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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Actively Managing an All-Cap Fund by Being Flexible, Different and Disciplined

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PAUL G. CONDRAT, CFA, is co-portfolio manager of the Davidson Multi-Cap Equity strategy. Paul has twelve years of investment experience, having previously served as a Senior Research Analyst supporting all Davidson's equity strategies. Prior to joining the firm, Paul worked with Bainbridge Capital in San Diego as a Business Analyst. He serves on the Board of Directors, as well as the Finance Committee, for InvestED, a public non-profit organization serving secondary school students. Paul is a member of the CFA Society of Seattle and CFA UK. Paul earned a BBA in Finance and Marketing from Gonzaga University.

SECTOR — GENERAL INVESTING

TWST: Tell me about the firm and its philosophy as a whole.

Mr. Clancy: Sure. Davidson Investment Advisors is a division of D.A. Davidson Companies, which is headquartered in Great Falls, Montana. Davidson Investment Advisors is a registered investment adviser. It's been around since 1975. We have a little over $2 billion worth of assets under management, and manage both equity and fixed income strategies. We also have a mutual fund, the Davidson Multi-Cap Equity Fund. We manage money for individuals, institutions and advisers. About 70% of our assets are with individuals and advisers, and the other 30% is with institutions.

We feel that one of the things that sets us apart from other firms is our investment team structure; we actually view ourselves as an investment team, not a committee. All the members of our investment team are contributors to the performance of the fund; however, Paul and I have explicit decision rights and are accountable for the performance of the fund. The goal of the team concept is to leverage the benefits of an investment committee — by valuing different perspectives, different approaches to valuation and different viewpoints that you get from a committee — while eliminating the baggage you get with one, which is the potential for a lack of accountability and responsibility for performance.

We really try to encourage cross-pollination in terms of ideas and appreciation for risk, and we are all incentivized to do that. By that I mean, for Paul and I, about 75% of our compensation is based on the performance of the fund, but the other 25% is actually based on the performance of our firm's other strategies.

Mr. Condrat: Another unique thing about our culture and our team is we collaborate across equity and fixed income. That collaboration provides some unique perspectives and awareness, and we've seen that really benefit us as portfolio managers over time.

TWST: Can you talk specifically about the investment strategy for the Davidson Multi-Cap Equity Fund?

Mr. Clancy: The Davidson Multi-Cap Equity Fund is a long-only, actively managed, all-cap domestic equity portfolio. It is designed to be an investor's only domestic equity allocation. We have three tenets for the fund: be flexible, be different and be disciplined.

Flexibility, we believe, is where we can add the greatest amount of value by investing where we see the greatest opportunities in the market. The way we think about it is: I have a dollar today — where am I going to get the greatest rate of return for that dollar? Is it in small caps, in large caps? Or is it in the bank industry or in tech stocks? We emphasize flexibility, which we view as the greatest attribute that you get through an investment in an all-cap equity strategy.

The second point is about being different. We're active managers. We are big believers that in order for us to beat the market, we have to be different than the market. Evidence of this can readily be observed in our portfolios. All the strategies at Davidson Investment Advisors strive to maintain an active share at or above 80%. For us specifically, we're currently around 83%.

Now, when you talk about giving a manager a lot of flexibility — and talk about being different than the market — you're also talking about risk. However, we manage that risk through a very disciplined portfolio-construction process. That involves several things. One, our fund is always fully invested. We're not market timers. We add our value through our specific stock selection. Our goal is to have 80% of the fund's performance determined by security selection as opposed to sector or factor allocation.

Two, we will consistently be diversified across all economic sectors. At times, we may emphasize or de-emphasize a particular sector based on our outlook, but we are not sector rotators. We believe not being invested in a particular sector adds uncompensated risk. Lastly, we size our positions commensurate with risk. Therefore, our more risky investments will be smaller positions within the portfolio, whereas the larger, more established, less volatile companies will be our larger positions.

Some managers will point to the top 10 of their portfolios and say, "Hey, those are our 10 best ideas." For Paul and me, our best ideas are the 48 names that sit in the fund today. It's not necessarily our top 10. Our top 10 is based more on a risk-management process than simply upside.

TWST: How many assets are in this fund currently?

Mr. Clancy: The fund currently is around $100 million.

Highlights

Brian P. Clancy and Paul G. Condrat discuss Davidson Investment Advisors and the Davidson Multi-Cap Equity Fund. Mr. Clancy and Mr. Condrat believe their investment team structure is one of the things that sets them apart. They leverage the benefits of an investment committee, such as the value of differing opinions, while maintaining a collaborative team focus and accountability among its members. The Davidson Multi-Cap Equity strategy is a long-only all-cap domestic equity fund that is actively managed. Being flexible, different and disciplined are the three tenets of the fund. Mr. Clancy and Mr. Condrat manage risk through their stock-selection process. They keep their fund fully invested and diverse across all sectors.

Companies discussed: FleetMatics Group PLC (NYSE:FLTX); Level 3 Communications (NYSE:LVLT); Informatica Corporation (NASDAQ:INFA); Oracle Corporation (NYSE:ORCL); Archer Daniels Midland Company (NYSE:ADM); International Business Machines Corp. (NYSE:IBM); Qualcomm (NASDAQ:QCOM) and Silicon Laboratories (NASDAQ:SLAB).

TWST: Talk about where you are underweight and overweight, and why.

Mr. Condrat: When you talk about overweight and underweight for us in an all-cap strategy, there are a couple of ways to break that down.

TWST: Where do you have the highest percentages of investment by sector?

Mr. Condrat: From a sector standpoint, we've been most overweight in technology, energy and industrials. The energy sector, more recently, has been interesting. We were equal-weight in that area, but given recent volatility in that segment of the market, we are now overweight because our investments there did better on a relative basis. We're still comfortable being overweight in that group. Where we've been more underweight is in utilities, health care and consumer staples.

One thing I would like to point out is, as an all-cap manager, the characteristics of the portfolio will change over a market cycle due to changes in the fund's investments in large-cap, midcap and small-cap companies. Currently, we are overweight the small-cap and midcap areas of the market, and have been for the last several years because that is where we see the greatest investment opportunities in the market.

Mr. Clancy: That brings up a good point. A great advantage of an all-cap equity strategy is the ability to hold names as they grow out of the small-or-mid cap range. Our small caps have grown up into midcaps, and our midcaps have grown up into large caps. However, as an all-cap manager, we are not forced in any way to have to sell those investments just because they happen to change their classification from small cap to midcap.

TWST: Why are you so heavy in technology?

Mr. Condrat: It really just comes down to the growth opportunity that we're finding within the companies that we own there. For us, there is a good balance of growth opportunities and reasonable valuations. We still find that most of our recent additions to the portfolio have been small-cap tech companies.

TWST: What makes your research methodology different? Does it differ depending upon the cap that you're looking at?

Mr. Condrat: What we really try to do well is in-depth fundamental research on the companies, and we tend to look a lot more long term. If you look at the bulk of sellside research and recommendations, they tend to be only looking one to two years out at most, whereas we typically invest over a three- to five-year time horizon. Our turnover rate of around 20% clearly supports that. We try to find those opportunities where the market is underappreciating the longer-term potential of a business and use those opportunities to get in at a good valuation.

Mr. Clancy: As far as whether it's different across market caps, it's not. It's the same process for both large and small caps. We have a hurdle rate, meaning every investment that we make has to have at least a 50% total return potential over the next three to five years. It goes back to one of our three tenets — being disciplined. Since we have a hurdle rate, we ask ourselves, "How is the company going to be able to achieve that?" The goal of our bottom-up fundamental process is to identify the growth catalysts over the next three to five years, the margin expansion opportunities associated with those catalysts, and whether they have a balance sheet that will be able to support and fund that growth.

— have great technology to help them optimize their fleets. Medium-size fleets have good technology too. But for small-business owners who typically have seven to 20 trucks within their fleets, the market is largely underpenetrated. Here, their fleets are not being optimized for fuel-cost savings, for personnel or for routing.

The company has grown very quickly into this area of the market. We think they have a dominant lead among competitors and offer a very compelling ROI for their customers. Consequently, we believe there is the potential to double their revenue over the next several years. They are expanding globally with new products, and they still trade at a very reasonable valuation. For a company of this size, it's very profitable, with 75% gross margins and 30% EBITDA margins. It has performed very well.

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1-Year Daily Chart of FleetMatics Group PLC

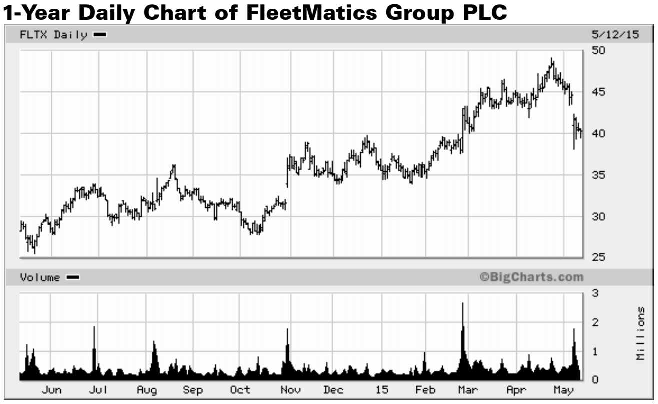

Chart provided by www.BigCharts.com

I'm glad you asked about whether it is different for large- or small-cap companies because a 50% total return requirement for a large-cap company is a big hurdle. But when you break the hurdle rate down into an annual rate over a three- to five-year investment horizon, it comes out to be about an 8% to 14% compounded annual growth rate. We use that to guide us as a metric during our analysis of a company. For a large-cap company, the guide really might be more on the 8% per year type of hurdle. For small-cap and higher-risk names, you're going to want a higher rate of return of 14%.

TWST: Can you describe a small-cap success story, and what led you to decide to buy that particular investment?

Mr. Condrat: A company we added to the portfolio at the beginning of this year is **FleetMatics** (NYSE:FLTX), which is a small-cap tech company. It really came through our process and our ranking methodology of seeking companies that are exhibiting good growth, profitability and valuation characteristics. They are a small-cap software company focused on fleet-management solutions for small businesses.

If you look at fleet management as a whole, from a technology standpoint, the large companies — the long-haul truckers of the world

TWST: What about some of the other holdings that you've either bought or sold in the last six months? Can you talk about specific names that you either decided to move away from or that you decided to put into the fund?

Mr. Clancy: We've been dealing with a lot of M&A over the past several quarters. We had an investment in **TW Telecom**, which was bought at the end of last year by **Level 3 Communications** (NYSE:LVLT). We made an investment in **Informatica** (NASDAQ:INFA) last year, and that too recently announced it will be acquired by private equity later this year. We had an investment in **MICROS Systems** — which was a joint holding between us and our Small/Mid Equity strategy — which was acquired by **Oracle** (NYSE:ORCL) during the third quarter of last year.

In terms of what we have sold from the portfolio, we had an investment in **Archer Daniels Midland** (NYSE:ADM) that we sold in the third quarter of 2014. That's a position that we owned for a number of years. There, the investment thesis had come to fruition. We had an investment in IBM (NYSE:IBM), which we made at the inception of the fund. We sold that in 2014 because the investment thesis had played out; also, we were concerned about increasing competition.

We recently sold **Qualcomm** (NASDAQ:QCOM), another long-term and very successful investment for us. Since we're always fully invested, when we do sell something, we have to buy something. We used the proceeds of that sale to add a new small-cap semiconductor company called **Silicon Labs** (NASDAQ:SLAB).

TWST: Talk a little about any macro trends that you're following or that you're concerned about and how that impacts your investment decision-making.

Mr. Condrat: We're coming away from the quarter seeing the very significant impact that currency is having on a number of different companies. Wherever one looks, the growth for the year is pretty much getting wiped out because the currency impact is so large. One would probably look at that and say, "Wow! You probably want to go more domestic U.S.," but our focus is more on the health of the underlying business. How is the company growing on a constant-currency basis? Is it still healthy? For us, we're trying to identify those areas of the market where currency is having a negative impact to determine if we can take advantage of that opportunity because the underlying health of the company is still strong.

Another area we're monitoring is in energy, where the steep drop in energy prices is causing a great deal of turmoil in certain businesses. Again, we're considering the long term. We know the near-term environment is challenging for some of these companies, but longer term, how are they positioned? Where are they investing? Are they restructuring? Will they come out of this stronger at the end of all of it?

Mr. Clancy: The other macro trend I would add is interest rate risk. In the event that interest rates do rise, we are spending more time focusing on refinancing risk for the companies that have debt on their balance sheets. We're not going to shy away from companies that have leverage; however, we're paying more attention to whether they have any significant maturities coming due and whether they will be able to fund it. How will they be able to fund it, and are their cash flows sufficient to support that funding in the event they can't reissue new debt? For example, we talked about our investment in **Level 3 Communications**, which is a very highly leveraged company, but we're comfortable with it because they're refinancing it and pushing out the maturity of their debts.

TWST: Why should somebody invest in Davidson Multi-Cap versus another multicap fund? Can you summarize that?

Mr. Clancy: Sure. Our approach and focus is to deliver on the risk that we are taking. If you're going to invest in an active manager, you want to invest in a manager who's truly active with high active share and disciplined about risk. From what you've heard about our process, it really does support the three tenets of the firm's investment philosophy, which are focus on the long term, be truly active and deliver on the risk you are taking.

TWST: Thank you. (KJL)

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As of 3/31/2015, the top ten holdings in the Fund are Apple, Inc.; Informatica Corp.; Wells Fargo & Co.; JP Morgan Chase & Co.; Express Scripts Holding Co.; General Mills, Inc.; 3M Co.; First Republic Bank; Google, Inc.- Class C; and Twenty First Century Fox Inc. – Class A. Together, the top ten holdings comprise 24.98% of the net assets of the Fund. Fund holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security.

Diversification does not assure a profit, nor does it protect against a loss in declining markets.

Mutual fund investing involves risk. Principal loss is possible. Small- and Medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are enhanced in emerging markets. Because the fund may invest in ETFs, it is subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a fund's ability to sell its shares. The fund will bear its share of the fees and expenses of the underlying funds. Shareholders will pay higher expenses than would be the case if making direct investments in the underlying ETFs. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. The investment in options is not suitable for all investors.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the fund and may be obtained by calling The Davidson Funds at 877-332-0529. Please read it carefully before investing.

Active share is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index.

ROI, or Return on Investment, is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

EBITDA is a measure of net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries.

Cash flow is a revenue or expense stream that changes a cash account over a given period.

The Fund is distributed by Quasar Distributors, LLC.