Investment Management of Virginia

Opportunity Portfolio
2nd Quarter, 2020

The Opportunity Portfolio Composite was up 22.14%, net of fees, for the quarter. The S&P 500 Index was up 20.54%, and the S&P 1500 Index was up 20.77%.[1] The Opportunity Portfolio Composite is down 0.74% for the year-to-date; this is ahead of both the S&P 500 Index (down 3.08% YTD) and the S&P 1500 Index (down 4.08% YTD). We benefitted from strong relative performance in healthcare, large capitalization technology, and a few of our small capitalization positions. Laggards included energy, financials, and the Dow Jones Industrial Average ETF (DIA).

The Portfolio[2]

In April, we reduced our position in 3D Systems (DDD). We are concerned that the growth potential this year will not materialize post Covid-19. Furthermore, the company has a new CEO and CFO, and we think it could take some time before the new management team has their plan in place. The stock looks inexpensive on a multiple of revenue and has some very interesting assets, so we are maintaining a small position. In mid-April, we liquidated our position in Abbot (ABT) and reinvested the proceeds into American Express (AXP) and the Vanguard Information Technology ETF (VGT). Abbot was one of the few stocks to remain positive for the year during the market volatility in March and April. As such, the stock appeared to be a "must own" for most portfolio managers and looked fully priced to us. In addition, we were hearing anecdotal evidence that Abbot's Covid-19 test was not as accurate as the public wanted it to believe; this was probably due to improper application, but the presumption was negative for the stock. We made the swap into AXP and VGT on the premise that those two stocks had more recovery/upside potential over the next year; so far that has played out. In late April, we liquidated our position in the Invesco S&P MidCap Low Volatility ETF (XMLV) and reinvested the proceeds into the ProShares S&P MidCap 400 Dividend Aristocrat ETF (REGL). REGL tracks an equal-weighted index of mid-capitalization companies that have increased their dividends for at least 15 consecutive years. The largest sector exposures are Financials (30%) and Industrials (28%). REGL and XMLV have had similar performance characteristics and dividend yields, but we prefer REGL coming out of a correction because it holds more high quality operating companies versus XMLV, which has a higher percentage of REITs and Utilities.

In May, we trimmed our position, again, in Quidel (QDEL). QDEL has been a very popular stock this year due to its Covid-19 testing technology and equipment. It remains to be seen how long Covid-19 will last and how much testing will need to be done (a significant amount for sure), but we think the majority of the good news and extremely high expectations are being priced into QDEL. With some of the proceeds from the sale of QDEL, we initiated a new position in Atlantic Union Bankshares Corp. (AUB), a high-quality, small-capitalization regional bank located in Richmond, VA. In the midst of concern over small business bankruptcies and exceedingly low interest rates, Atlantic Union was "on sale" and trading at valuation levels not seen since the Great Recession of 2008. We suspect the business impact will not be as severe for AUB (which has already taken significant reserves for any shortfalls) due to its exposure to the relatively strong Virginia economy. We also think AUB could ultimately be a takeout candidate for a super-regional or national bank.

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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] 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.

In June, we liquidated our position in Kemet (KEM) due to the closing of its acquisition by Yageo Corp. With the proceeds, we initiated a new position in Alexander & Baldwin (ALEX). ALEX is a commercial REIT with 100% of its operations in the state of Hawaii. ALEX has obviously been impacted by the effective shutdown of the Hawaiian economy, but we think the business (and the dividend) will recover once travel restrictions are lifted. ALEX does not have direct exposure to the tourism industry; its assets are mostly grocery store-anchored real estate in residential areas. Hawaiian real estate has historically been very resilient, and we think buying ALEX under book value is an excellent long-term investment opportunity.

The Market

The second quarter turned out to be nearly as volatile as the first quarter, and our continuing (re)education on the unpredictability of the future, even the near future, was in full session. After falling 34% from February 19th through March 23rd, the S&P 500 Index then surged nearly 45% through early June. A variety of distinguished investors, many of whom we have cited in these letters, had to admit that their bearish commentary in late March turned out to be very wrong. But, they may have simply been a little early. No one knows, but here are a few assumptions we are working from:

- We don't know if the stock market's "V" shaped recovery will hold or not, but, at a minimum, the equity market appears to be way ahead of the real economy. This is confounding but normal. "Normal" is an odd word to use these days, and we also suspect that the equity market is counting on a second stimulus package from the Federal Government; there is clearly some risk in this assumption.
- The course and ultimate threat of the Covid-19 virus is unknown; consequently, economic growth and earnings are more difficult than usual to forecast. This heightened uncertainty is causing high equity market volatility.
- The fixed income (bond) markets are predicting low financial returns for the next decade. At the risk of making a forecast, we tend to agree.
- The popularity of several large capitalization technology stocks is perhaps at an all-time high. This trend is unsustainable; as University of Virginia economist Herb Stein stated pragmatically, "If (something) can't go on forever, it will stop."

In a note on June 29th, Tony Dwyer of Canaccord explained why he is generally positive on the stock market's prospects over the next 12 to 18 months, in spite of the extraordinary risks we face. To paraphrase his thesis: the Federal Reserve is expanding the money supply and is not worried about inflation; the expanding money supply will drive the U.S. economy; the recovering economy will produce earnings growth.[3] In our opinion, this strategy is likely to help us over the near-term but also inhibit our long-term financial return potential. Contrary to what many politicians on both sides of the aisle say, there is no free lunch.

Probably as no surprise to our clients, we believe good quality equities are, generally speaking, the best way for a long-term investor to navigate the usual and unusual risks we face right now. Equities provide growth potential, current yield potential, and some purchasing power (inflation) protection. Inflation seems, to us, to be the risk that is basically written off by the market; consequently, and given our recent lessons in the unpredictability of the future, equity holdings may be the best way to stay ahead of the unprecedented, world wide money supply growth.

[3] Canaccord Genuity,July Strategy Picture Book, Tony Dwyer

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)
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	-5.87	-6.36	-4.96	-4.38	17.86	10.99	10.80	72	0.74	75.67	105.74	1.10	5.30	7.01%	448.68
2019	20.04	19.45	30.90	31.49	19.06	12.11	11.93	69	1.40	87.91	119.48	0.87	6.12	6.96%	509.85
*2020	-0.48	-0.74	-4.08	-3.08	N/A	N/A	N/A	68	N/A	84.96	113.00	0.49	5.77	6.79%	481.66

* 2020 performance returns are for the period ending 06/30/20.

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, 2020. 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, 2020. 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, 2020, the firm provides models to programs managing a total of approximately $5.24 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 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. Net performance returns have been calculated by reducing gross performance returns by the actual investment management fees charged. 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. The information contained in this material is based on data we have obtained from third party sources. While this information has been obtained from sources we believe to be reliable, we do not guarantee, nor are we responsible for, the accuracy, completeness, or timeliness of the information provided in this presentation.

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.