Investment Management of Virginia

Small Capitalization Portfolio
2nd Quarter, 2020

The Small Capitalization Portfolio Composite was up 25.15%, net of fees, for the quarter. That was a nice recovery after a volatile first quarter, but the Small Capitalization Portfolio Composite was slightly behind the 25.42% gain for the Russell 2000 Index.[1] The Small Capitalization Portfolio Composite remains well ahead of the Russell 2000 Index for the year-to-date, and is ahead over the 1, 3 year, and since inception periods.[2]

The Small Capitalization Portfolio continues to have a slightly defensive bias versus our small capitalization benchmark, which has served us well year-to-date, in a down market, but was a bit of a headwind when the market recovered this quarter. Nevertheless, some of our larger positions appear to have compelling growth prospects in 2020 and beyond, and we think the Small Capitalization Portfolio is well positioned going forward. To be clear, we have not changed our investment strategy or mandate to add risk to the portfolio but rather are seeing interesting opportunities in the positions we own and in a few prospective positions.

The Portfolio[3]

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 very inexpensive on a multiple of revenue and has some very interesting assets, so we are maintaining a small position. We reduced Prestige Consumer Healthcare (PBH) as it had become one of our largest holdings. PBH is one of the more defensive stocks we own and had done its job in a very volatile market. We added to Atlantic Union Bankshares (AUB). 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. In late April, we liquidated our position in Cubic Corp. (CUB). CUB was a relatively new position for us, but we do not see a quick recovery in public transport commuter traffic anytime soon. CUB remains an interesting long-term idea that we may come back to.

In May, we trimmed our position (again) in Quidel (QDEL). QDEL manufactures and sells medical diagnostic equipment. The company has technology and products that help meet the Covid-19 testing challenges, and investors have taken notice. Next, we trimmed our position in Lattice Semiconductor (LSCC). LSCC has valuable technology for the transition to a 5G network, and the position has repeatedly hit our size constraints.

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[1]Past performance is no guarantee of future results, and no representation is made that results similar to those shown or discussed 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 1/1/94.

[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.

In June, we initiated a new position in The Rubicon Project (RUBI). RUBI manages the digital advertising space for companies across multiple online and media outlets. RUBI matches buyers and sellers of advertising space in real time, primarily via an auction process, and collects a fee from each placement. This business model includes the sale of advertising space on podcasts, music streaming services, website ads, and increasingly, subscription TV services. As the secular shift from print to digital advertising continues, combined with companies looking to monetize large user bases (you've been forewarned if/when Netflix starts making you watch ads before your show begins), RUBI stands to benefit.

Late in the quarter, we liquidated Inogen (INGN) and trimmed our positions in PRA Group (PRAA) and GreenDot (GDOT). INGN was a relatively new position; the company makes portable oxygen concentrators and did well at the beginning of the Covid-19 outbreak. However, as that initial spike in demand waned, there was no follow-through demand from more traditional customers. We thought the sales process was at a positive inflection point, but it is not, so we decided to move on. PRAA reported a solid first quarter and gave a bullish mid-quarter update; this news drove our position close to our size limits, necessitating a partial sale. We like this company and are maintaining a sizeable position. Finally, at the end of the quarter, we modestly trimmed our position in GDOT. GreenDot has been resurrected by the new CEO, and we think the company is in the early stages of streamlining its legacy business while simultaneously growing its nascent Banking-as-a-Service (BaaS) business. GDOT trades at a significantly lower valuation to some of its BaaS peers, but we think that gap can narrow over time. GDOT remains one of the largest positions in the portfolio.

The Equity 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.[4] 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.

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

INVESTMENT MANAGEMENT OF VIRGINIA, LLC
SMALL CAPITALIZATION PORTFOLIO COMPOSITE
ACCOMPANYING NOTES

Year[A]	Total Return Gross (Percent)	Total Return Net[B] (Percent)	Benchmark Russell 2000 (Percent)	Composite 3 Yr. St. Dev.[C] (Percent)	Benchmark Russell 2000 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	32.00	31.51	26.85	N/A	N/A	15	0.74	13.39	38.39	N/A	2.64	19.74%	427.21
2011	1.89	1.41	-4.18	24.19	24.99	16	0.74	13.41	38.85	45.11	2.47	18.43%	409.51
2012	24.37	23.70	16.35	19.84	20.20	22	0.55	15.46	58.06	73.37	2.77	17.94%	526.95
2013	36.11	35.24	38.82	15.86	16.45	53	0.80	29.85	139.01	184.94	2.26	7.56%	697.44
2014	-6.44	-7.10	4.89	11.98	13.12	50	0.68	27.70	106.25	162.01	2.40	8.65%	549.17
2015	-12.27	-12.88	-4.41	13.59	13.96	41	0.66	22.58	64.53	93.92	2.19	9.71%	437.32
2016	25.83	24.99	21.31	15.12	15.76	33	0.80	25.71	67.55	41.43	1.95	7.57%	484.18
2017	4.90	4.25	14.65	14.74	13.91	26	0.70	30.23	62.09	12.09	2.04	6.74%	491.22
2018	-8.56	-9.05	-11.01	17.31	15.79	25	0.46	24.91	54.44	7.73	1.68	6.75%	448.68
2019	15.33	14.74	25.53	19.16	15.71	19	0.76	24.57	58.41	9.01	1.54	6.25%	509.85
*2020	1.79	1.52	-12.98	N/A	N/A	17	N/A	24.18	55.64	0.60	1.51	6.23%	481.66

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

A. Inception of the composite was 1/1/94. Creation of the composite was 1/1/94.

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. Small Capitalization 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 Small Capitalization Portfolio composite has been examined for the periods January 1, 1994 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 Small Capitalization 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 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 Russell 2000 Index. The Russell 2000 Index is comprised of the 2,000 smallest companies in 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 2000 represents approximately 1% of the Russell 3000 Index total market capitalization. For comparison purposes, the Russell 2000 is a fully invested index, which includes reinvestment of income, and the performance has been linked in the same manner as the Small Capitalization Portfolio Composite. The returns for this unmanaged index 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. The S&P 400 Index was used prior to 12/31/00 as a comparison index. It was replaced with the S&P 600 Index on 12/31/00 because this index was a more accurate representation of the market capitalization of the securities in the client accounts. The S&P 600 Index was dropped as an index as of 3/31/12 due to low usage of that index by institutional investors.

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 with the exception of one non-fee paying account in the composite for the periods prior to 9/30/2006. An implied 100 bps fee was applied to calculate net performance for the account. 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.