Investment Management of Virginia

Opportunity Portfolio
3rd Quarter, 2018

The Opportunity Portfolio Composite was up 7.41%, net of fees, for the quarter. The S&P 500 Index was up 7.71%, and the S&P 1500 Index was up 7.35%.[1] This performance puts the Opportunity Portfolio Composite up 22.43%, net of fees, year-to-date versus the S&P 500 and S&P 1500 Indices at 10.56% and 10.47%, respectively. The Opportunity Portfolio is ahead of the S&P 500 Index over the one and three year periods and since inception[2]. As I commented last quarter, it appears some of the luster has come off of the large capitalization social media companies, much to the relief of those of us who, for fear of overpaying, have missed their monstrous move over the past few years. Over those same few years, we have waited for several of our core positons to begin to show their colors. That is happening this year, and it is gratifying to see these companies claw back some performance. Some investment consultants refer to this strategy as "time arbitrage"; I'll stick with patience, which is simple to say but hard to execute.

The Portfolio[3]

The third quarter was a little bittersweet because I reduced several positions which I still think have good long term potential, but this is a nice problem to have. Luminex (LMNX) ran up into its second quarter earnings announcement, and I used this move to reduce our position. Management reported a fine quarter and did not make dramatic changes to their outlook; nonetheless, the stock sold off sharply. I spoke with the management team and determined that the lack of a take-out or merger agreement was probably the catalyst for the sell-off. As I have mentioned previously, I believe that LMNX is a good take-out candidate at some point, but now is obviously not the time. The arbitrageurs took the stock to $35 going into the quarterly conference call; this indicates, to me, that their take-out price assumption is probably $40 or higher. That price/valuation seems reasonable to me and could produce a nice return from today's price around $29. With this thesis in mind, I rebuilt our position in late August at approximately $27.50.

I reduced our position in Bottomline Technologies (EPAY) in mid-August. EPAY has been executing very well and appears to be in a very good position in the financial technology space. Its software-as-a-service offerings are attractive to banks, and the bank clients, and this dynamic is increasing EPAY's margins, market share, and total addressable market. That is a strong trifecta, and, consequently, I am maintaining a substantial position in the stock.

Finally, I reduced 3D Systems (DDD) in late August. DDD reacted very positively to its second quarter earnings announcement and conference call, and I sold into that strength to reduce our position a bit. I think that DDD is really just getting started but am mindful that the stock is volatile. Wall Street analysts continue to be "behind" the numbers, in my opinion. Specifically, I believe analysts'

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[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] Inception of the Portfolio is 3/31/1999

[3] 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.

revenue projections for the rest of this year and next year are too low, and the projected margins on that revenue are also too low. The vast majority of these analysts are not recommending this stock, so I think we remain in a very good position in that DDD fundamentals appear to be improving, but Wall Street analysts still remain generally negative on the stock.

Even after these sales, LMNX, EPAY, and DDD remain our three largest positions.

The Market

The U.S. equity market produced attractive returns in the third quarter. As usual, there is plenty to worry about, but corporate earnings, the critical driver of equity returns, continued to grow. Stocks followed, dutifully. S&P 500 companies are on track to grow earnings per share by over 20% in 2018.

President Trump remains a deeply polarizing figure, but tax cuts, deregulation, and the business-friendly approach of his Administration, and Congress, appear to have created an energized atmosphere for business. Signs of a humming U.S. economy include historically low unemployment, improving wage growth, attractive GDP growth, improving industrial production, improving capital investment, and record levels of consumer and small business sentiment. With all of these factors moving in the right direction, it's no wonder public company earnings are growing so well. U.S. economic momentum is plowing right through a variety of serious concerns for investors including rising interest rates, worsening relations with China, economic slowdown and currency turmoil in emerging markets, and, of course, the deep political divisions in the U.S. as we head into mid-term elections. Normally, investors get nervous in front of mid-term elections as uncertainty comes to a head, but this year, the equity market has remained focused on the economy. Perhaps, as Bill Clinton's lead campaign strategist famously said, "It's the economy stupid".[4] We'll see soon enough. On the other hand, many investors are concerned that the tax cuts and relatively low interest rates are fueling an economic boom that can't be sustained. We agree and hope that the coming economic slowdown, perhaps in 2020, does not devolve into a recession. Bottom line, the current strength of the economy gives us some confidence that the stock market's most important fundamental driver, corporate earnings, looks solid for the next few quarters, but the inevitable economic slowdown is, well, inevitable.

With market risks in mind, it is interesting to note that investors seemed to reduce their risk-taking a bit during the third quarter, in spite of the current economic momentum. This slight course change was manifested in the outperformance of large capitalization securities over smaller companies and also in the fairly severe corrections (20% plus) for several high-flying social media companies. But, some risk capital found greener pastures. Cannabis stocks made a huge move in the third quarter; unlike our aforementioned former president, these investors fully inhaled the enticing aroma of that asset bubble. No telling how far/high that industry can go.

[4] James Carville

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	22.91	22.43	10.47	10.56	N/A	N/A	N/A	69	N/A	91.21	139.73	1.45	7.04	7.72%	548.73

* 2018 performance returns are for the period ending 9/30/18.

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 June 30, 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 June 30, 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 September 30, 2018, the firm provides models to programs managing a total of approximately $15.74 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.