

Davis Real Estate A RPFrx

Analyst Report

by Lawrence Jones

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Despite a troubled marketplace, Davis Real Estate is a fine long-term option.

The real estate category suffered in the second quarter of 2007, as a continuing housing slowdown, high commodity prices, and problems in subprime loan markets weighed on funds' holdings. While this fund was impacted, investors familiar with its approach know not to worry.

That's because managers Andrew Davis and Chandler Spears run the concentrated fund in the long-term and value-conscious style that Davis Selected Advisors (its advisor) has long been known for. The fund's portfolio turnover rate, for instance, has averaged 31% over the past decade, much lower than the typical rival. And that focus on the long haul is illustrated by the team's approach to valuing individual firms: Davis and Spears are interested in investing in real estate companies that are run as ongoing business concerns, and that generate solid cash flows; as a result, they don't look to a firm's liquidation value, or the chances it'll be taken out in a leveraged buyout.

In addition to buying more-traditional REIT stocks, such as that of Manhattan landlord SL Green Realty, long a favorite, the managers also invest along seemingly more eclectic lines. For instance, they've developed an investment theme that takes advantage of the increasing importance of the global trade supply chain. More concretely, after products for export in China have been manufactured, they might be stored in a ProLogis Trust warehouse at Shanghai's container port. Once delivered overseas by ship, these products may find their way onto a freight train owned by Burlington Northern Santa Fe, a recent holding. Finally, the product makes its way onto the shelves of shopping malls, often owned by traditional REITs. In this way, the fund is exposed to companies that benefit from trade as well as foreign real estate holdings. Overall, the team's experience and thoughtful approach serves long-term investors well.

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Over the last five years, the high and low turnover ratio for Davis Real Estate Fund was 53% and 25%, respectively.

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