



## Opportunity Portfolio 1<sup>st</sup> Quarter, 2021

The Opportunity Portfolio Composite was up 9.01% net of fees, for the quarter; this result was ahead of the 6.17% gain for the S&P 500 Index and the 6.91% gain for the S&P 1500 Index.<sup>1</sup>

The market's rotation from growth companies to value (and cyclicals and commodities) around mid-quarter benefitted the portfolio. Also, lagging sectors like Energy and Financials rose up like Lazarus, and the strength in small capitalization companies carried over from the 4<sup>th</sup> quarter.

### **The Portfolio<sup>2</sup>**

During the quarter we added to Quidel, initiated a position in Medtronic, trimmed American Express and Alibaba, and liquidated 3D Systems.

**3D Systems (DDD):** We liquidated our remaining position in 3D Systems in January. DDD was a beneficiary of multiple factors during the quarter, some fundamentally based, some not. DDD reported impressive sales for the 4<sup>th</sup> quarter and good progress in their rationalization efforts (selling non-core businesses). The stock reacted very well to that report, and the price action made short sellers very uncomfortable (this occurred during the GameStop short squeeze). DDD exploded higher, and we decided to sell. We should have been a little more patient as the stock moved substantially higher than our sale price, but the valuation we got still looks very attractive.

**American Express (AXP):** We reduced American Express in March. AXP stock has gained attention this year as one of the more obvious "reopening" plays. AXP should indeed benefit from increased travel in 2021 (business and personal), but we thought much of the potential upside was priced into shares and reduced our position.

**Alibaba Group (BABA):** We trimmed Alibaba late in the quarter. BABA's risk profile has increased, in our opinion, as a result of the potential delisting of all China-based stocks from U.S. exchanges; this development is in addition to BABA's current contretemps with the Chinese Communist Party. BABA's business and fundamentals look promising, and the valuation appears compelling, but we decided to reduce our position slightly in the face of substantial regulatory risk, in both countries.

Purchases during the quarter include the following:

**Medtronic (MDT):** We initiated a new position in Medtronic in January. MDT is a blue chip medical device and services company with a solid balance sheet, consistent free cash flow generation, and a 2% dividend yield. We were attracted to the company for three primary reasons: 1) it has a new management team that is in the process of streamlining operations to reduce excess costs, 2) it is concurrently culling underperforming businesses, and 3) it has made major

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<sup>1</sup>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 GIPS report, contact Investment Management of Virginia at (804) 643-1100.

<sup>2</sup> 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.

investments in new product development over the past few years, and those products should start to hit the market this year, driving incremental earnings growth.

Quidel (QDEL): We added to our position in Quidel in March. The stock started to decline in February on vaccine optimism (the market expects Covid testing to fall once vaccinations are widely delivered). While Covid testing is expected to decline, some higher-than-normal level of testing is likely for the foreseeable future. We believed QDEL's valuation had fully discounted a substantial reduction in Covid-related revenues, and the stock was trading at an attractive valuation on "normalized" earnings (without any benefit from Covid-related revenues). The company appears well positioned for the post-pandemic world, especially for increased point-of-care and at-home testing.

### **The Market**

In the movie *Rocky IV*, Sylvester Stallone (Rocky) prepares for a boxing match by pulling a wooden sled full of rocks; meanwhile his arch nemesis, Russian superman Ivan Drago, trains with hyper efficiency on the latest high-tech workout equipment. Over the past few years, diversifying beyond a small group of seemingly unstoppable, large capitalization technology stocks has felt like pulling a sled laden with rocks. But, the old fashioned training discipline worked in the first quarter as the rotation of capital into small capitalization, cyclical, and value stocks continued apace from the fourth quarter of last year (conventional wisdom says value stocks can outperform when economic growth is strong while growth stocks are popular when economic growth is weak because these companies can grow in spite of a weak economy). Technophiles are still doing fine, and value type equities have a long way to go to claw back a decade of underperformance, but this quarter was an interesting reminder that the technology sector cannot lead the market forever (no asset can outperform forever).

The key question is, how long can this rotation continue? As usual, there are highly successful market observers and investors on both sides of the argument, with big bets to back up their prognostications. The key considerations in this debate include: 1) the potential for another blockbuster economic stimulus bill, dressed up this time as infrastructure spending, 2) the Federal Reserve's determination to see inflation solidly above 2%, and 3) the next chapter in the Covid pandemic. Keeping in mind the unpredictability of 2020, we try to separate a reasonable guess from the unknowable.

- We believe the odds are good that there will be additional economic stimulus and that economic/GDP growth in 2021 will be the strongest in decades, maybe 6% plus. This backdrop is good for earnings.
- We suspect Jay Powell, Chair of the Federal Reserve Board, is very serious about getting inflation above 2%, but the bond market may force him to tighten interest rates sooner than he wants. We are reminded of what Clinton political adviser James Carville said regarding reincarnation: "... I would like to come back as the bond market. You can intimidate everybody".
- We suspect the equity market will be more balanced between growth and value (another way of saying that maybe the "easy money" in the value stock rebound has been made).
- We have no better insight into the course of the pandemic than you do.

The stock market floats on a sea of liquidity, and we are currently getting massive monetary and fiscal stimulus. The degree to which this extraordinary funding will help those most drastically affected by the pandemic is unclear, but these liquidity conditions are supportive of the equity market. In July 2007, Chuck Prince, then the CEO of Citigroup, described our current situation pretty well in his notorious advice. He said, “When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you’ve got to get up and dance”.

As usual, we believe you should only “dance” to the extent you can stomach volatility in the equity market and within the context of a prudent long-term investment plan. Bottom line, the stock market is highly correlated with the direction of earnings, and forward earnings estimates are currently headed up thanks to growth in the money supply and the historic economic stimulus. These are normally positive conditions for the equity market.

INVESTMENT MANAGEMENT OF VIRGINIA, LLC  
 OPPORTUNITY PORTFOLIO COMPOSITE  
 ACCOMPANYING NOTES

Year <sup>A</sup>	Total Return Gross (Percent)	Total Return Net <sup>B</sup> (Percent)	Benchmark S&P 1500 (Percent)	Benchmark S&P 500 (Percent)	Composite 3 Yr. St. Dev. Gross <sup>C</sup> (Percent)	Benchmark S&P 1500 3 Yr. St. Dev. <sup>C</sup> (Percent)	Benchmark S&P 500 3 Yr. St. Dev. <sup>C</sup> (Percent)	Number of Accounts	Composite Dispersion Gross <sup>C</sup> (Percent)	Composite Assets End of Period (Millions)	Strategy Assets End of Period <sup>D</sup> (Millions)	Model Assets End of Period <sup>D</sup> (Millions)	Non-Fee Paying Composite Assets End of Period (MM)	Percentage of Non-Fee Paying Composite Assets	Total Firm Assets End of Period (Millions)
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	1360.00%	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	14.95	14.38	17.92	18.40	22.61	18.89	18.53	63	0.88	93.71	127.19	0.29	6.73	7.18%	528.62
*2021	9.14	9.01	6.91	6.17	N/A	N/A	N/A	60	N/A	95.36	140.23	0.25	7.39	7.75%	576.59

\* 2021 performance returns are for the period ending 3/31/21.

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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Investment Management of Virginia, LLC has been independently verified for the periods January 1, 1993 through December 31, 2020. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Opportunity Portfolio composite has had a performance examination for the periods March 31, 1999 through December 31, 2020. The verification and performance examination reports are available upon request.

**1. Basis of GIPS Report**

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 March 31, 2021, the firm provides models to programs managing a total of approximately \$0.25 million in assets based on those models (this figure includes the Opportunity 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. Policies for valuing investments, calculating performance, and preparing GIPS reports are 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 dividends 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 GIPS report.

**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 GIPS report 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.**