Investment Management of Virginia

Select Equity Income Portfolio
2nd Quarter, 2020

The Select Equity Income Portfolio Composite was up 17.95%, net of fees, for the quarter. This result was behind the S&P 500 Index's advance of 20.54% but ahead of the Russell 3000 Value Index's advance of 14.55%.[1] Year-to-date, the Select Equity Income Portfolio Composite is down 9.87%, net of fees. This is behind the 3.08% loss of the S&P 500 Index and ahead of the Russell 3000 Value Index loss of 16.74%. According to Bloomberg, the current performance difference between the S&P 500 and the Russell 3000 Value indices is the largest deficit (in favor of the S&P 500 Index) in the last 25 years. This relationship seems stretched, to us.

The Portfolio[2]

During the quarter, we high-graded several of our positions. We sold IberiaBank (IBKC) and Wells Fargo (WFC) and reinvested that capital into JP Morgan Chase (JPM), Atlantic Union Bankshares (AUB), and American Express (AXP). We also sold Total (TOT) and put the proceeds into Conoco Phillips (COP). While IBKC and WFC trade at very attractive valuations with higher than average dividend yields, they have both languished longer than we expected. WFC continues to have operational and regulatory issues (which may have prompted the recent announcement of a dividend reduction), and IBKC is headquartered in the heart of energy-producing states whose economies are under pressure from the collapse in oil prices. JPM, AUB, and AXP represent a cross section of very high-quality companies in the corporate credit, regional bank, and consumer markets, respectively. JP Morgan Chase is one of the largest banks in the United States with over $2.6 trillion in assets and is a leader in investment and commercial banking, consumer credit, and asset management. The stock has a 3.9% yield and trades at 11x 2021 earnings estimates. AUB is a $17 billion asset bank with more than 150 branches located in Virginia, Maryland, and North Carolina. The stock has a 4.5% dividend yield, and trades at 11x 2021 earnings estimates. AXP operates the third largest credit card network in the U.S. and targets affluent consumers. The company is reliant on travel and entertainment spending which will be a drag on near-term earnings, but this risk gave us the opportunity to buy the stock at a compelling valuation relative to its history.

TOT has outperformed the broad energy sector over the past five years. But, with oil at twenty year lows, we believe this is a good opportunity to buy another high-quality but slightly more aggressive company in the sector. COP is focused on properties in North America, has a conservative balance sheet, and gets an "A" rating from Standard & Poor's. The stock yields 3.9% and trades at an attractive valuation relative to its history.

We sold Abbott (ABT) and added to our position in CVS (CVS). Abbott has outperformed peers and the market over the last five years, driven by higher-than-expected earnings growth. However, the stock is trading at over 30x earnings, and we suspect the company's earnings growth potential is fully reflected in this valuation. CVS trades at 9x earnings and yields 3.0%. CVS Health operates more than 9,900 drugstores, has its own pharmacy benefit manager (Caremark), and now has a health insurance business with the acquisition of Aetna. We believe this "one stop shop" should be attractive to customers while enabling the company to increase its operating efficiency.

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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.

Finally, we sold Corning (GLW) and added to our ETF holdings through the Vanguard Information Technology ETF (VGT) and the Vanguard Communications Services ETF (VOX). Corning has been a disappointing holding despite showing good revenue and earnings growth. We believe the cyclical nature of the Optical Communications and Display Technologies glass business will prevent GLW from realizing a premium valuation. We purchased VGT because it provides broad exposure to high quality companies in the US technology market. The fund's top holdings include Apple (AAPLE, Microsoft (MSFT), Visa (V) and Mastercard (MA). VOX provides an interesting mix of traditional telecom companies and internet services companies that were previously classified in the technology sector. We believe these ETFs can provide a better risk adjusted return than GLW.

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, 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.

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

INVESTMENT MANAGEMENT OF VIRGINIA, LLC
SELECT EQUITY INCOME PORTFOLIO COMPOSITE
ACCOMPANYING NOTES

Year[A]	Total Return Gross (Percent)	Total Return Net[B] (Percent)	Benchmark S&P 500 (Percent)	Benchmark Russell 3000 Value (Percent)	Composite 3 Yr. St. Dev.[C] (Percent)	Benchmark S&P 500 3 Yr. St. Dev.[C] (Percent)	Benchmark Russell 3000 Value 3 Yr. St. Dev.[C] (Percent)	Number of Accounts	Composite Dispersion[C] (Percent)	Composite Assets End of Period (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	16.77	16.10	15.06	16.23	N/A	N/A	N/A	13	1.47	12.87	3.02	23.43%	427.21
2011	3.54	2.95	2.11	-0.10	18.12	18.70	21.04	14	0.47	13.83	2.84	20.53%	409.51
2012	9.80	9.18	16.00	17.55	14.49	15.09	15.81	15	0.48	22.87	3.05	13.35%	526.95
2013	32.98	32.18	32.39	32.69	11.44	11.94	12.90	16	0.53	29.04	3.96	13.64%	697.44
2014	10.28	9.55	13.69	12.70	9.60	8.98	9.36	16	0.36	30.57	4.30	14.06%	549.17
2015	-4.18	-4.75	1.38	-4.13	10.60	10.48	10.74	25	0.33	38.79	3.85	9.92%	437.32
2016	25.78	24.98	11.96	18.40	10.93	10.59	10.97	27	0.79	45.35	3.07	6.78%	484.18
2017	7.78	7.11	21.83	13.19	10.55	9.92	10.33	27	1.05	46.07	3.30	7.16%	491.22
2018	-6.37	-6.93	-4.38	-8.58	12.11	10.80	11.06	28	0.55	39.90	2.81	7.04%	448.68
2019	21.41	20.70	31.49	26.26	12.74	11.93	12.01	27	0.87	44.89	3.04	6.78%	509.85
*2020	-9.59	-9.87	-3.08	-16.74	N/A	N/A	N/A	27	N/A	38.75	2.61	6.73%	481.66

* 2020 performance returns are for the period ending 6/30/20.
A. Inception of the composite was 7/1/01. Creation of the composite was 7/1/01.
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.

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 Select Equity Income Portfolio composite has been examined for the periods July 1, 2001 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 the Company 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 all 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 500 Index and to the Russell 3000 Value Index. The Standard & Poor's 500 Index is a capitalization-weighted index, and is calculated based on a total return basis with dividends reinvested. The Standard and 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 Russell 3000 Value Index is based on the Russell 3000 Index, which measures the performance of the 3,000 largest publicly held companies incorporated in America, as defined by total market capitalization. The Russell 3000 Value Index is a market capitalization weighted equity index and is calculated based on a total return basis with dividends reinvested. It measures how U.S. stocks in the equity value segment perform and includes stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates. The Russell 3000 Value Index was added as a benchmark in September 2018. Performance has been linked in the same manner as the Select Equity Income Portfolio Composite. 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.