DAVENPORT
& COMPANY LLC
EST. 1863 • MEMBER: NYSE • FINRA • SIPC

# 2011 Annual Notice to Clients

## 1. Margin Disclosure Statement

Securities purchased on margin are used by Davenport & Company LLC (Davenport) as collateral for the loan to you. If the securities in your account decline in value, there is a corresponding decline in the value of the collateral supporting your loan and, as a result, Davenport can take action, such as issue a margin call and/or sell securities or other assets in any of your accounts held at Davenport in order to maintain the required equity in the account. It is important that you fully understand the risks involved in trading securities on margin.

These risks include the following:

- You can lose more funds than you deposit in the margin account.
- Davenport can force the sale of securities or other assets in your account(s).
- Davenport can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.
- Davenport can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

## 2. Availability of Statement of Financial Condition

Davenport provides you with periodic reports of its Statement of Financial Condition, as well as its Annual Report, by making them available on its Internet website. Davenport asks that you visit www.investdavenport.com to obtain a current Statement of Financial Condition. Hard copy versions of the full Statement of Financial Condition may be obtained by calling (800) 846-6666. Upon receipt of your request, the Statement of Financial Condition will be mailed to you promptly at no charge.

## 3. Net Capital Requirement

Davenport is required by the SEC and FINRA to maintain minimum net capital equal to the greater of $1,500,000 or 2% of aggregate debit balances arising from customer transactions. At December 31, 2010, Davenport's net capital of $21,158,889 was 42% of aggregate debit balances and was $19,658,889 in excess of the minimum net capital required.

## 4. Privacy Pledge to Customers

Davenport considers the protection of sensitive information to be a foundation of customer trust and a sound business practice. We employ physical, electronic, and procedural controls, and we adapt these controls to respond to changing requirements and advances in technology. Our Privacy Pledge applies to only current or former individual customers who obtain financial products or services from Davenport primarily for personal, family or household purposes. It does not apply to partnerships, corporations, trusts or other non-individual customers, clients, or account holders.

Davenport does not disclose any nonpublic personal information about current or former individual customers as defined above to anyone, except as permitted or required by law. To appropriately service your account(s) and better understand your needs, we collect nonpublic personal information about you from application forms you complete, and other information provided by you, whether in writing, in person, by telephone, electronically, or by any other means, such as your name, address, social security number, assets, income and debt. Additionally, we collect information about your transactions with Davenport, such as your account balances, trading activity, payment history, and parties to transactions.

We may disclose the information we collect, as described above, to companies that perform marketing services on our behalf or to other financial institutions with whom we have joint marketing agreements. We have agreements in place with these companies that prohibit them from disclosing or using the information except as necessary for carrying out the purposes for which we disclosed the information.

We also may disclose nonpublic personal information about you to nonaffiliated third parties that assist us in servicing your account(s); to securities regulators as required by laws, rules and other applicable legal requirements; to others pursuant to subpoena; pursuant to your written request, or as otherwise permitted or required by law.

We restrict access to your nonpublic personal information to those employees and agents who need to know this information. In addition, we maintain physical, electronic, and procedural safeguards to protect your nonpublic, personal information.

As with any business policy, we must respond to changes in the law or in our business needs. Accordingly, we reserve the right to modify our Privacy Pledge as permitted or required by law.

## 5. Rights Concerning Electronic Transfers

As required under Regulation E of the Board of Governors of the Federal Reserve System, the following is notification of your rights concerning electronic transfers processed in your Davenport account.

In case of errors or questions about your Electronic Transfers, call or write to:

Davenport & Company LLC
Attn: Supervisor of Operations/Money Market Area
Post Office Box 85678
Richmond VA 23285-5678
Tel: (804) 780-2000 Toll-free: (800) 846-6666

If you believe your statement contains an incorrect electronic transfer, or if you need more information about an electronic fund transfer listed on the statement, you must contact Davenport no later than 60 days after we sent the first statement on which the problem or error appeared. In your communication, please:

- Indicate your name and account number.
- Describe the error or the transfer you are unsure about and explain why you believe it is incorrect, or why you need more information.
- State the dollar amount of the suspected error. If your concern is made orally, you may be required to document your question or complaint in writing within 10 business days of the oral notification.

Davenport will disclose the results of its investigation no later than 10 business days from the date your question is received, and any error will be corrected promptly; however, if Davenport requires more time for its investigation, a period of up to 45 days may elapse while your complaint or question is researched. If an extended period of research is decided upon, your account will be credited, within 10 business days of the decision, for the amount in question, in order for you to have use of the funds during the time it takes for the investigation to be completed. If you are asked to put your question or complaint in writing and it is not received by Davenport within 10 business days, your account may not be credited. If it is determined that there was not an error, you will receive a written explanation three business days from the date the investigation is completed. You may ask for copies of the documents used in the investigation.

If you have any questions regarding the above message, please contact your Investment Executive, or call the Operations/Money Market Area at (804) 780-2000 or (800) 846-6666.

## 6. Order Routing Information Pursuant to Securities and Exchange Act Rule 606

Davenport is committed to seeking the best possible executions for its customers' orders. To accomplish this, customer orders are directed to various market centers that Davenport believes provide superior executions. Upon written request, Davenport will identify where a particular customer order for execution was routed during the past six months along with the execution time and whether the order was directed or non-directed.

In addition, quarterly reports are prepared pursuant to Rule 606 that identify where customers' non-directed orders in covered securities are sent for execution, along with the nature of Davenport's relationship with the various market centers that received those orders. The most recent quarterly report that details this order routing information is available on Davenport's website at www.investdavenport.com, and a written copy will be furnished upon request.

**7. Payment for Order Flow Pursuant to Securities and Exchange Act Rule 607**

Davenport does not receive payment for order flow.

**8. Penny Stocks or Low Priced Securities**

Investing in "penny stocks" and low-priced securities (generally, equity securities trading for less than $5 per share that are not listed on major exchanges or the Nasdaq Stock Market) is considered risky. There is often limited reliable information available about the underlying company, price information may be inconsistent or unavailable, and the investment may be highly illiquid should you decide to sell.

Davenport generally does not recommend these types of investments and cautions its customers that we may refuse to accept orders for them when we feel it may not be prudent, and proceeds from such transactions may be delayed until the position is fully "cleared" by the transfer agent.

For more information, about penny stocks, contact the Office of Filings, Information and Consumer Services of the U.S. Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549, (202) 272-7440. Further information is posted on our website. If you are viewing this version online, click here.

**9. FINRA BrokerCheck Brochure**

BrokerCheck is a free tool to help investors research the professional backgrounds of current and former FINRA-registered brokerage firms and brokers. To obtain information or a brochure you may utilize the tool interactively at www.finra.org or call toll-free (800) 289-9999.

**10. Customer Account Information**

In order to properly service your account, it is important that we have current information on file regarding your investment objectives, risk tolerance, and financial situation. Please notify your Investment Executive promptly of any material changes in your account information so that we can update our records.

**11. Investment Advisory Services Brochure**

In accordance with SEC requirements, Davenport has prepared a written disclosure document that describes our investment advisory programs and discloses potential conflicts of interest that may exist between Davenport and our clients. This document is updated periodically to reflect changes in the details of our advisory programs.

If you would like a current copy of the disclosure document, please contact your Investment Executive or Davenport's Compliance Department at (800) 846-6666.

**12. Account Inquiries**

All inquiries or concerns regarding your account or its activity should be directed to the branch manager of the office servicing your account. You may also want to contact our Compliance Department:

Davenport & Company LLC
Attn: Compliance Department
Post Office Box 85678
Richmond VA 23285-5678
Tel: (804) 780-2000 Toll-free: (800) 846-6666

**13. Relationships with Third Parties**

Like many securities firms, Davenport receives payments from third parties whose products we distribute, including mutual fund companies, cash sweep products and insurance companies. Payments from mutual funds, cash sweep products, and insurance companies may include sales loads, rule 12b-1 fees, sub-transfer agent fees for maintaining customer account information and providing other administrative services for the mutual funds, shareholder accounting fees and networking fees and reimbursements for education, marketing support and training-related expenses.

In addition, Davenport has entered into a "revenue sharing" arrangement with the adviser and distributor of the cash sweep products used for cash management services. Davenport believes that all payments are in accordance with industry rules and regulations as currently in effect. The maximum aggregate payment that Davenport receives from cash sweep products (including an adviser or distributor thereof) ranges from 0.00% to 0.88% annually, depending on fund type and share class.

Please contact your Investment Executive if you have any questions regarding such relationships, payments, or the extent to which your Investment Executive benefits . You should also refer to the prospectuses and Statements of Additional Information of the mutual funds, cash sweep products, and insurance products in which you invest for further information regarding such payments.

**14. Account Protection**

All accounts carried by Davenport & Company are protected by the Securities Investor Protection Corporation (SIPC) up to $500,000 per eligible account, subject to a $250,000 limit on cash balances pending investment. Further information about SIPC, including the SIPC brochure, may be obtained by calling SIPC at (202) 371-8300 or by visiting the SIPC website at www.sipc.org.

Cash balances deposited into the IDP Account sweep option are not covered by SIPC. These cash balances are insured by the FDIC, up to applicable FDIC limits. The maximum standard FDIC deposit insurance limit is currently $250,000 per customer, per bank. Additional information about FDIC coverage may be obtained by phone at (877) 275-3342 or by accessing the FDIC website at: www.fdic.gov. For further details about the IDP ask your Investment Executive for a copy of the IDP Terms and Conditions.

**15. Business Continuity Plan**

Davenport maintains a Business Continuity Plan ("BCP"), which documents procedures to assess and respond to a business disruption. The BCP accounts for a variety of interruptions including those that could solely affect Davenport, or a building, business district, city or region in which Davenport conducts business. The BCP provides that the Business Continuity Response Team ("BCRT") assess the severity of any disruption and activate the Recovery Team members and procedures accordingly.

Davenport maintains a back-up data and communications facility that is geographically separated from our primary facility. Should there be a disruption to our primary facility or business district, Davenport can relocate critical personnel to the back-up facility to maintain communication with clients and provide access to cash and securities. Further, each branch office has been assigned primary and secondary back-up branches where employees can report to conduct business during an interruption.

If a business disruption occurs, Davenport intends to continue to conduct its business and minimize the recovery time necessary to resume normal operations. In the unlikely event the BCRT determines that Davenport is unable to continue business following a significant disaster, the BCRT would implement procedures to ensure client's access to funds and securities.

Modifications to the BCP are made as warranted based on changing circumstances and needs. Any resulting revisions to this disclosure are included on our website at www.investdavenport.com. Alternatively, clients may request a copy of the most recent disclosure by mail.

In the event that Davenport must implement its BCP, clients may contact us at (800) 913-4685 or view our emergency website at www.investdavenport911.com.

### 16. Systematic Mutual Fund Transactions

Customers who have established Electronic Automated Systematic Investments (EASI Plan) for their mutual fund transactions will receive written information describing the details of each transaction effected pursuant to the EASI Plan on their monthly and/or quarterly account statements in lieu of receiving immediate trade confirmations. Specific information regarding individual transactions processed pursuant to the EASI Plan will be furnished at any time upon written request.

### 17. Important Information on Mutual Funds

Mutual Funds offer the benefits of diversification, professional management, liquidity, choice and convenience. Before you invest, it is important to have a general understanding of mutual funds and to be aware of the costs associated with them.

Although this guide will give you a general understanding of mutual fund costs, each fund's cost structure is different. Also, the overall cost of investing in mutual funds will vary depending on whether you purchase funds in a traditional brokerage account or investment advisory account. For more information about a mutual fund's costs, you should read the fund's prospectus and discuss any questions you have with your Investment Executive. Together, you and your Investment Executive can select the appropriate mutual funds, share class, and type of investment account that best matches your unique investment goals and objectives.

*Mutual Fund Terminology*

Net Asset Value (NAV): The value of one fund share generally is calculated at the end of each business day. The NAV is determined by totaling the value of the fund's assets, deducting from the total all expenses, and dividing this figure by the number of shares outstanding. A fund's NAV will increase or decrease with market fluctuations.

Asset-based fees: The operating expenses and service fees associated with managing a mutual fund. The primary asset-based fee is the management fee, which is an ongoing fee charged by a fund's investment adviser, and a marketing and distribution fee, commonly referred to as a "12b-1" fee. These ongoing fees are deducted from the fund's assets and may be used to pay for marketing costs or to compensate brokerage firms for maintaining the accounts of current shareholders. By reducing the amount of a fund's assets (that otherwise would be available for investment), the fees may reduce the return on your investment. Most funds, regardless of share class, charge asset-based fees. Share classes with back-end sales charges (e.g., Class B or C shares), often have higher asset-based fees than share classes with front-end sales charges (Class A); however, share classes with back-end sales charges may, in some later year, convert to a share class with lower asset-based fees.

Expense Ratio: The percentage of a fund's assets used to pay for operating expenses, management fees, 12b-1 fees, and administrative expenses incurred by the fund, with the exception of transaction costs. These expenses are deducted from the fund's assets; therefore, they lower the value of your investment. A fund's expense ratio will help you compare the annual expenses amongst various funds.

- When analyzing expenses, consider the fund's objective and its size.
- Certain funds, such as foreign equity funds, have higher costs; and, therefore, higher expense ratios.
- On average, smaller funds may have higher expense ratios than larger funds because they do not benefit from economies of scale.

*Understanding Class Shares*

A single mutual fund may offer more than one "class" of its shares to investors. Each class will invest in the same portfolio of securities and will have the same investment objectives and policies; however, each class will have different shareholder services and/or distribution arrangements with different fees and expenses; and, therefore, different performance results.

When deciding which share class is best suited for your individual needs, investors should carefully consider the following questions:

- How long do you plan to hold the fund?
- What is the size of your investment?
- Do you or your family members have existing holdings in this fund family?
- Do you plan to take any distributions in the near future?
- Does your purchase qualify for a breakpoint (discussed below) discount?
- What are the expenses that you will pay for each share class?
- Are you purchasing the fund through a traditional brokerage account, fee-based brokerage account or investment advisory account?

Based on the answers to questions such as these, you may find one share class more appropriate than another. The most common classes of mutual funds are "Class A," "Class B," and "Class C." Although most mutual funds adhere to the following general definitions, it is important to note that share classes may differ among funds. You should review each mutual fund's prospectus and Statement of Additional Information for specific information regarding the fees and expenses associated with each mutual fund. Both the prospectus and Statement of Additional Information are available from your Investment Executive and from the respective fund companies.

***Class A shares*** usually charge a one-time, front-end sales charge or "load" that is deducted from your initial investment. In addition to the front-end sales charge, Class A shares also impose asset-based fees. The asset-based fees for Class A shares are often lower than those charged for Class B and Class C shares, which generally means the annual expense ratio for Class A shares tends to be lower. Class A shares may offer a discount, called a "breakpoint," on the front-end sales charge if you:

- Make a large purchase within the same fund family.
- Already hold other mutual funds offered by the same fund family (Rights of Accumulation).
- Commit to purchasing mutual fund shares over a specified period of time (Letter of Intent).
- Have certain family members who hold funds in the same fund family.
- Usually there are several breakpoint levels. The more money you invest, the greater the breakpoint reduction. Below is a sample breakpoint schedule.

SAMPLE BREAK POINT SCHEDULE

| | |
|---|---|
| <25,000 | 5.00% |
| 25,000 but less than 50,000 | 4.25% |
| 50,000 but less than 100,000 | 3.75% |
| 100,000 but less than 250,000 | 3.25% |
| 250,000 but less than 500,000 | 2.50% |
| 500,000 but less than 1,000,000 | 1.50% |
| 1,000,000 and above | 0.00% |

***This is merely a sample schedule of Class A Shares.***

Breakpoint Example:

An investor decides to purchase $15,000 in Class A shares. Using the sample breakpoint schedule provided, the investor would encounter a 5.00% sales charge. Therefore, $14,250 will be immediately invested and $750 will be paid as a fee and, therefore, will not be invested.

The breakpoints offered by fund companies vary. Mutual fund companies are not required to offer breakpoint discounts on front-end load funds, and breakpoint schedules are set by each fund company. Breakpoint schedules, if offered, will vary among fund companies. Please obtain a fund prospectus to review the breakpoints offered.

**Breakpoint Discounts**

It is important to understand the availability of breakpoint discounts because they may allow investors to purchase Class A shares at a lower price. Mutual funds typically provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales charge decreases. In some cases, the entire sales charge may be waived for investors who make very large purchases. Most mutual fund companies offer investors a variety of ways to qualify for breakpoint discounts on Class A share purchases. For example, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases, through "Rights of Accumulation," and based upon future purchases through "Letters of Intent."

Although we are providing general information on some of the various ways to qualify for a breakpoint, please keep in mind that all mutual fund companies do not have the same rules regarding the availability of Rights of Accumulation and Letters of Intent. Therefore, you should discuss these issues with your Investment Executive and review the mutual fund prospectus to determine the specific terms upon which a mutual fund company offers these privileges.

***Rights of Accumulation (ROA)*** may allow investors to reach a breakpoint by:

- Combining both the current and previous fund transactions made in the same mutual fund or different funds within the same mutual fund family.
- Including the value of holdings in accounts of certain related parties, such as a spouse or minor children.

Under their ROA policy, mutual fund companies typically allow investors to include existing holdings in multiple accounts, such as IRAs or accounts at other brokerage firms, to qualify for breakpoint discounts. Some fund companies may even allow holdings of all share classes including B and C shares to be included for the purposes of breakpoint calculation.

ROA Example:

An investor currently owns $18,000 of Class A shares in the XYZ Fund and wishes to purchase $10,000 of Class A shares in another fund offered by the same fund company. Using the sample breakpoint schedule the charge would be 4.25% on the $10,000 investment, not 5.00% (based on total aggregate amount of $28,000).

Breakpoints described earlier apply to ROAs.

***Letters of Intent (LOI)*** may be beneficial to investors who intend to invest a certain amount over a specified period of time (usually 13-months) and the total investment will be equal to or exceed the amount needed to qualify for a breakpoint discount.

Signing an LOI commits an investor to purchase a specified dollar amount of Class A shares within a defined period of time. If investors fail to invest the amount stated in their LOI, the fund will retroactively collect the applicable higher fee as indicated in the breakpoint schedule.

LOI Example:

An investor plans to purchase $50,000 worth of Class A shares over a period of 13 months (investing approximately $3,847 a month). Signing an LOI will entitle the investor to the $50,000 breakpoint for each purchase rather than paying the higher sales charge.

Additionally, some funds offer retroactive LOIs that may permit investors to use recently purchased funds to qualify for a breakpoint discount.

If you intend to make several purchases within a 13-month period, you should consult your Investment Executive and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

***Class B Shares*** typically do not impose a front-end sales charge; therefore, all of your money is immediately invested. Class B shares usually have higher asset-based fees than Class A shares. This means that your overall annual expenses (as measured by the total expense ratio) are usually higher, which will reduce the return on your investment.

If you sell your Class B shares within a certain number of years you may encounter a contingent deferred sales charge (CDSC). This means that you will incur a fee to sell your mutual fund. Typically, the CDSC is reduced each year you hold your shares and eventually is eliminated. Most Class B shares "convert" into Class A shares after a pre-determined time period. Once converted, these shares charge the same annual operating expenses as Class A shares. Therefore, Class B shares may be more suitable for long-term investors making smaller investments that would not be eligible for a breakpoint. In light of this, most fund companies have a maximum dollar amount for B share purchases.

Selling Class B shares during the period in which the CDSC applies can significantly diminish the overall return on your investment, especially when you consider the higher annual expenses charged on Class B shares.

***Class C Shares*** —The full dollar amount is immediately invested because typically these shares do not impose a front-end sales charge. However, Class C shares generally impose a contingent deferred sales charge (CDSC), usually 1%, if you sell your shares within a short time (usually one year) after purchase. Typically, Class C shares impose higher annual operating expenses than Class A shares primarily due to higher asset-based sales charges. Usually, Class C shares do not convert to Class A shares; rather, they continue to charge higher annual expenses for as long as the shares are held. Therefore, Class C shares may be more appropriate for investors with a short-term or uncertain holding period. Investors should recognize they are paying higher expenses for greater liquidity.

Class C shares may be less expensive than Class A or B shares if you have a shorter-term investment period, because you will pay little or no sales charge. If you hold your shares for a longer time period your total expenses will likely be higher than Class A or B shares.

When purchasing Class B or C shares, investors cannot take advantage of breakpoint discounts generally available on purchases of Class A shares.

**Other Sales Charge Waivers**

***Right to Exchange:*** Most mutual fund companies offer investors a right to exchange their holdings of one fund for another fund within the same fund family without incurring an additional sales charge. Various conditions and restrictions may apply, depending on the fund company. The prospectus will outline the terms governing whether or not an investor can avoid paying a sales charge on an exchange. Please note that an exchange may be considered a taxable event.

***Reinstatement Feature:*** Most fund companies allow investors who previously owned shares in a mutual fund to repurchase shares in the same fund (or in another fund within the same fund family) without paying an additional sales charge. Some restrictions may apply, such as time limitations in which the reinstatement privilege may be exercised (for example, within 90 days of the redemption). Depending on the terms stated in the prospectus, a CDSC paid by the investor at the time of sale may be reimbursed upon reinstatement.

Additionally, a limited number of fund families offer a NAV transfer privilege that allows investors to purchase shares at NAV if the monies being invested are the proceeds from the sale of shares of a different fund family on which the investor previously paid a sales charge.

**Investment Advisory Accounts**

Mutual funds may be purchased in certain investment advisory accounts, where available, with no front-end sales charge or CDSC. (A short-term redemption fee may apply.) Instead of paying a sales charge on each transaction, you pay an annual fee to Davenport based on a percentage of the value of the assets held in the account in addition to the mutual fund's annual expense ratio.

Many mutual fund companies offer share classes other than A, B, or C for use in fee-based advisory programs. The share classes available to fee-based accounts may have different cost structures and characteristics from those described above. The total cost of investing and holding mutual fund shares through a fee-based account may be more or less than investing in mutual fund shares in a traditional brokerage account, depending on the amount of the asset-based fee, the specific mutual fund shares in which you invested and the level of activity in your account. Your Investment Executive will be happy to answer any questions you may have about investing in mutual funds through an investment advisory account.

**Davenport & Investment Executive Compensation**

In accordance with standard industry practice, Davenport and its Investment Executives receive compensation from the mutual fund companies in which you invest. Typically, compensation is received at the time a purchase is made. This amount may vary among fund families and likely will be different depending on the share class purchased. Additional ongoing compensation (commonly known as "residuals" or "trails") may be received if mutual fund shares are held for more than one year. Similar to the initial compensation received, the amount of the residual compensation likely will vary by fund company and by share class. Please feel free to ask your Investment Executive how he or she will be compensated on any particular transaction.

**Stay Involved and Be Proactive**

Determining which share class is most suitable for you is an ongoing process. Therefore, we encourage you to regularly practice the following:

- Review a copy of the fund's prospectus
- Carefully consider your investment time horizon
- Understand how breakpoints work
- Communicate with your Investment Executive about changes in your objectives and holdings

To learn more about mutual funds and their costs, visit the following websites:

US Securities and Exchange Commission at www.sec.gov, FINRA at www.finra.org, the Securities Industries and Financial Markets Association at www.sifma.org or the Investment Company Institute at www.ici.org.

Your Davenport Investment Executive is available to provide you with any additional information you may need or to answer questions you may have regarding investing in mutual funds.

DAVENPORT
& COMPANY LLC
Est. 1863 • Member: NYSE • FINRA • SIPC

901 E Cary Street Ste 1100 Richmond, VA 23219
(800) 846-6666 www.investdavenport.com