STATISTICS¹

Stability



Client Statistics

Number of Discretionary Clients



Five-Year Average Client Retention Rate

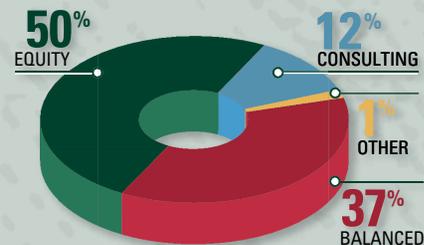


Experience & Expertise



Assets Under Advisement

Investment Strategy Mix AUA%



Total Discretionary Assets Under Management



¹ As of 12/31/2019

² Discretionary AUM plus DVI Consulting Group assets

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

Michael A. Price
Chief Financial Officer & CCO

Beth W. Salmon, CPA
Vice President of Operations

Stephen K. Hinrichs, CFA*
Director of Investment Research

Jeff J. Huizenga, CFP®, ChFC
Director of Relationship Management

* DVI Capital Corp Shareholder

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