Investment Management of Virginia

Opportunity Portfolio
2nd Quarter, 2018

The Opportunity Portfolio Composite was up 10.76%, net of fees, for the quarter. The S&P 500 Index was up 3.43%, and the S&P 1500 Index was up 3.65%.[1] This performance puts the Opportunity Portfolio Composite more than 10 percentage points ahead of the indices for the year-to-date period. The Opportunity Portfolio is also ahead of the S&P 500 Index over the last twelve months and since inception (03/31/1999). As I have stressed before, the Opportunity Portfolio uses a concentrated approach, and, in this quarter, the concentration worked the way we have been expecting (hoping). Several of our larger positions seem to have attracted favorable attention from growth investors who are perhaps sensing the long-term potential in these companies. Concurrently, these same portfolio managers may be wondering how much longer their high momentum, highly popular, large capitalization technology positions can continue to outperform this market.

The Portfolio[2]

During the second quarter, I purchased and/or added to Argan, Wells Fargo, Acacia Communications, the IShares Biotechnology ETF, and Albemarle Corporation. I reduced BWX Technologies, Luminex, and Bottomline Technologies and liquidated DSW, Qualcomm, and Celgene.

I purchased Argan Inc. (AGX). We have owned AGX successfully in other portfolios at IMVA, and I have been waiting for an opportunity to establish a position. Argan is a small but high quality company. AGX designs, engineers, and builds electric generation facilities, mostly natural gas-fired plants. With a history of attractive margin management, AGX is adept at handling large projects and has recently completed several successful billion dollar plus installations. The company's backlog has come down because several projects have recently been completed, but we expect the book of new business to grow significantly over the upcoming year. AGX has a rock-solid balance sheet and a 2.8% dividend yield.

I liquidated our positon in Qualcomm and put the proceeds into Wells Fargo (WFC) and Acacia Communications (ACIA). Qualcomm seems to have too many battles to fight, in my opinion. QCOM is in lawsuits with some of its largest customers, and the U.S. government considers the company a strategic asset that shouldn't be taken over by foreign companies. Both WFC and ACIA were under substantial selling pressure at the time of our purchases, and these concerns have abated, for the time being. We have all heard about the myriad of issues at Wells Fargo; I believe they are basically old news at this point. The WFC management team seems committed and well on the way to correcting the issues at this very sound bank. Acacia took a major hit when the Trump Administration placed severe restrictions on a Chinese communications firm called ZTE. ZTE was Acacia's largest customer, so this was a difficult development for our existing investment. Nonetheless, I added to our

---

[1] Past performance is no guarantee of future results, and no representation is made that results similar to those shown can be achieved. To receive a complete list and description of Investment Management of Virginia, LLC's composites and/or a presentation that adheres to the Global Investment Performance Standards (GIPS), contact Investment Management of Virginia at (804) 643-1100.

[2] The transactions/securities discussed in this section are generally portfolio-wide transactions for the accounts in this Portfolio and have not been selected by any performance criteria. It should not be assumed that all accounts in the Portfolio had the same transactions or that transactions in the future will be as profitable or will equal the performance of the securities mentioned.

ACIA position in the teeth of this storm. I like ACIA, in spite of the trade issues with China, due to its extremely strong balance sheet, industry leading technology, high insider ownership, and growth potential in Europe and Asia. ACIA could also be an attractive acquisition candidate. Most of the companies affected by the ban on sales to ZTE have recovered substantially, including ACIA.

I swapped our losing position in Celgene into the IBB, a biotechnology exchange traded fund (ETF) that holds a variety of high quality biotechnology companies, including a large position in Celgene. This switch maintains our exposure to an important growth industry while hedging our single stock risk in this volatile sector.

Finally, I established an initial position in Albemarle Corporation (ALB) for accounts with available cash (and no material legacy position). Albemarle was spun out of Ethyl Corporation and, consequently, is well known to many of our clients. In recent years, ALB has attracted a lot of attention due to its exposure to and expertise in lithium and lithium battery technology. These batteries are critical to the electric car/transportation industry, and ALB is the market leader in this technology. The stock has come down substantially from its high, and we believe investors are underestimating the value of Albemarle's lithium expertise and the potential for higher than expected growth in the penetration of electric transportation. ALB has steady cash flows from its catalyst business and a safe 1.4% dividend yield.

I liquidated DSW, a high quality retailer with a good management team. We have come to believe that traditional shoe retailing is a very difficult market. Also, I reduced our positions in BWX Technologies, Luminex, and Bottomline Technology; we continue to hold positions in these three stocks and are enthusiastic about them.

The three largest positions in the portfolio remain 3D Systems (DDD), Bottomline Technologies (EPAY), and Luminex Corporation (LMNX). DDD seems to be on schedule with previously announced new product releases, and the stock appears to reflect this. I met with the management team twice during the quarter and continue to believe that our risk-to-reward ratio over the next couple of years is very good. EPAY continued to execute well in the 1st Quarter, and investors have shown their approval. EPAY is not a cheap stock anymore, and, as mentioned above, I reduced our position during the quarter. Nonetheless, I like EPAY a lot because the company appears to be gaining operational and marketing advantages as its network grows. I also reduced Luminex, but we continue to have a substantial position. I believe the stock's valuation is still catching up to its peer group.

The Market
The second quarter produced distinctly mixed results for investors around the world. FANG stocks (Facebook, Amazon, Netflix, and Google (Alphabet)) continued to attract believers; oil and U.S. small capitalization stocks were also winners. Oil consumers are nervous about the collapse of Venezuelan output and the renewal of sanctions against Iran. U.S. small capitalization stocks benefited from their domestic focus. However, as the quarter came to a close, the alarming prospect of increased protectionism and perhaps even a full-blown trade war rattled the markets, especially the investors

concentrated in highly popular growth/technology stocks.[3] Companies with extensive international exposure were weak, as were emerging markets. Unlike many institutional investors, we freely admit we have no real insight into the prospects for negotiated trade solutions. If tensions (and egos) spiral out of control, then, as William Butler Yeats said, "Things fall apart, the center cannot hold".[4] But, the U.S. equity market is holding up relatively well, compared to those of our trading partners, so investors seem to be saying that a trade war will hurt other countries more than the U.S. Mid-term elections in the U.S. may be the real driver of the tough trade talk (and general discord on nearly every topic). In this case, and to continue Yeats' insights, "Surely some revelation is at hand" in November. Until then, the threat of increased tariffs, with commensurate global supply chain disruptions, could hurt business confidence and depresses economic growth. Consequently, the Federal Reserve may be reluctant to raise interest rates as aggressively as it might have planned, absent the Administration's "fair trade" demands. So, ironically, the threat of a trade war may actually prolong the current bull market through the lifeline of unnaturally low interest rates.

Bottom line, the U.S. equity market is the most transparent and deepest equity market in the world, and it frequently becomes an international investor destination in tumultuous times. U.S. public companies continue to show very good earnings growth, and interest rates don't seem poised to provide an unpleasant surprise, yet. We believe the odds are pretty good that a strong self-preservation instinct will help us side-step a ruinous trade war.

---

[3] The ratio of performance between the S&P 500 growth and value indices closed within 3% of the record set in March of 2000, according to Jonathan Krinsky at Bay Crest Partners LLC and John Lynch at LPL Research. 6/13/18. This ratio might indicate that growth stocks are reaching risky levels of popularity.
[4] *The Second Coming*, William Butler Yeats, 1919

INVESTMENT MANAGEMENT OF VIRGINIA, LLC
OPPORTUNITY PORTFOLIO COMPOSITE
ACCOMPANYING NOTES

Year[A]	Total Return Gross (Percent)	Total Return Net[B] (Percent)	Benchmark S&P 1500 (Percent)	Benchmark S&P 500 (Percent)	Composite 3 Yr. St. Dev.[C] (Percent)	Benchmark S&P 1500 3 Yr. St. Dev.[C] (Percent)	Benchmark S&P 500 3 Yr. St. Dev.[C] (Percent)	Number of Accounts	Composite Dispersion[C] (Percent)	Composite Assets End of Period (Millions)	Strategy Assets End of Period[D] (Millions)	Model Assets End of Period[D] (Millions)	Non-Fee Paying Composite Assets End of Period (MM)	Percentage of Non-Fee Paying Composite Assets	Total Firm Assets End of Period (Millions)
2008	-29.37	-29.78	-36.72	-37.00	N/A	N/A	N/A	12	1.98	5.19	32.37	N/A	0.00	0.00%	285.31
2009	53.64	52.89	27.25	26.46	N/A	N/A	N/A	13	3.48	16.06	61.18	N/A	0.00	0.00%	335.79
2010	32.90	32.26	16.38	15.06	N/A	N/A	N/A	10	1.69	19.35	95.79	N/A	0.00	0.00%	427.21
2011	-4.39	-4.85	1.75	2.11	25.44	19.06	18.70	13	1.21	18.28	114.93	N/A	0.00	0.00%	409.51
2012	46.98	46.27	16.17	16.00	22.60	15.39	15.09	15	3.09	26.82	173.34	N/A	0.00	0.00%	526.95
2013	44.66	43.89	32.80	32.39	20.10	12.24	11.94	22	1.99	40.79	264.32	13.60	0.29	0.71%	697.44
2014	-33.00	-33.42	13.08	13.69	18.11	9.12	8.98	28	1.64	41.63	142.45	13.16	0.19	0.47%	549.17
2015	-12.26	-12.75	1.01	1.38	17.38	10.49	10.48	71	1.47	59.56	110.71	3.76	1.16	1.95%	437.32
2016	22.26	21.60	13.03	11.96	17.12	10.66	10.59	70	1.09	82.87	129.75	3.30	1.21	1.46%	484.18
2017	7.01	6.42	21.13	21.83	15.23	9.92	9.92	66	0.89	74.32	123.23	1.89	2.83	3.80%	491.22
*2018	14.28	13.98	2.91	2.65	N/A	N/A	N/A	69	N/A	86.86	132.72	1.28	7.76	8.94%	518.12

* 2018 performance returns are for the period ending 6/30/18.

A. Inception of the composite was 3/31/99. Creation of the composite was 3/31/99.

B. Fee schedule: 1.00% per annum on the first $1 million of assets; 0.75% per annum on assets greater than $1 million. Fees are negotiable.

C. N/A for the current year signifies that the information is not available until year end. N/A for previous years signifies that the information was not required.

D. Supplemental information. In addition to composite assets, strategy assets include separately managed accounts that do not meet the criteria for inclusion in the composite and wrap accounts. Opportunity Portfolio model assets are managed by other firms based on model portfolios submitted by IMVA.

Investment Management of Virginia, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Investment Management of Virginia, LLC has been independently verified for the periods January 1, 1993 through March 31, 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Opportunity Portfolio composite has been examined for the periods March 31, 1999 through March 31, 2018. The verification and performance examination reports are available upon request.

1. Basis of Presentation

Investment Management of Virginia, LLC ("IMVA") is a registered investment adviser under the Investment Advisors Act of 1940. IMVA was originally established as Scott & Stringfellow Capital Management, Inc., a division of Scott & Stringfellow, in 1982. In March 1999, Scott & Stringfellow became a wholly owned subsidiary of Branch Banking & Trust Company (BB&T). IMVA became an independent investment adviser in July of 2000 when the principals of Scott & Stringfellow Capital Management, Inc. purchased IMVA from BB&T. Total firm assets exclude model programs. Additionally, as supplemental information, as of June 30, 2018, the firm provides models to programs managing a total of approximately $15.05 million in assets based on those models (this figure includes the Oppporunity Portfolio model assets and all other model portfolio assets at IMVA).

2. Composite Criteria

The Composite consists of institutional, endowment, retirement, and individual accounts. Tax-exempt and taxable accounts are included. The Composite seeks a strong total return through capital appreciation in small, medium, and large capitalization companies, including limited use of ETFs. The primary investment criteria are strong upside potential at a reasonable price. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Performance results of the Composite are based on U.S. dollar returns.

3. Calculation Methodology

The Composite results are time-weighted rates of return net of commissions, custodial fees, and any other expenses incurred in the management of accounts. Accounts may be shown gross or net of withholding taxes on foreign dividends based on the custodian. These returns have been presented both gross and net of investment advisory fees. Quarterly composite rates of return, which are net of investment advisory fees, are calculated at the account level. For each account, the fee percentage is subtracted from the account's gross monthly return, during the month the fee is incurred, to obtain a monthly account return net of investment advisory fees. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.

4. Comparison with Market Index

Results of the Composite are shown compared to the Standard & Poor's 1500 Index and to the Standard & Poor's 500 Index. The Standard & Poor's 1500 Index is a combination of the S&P 500, S&P MidCap 400, and S&P Small Cap 600 indices. This creates a broad market portfolio representing 90% of the U.S. equities. The S&P 1500 Index was added as a benchmark in January 2006. Performance has been linked in the same manner as the Opportunity Portfolio Composite. The Standard & Poor's 500 Index is a capitalization-weighted index, and is calculated based on a total return basis with divendends reinvested. The Standard & Poor's 500 Index is a capitalization-weighted index of 500 blue-chip U.S. companies representing the industrial, transportation, utility, and financial sectors with heavy emphasis on the industrial sector. The returns for these unmanaged indexes do not include any transaction costs, management fees, or other costs. Investment Management of Virginia, LLC takes no responsibility for the validity of the index and/or other performance numbers provided by reputable outside sources.

5. SEC Advertising Disclosure Footnotes

All performance composite returns are reported **net** and **gross** of investment advisory fees charged by Investment Management of Virginia, and reflect the reinvestment of dividends and other earnings. The investment returns will be reduced by commissions, custodial fees, and any other expenses incurred in the management of accounts. Accounts may be shown gross or net of withholding taxes on foreign dividends based on the custodian. Net performance reflects the deduction of actual quarterly fees for each account in the composite. Gross of fees performance returns are presented before investment management fees.

6. Additional Information

A complete presentation of any composite and/or a list of all composite descriptions is available upon request. Such inquiries should be addressed to George McVey, Investment Management of Virginia, LLC, 919 E. Main Street, Suite 1600, Richmond, Virginia 23219, or contact him through email at gmcvey@imva.net.

Past performance is no guarantee of future results, and no representation is made that results similar to those shown can be achieved. All portfolios have the potential of profit and/or loss on the investment securities.