Investment Management of Virginia

Opportunity Portfolio
1st Quarter, 2022

The Opportunity Portfolio Composite was up 4.07%, net of fees, for the quarter; this result was ahead of the 4.60% loss for the S&P 500 Index and the 4.64% loss for the S&P 1500 Index.[1] The Portfolio Composite was up 15.78%, net of fees, for the past 12 months; this was even with the S&P 500 Index and slightly ahead of the 14.57% return of the S&P 1500 Index.

The Portfolio benefitted from small capitalization company exposure as well as the Energy and Healthcare sectors; detractors included the Information Technology, Consumer Discretionary, and Industrial sectors. We continue to hold a blend of large and small capitalization stocks and, consequently, are relieved to see the market broaden beyond "megacap" technology names.

The Portfolio[2]

PayPal: We purchased PayPal (PYPL) in January and added to the position in February. PYPL had sold off nearly 50% in the second half of 2021 due to decelerating growth trends and a full valuation, but PYPL is still expected to grow "only" 20%/year over the next few years. We purchased the initial position too early and subsequently added at lower prices. In addition to secular growth trends, we expect PYPL to benefit from more business-to-consumer (B2C) opportunities as well as the monetizing of its crypto-currency platform. Lastly, PYPL owns a valuable untapped resource in Venmo which could add another leg of growth at some point in the future.

Bottomline Technologies (EPAY): We liquidated Bottomline Technologies in January. In mid-December, EPAY announced it would be taken private for $57/share. We held the stock in hopes another buyer might appear, but no competing bid was made. The deal should close this year, probably in the second quarter. We used the proceeds to fund our purchase of Cross Country Healthcare.

Cross Country Healthcare (CCRN): We initiated a new position in Cross Country Healthcare, Inc. in January. Cross Country is a small capitalization healthcare staffing company, focused primarily on the travel nurse market. CCRN has been a direct beneficiary of Covid as healthcare facilities have struggled to hire and retain skilled nurses. As a result, day rates for travel nurses (and doctors) have increased dramatically. Looking ahead, nurse attrition continues due to retirements and/or fewer hours worked, and this supply dynamic should continue for the foreseeable future. As one of the largest healthcare staffing companies, CCRN stands to benefit directly. Wall Street predicts earnings to decline significantly later this year and into next year. We suspect earnings will be much stronger and, consequently, believe the stock is attractively valued. Ultimately, CCRN would be a nice tuck-in acquisition for a larger staffing firm looking to gain immediate scale in the healthcare space.

Intrepid Potash (IPI): We trimmed our position in Intrepid Potash. As its name suggests, IPI sells potash to the Agriculture and Industrial sectors and also has a water supply and disposal business in the Oil & Gas sector. Potash prices had been steadily rising for months on increased demand and inflationary pressures. Then, as the war in Ukraine escalated and sanctions were imposed, potash prices surged higher because Russia and Belarus are major global suppliers of potash. IPI became, in effect, a very good hedge against this war. The stock became an outsized position, and we reduced our exposure. These sales produced short-

[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 GIPS report 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.

term gains, which is not common for us, but the circumstances around this company and the war are obviously volatile and unpredictable.

The Equity Market

The first quarter was eventful in the equity and fixed income markets, but the horrific war in Ukraine and the re-emergence of a realistic threat of nuclear war have given all of us a sobering dose of reality and a renewed appreciation for the rule of law. The Russian assault on Ukraine, and the humanitarian disaster unfolding before our eyes, will cast a long shadow over the world community for decades to come. In the financial markets, several previously safe assumptions are now in doubt. First, the assumption that U.S. Government debt is risk-free is now obviously false if you are a foreign holder, especially if you are an adversary of the United States. Concurrently, the act of "weaponizing" the U.S. dollar may hurt our de facto status as the world's reserve currency (many countries and investors will look harder for alternatives). Finally, the laser focus by capitalist countries on lean inventories and "just-in-time" deliveries, especially for strategic supplies like food, energy, and semiconductors, has been dashed by the war in Ukraine. Governments and companies around the world have come to better understand the potentially devastating effect of private sector boycotts and sanctions.

From an environmental point of view, the descent into war is obviously a hideous disaster, but it also reveals the challenge of pursuing structural green policies without a similar commitment from the worldwide community. Germany's decision to rely on natural gas delivered from environmentally insensitive Russia was probably the key opportunity that Putin saw as he contemplated how to rebuild the Soviet Union.[3] Germany's good intentions overlooked the risk of the Tragedy of the Commons,[4] and this oversight may be one of the primary lessons of the tragedy in Ukraine.

The war contributed to a tumultuous quarter in both equity and bond markets. These markets were already set up for a rough ride on account of the Federal Reserve's new determination to raise interest rates, and the war just added to those worries. The U.S. 10-Year Treasury Bond had one of its worst quarters in history. The losses in that bond in the 1st Quarter were only exceeded once in the early 1980s and in the 4th Quarter of 1931.[5] The S&P 500 Index experienced a sudden correction (loss of more than 10%) and then rebounded strongly to finish the quarter slightly negative.

Aside from the war in Ukraine, the main topics of conversation in financial markets are the proper course of action for the Federal Reserve to fight inflation and the likelihood that higher interest rates will cause a recession this year or next. As usual, well-informed investors and strategists are arguing from both sides (and many less informed as well), but some of the loudest voices are convinced that the Federal Reserve has been too dovish, that it must act quickly and harshly, and that tightening will likely push us into a recession within the next two years. They have plenty of data on their side, including the fact that the yield curve (the data set of government bond interest rates from 3 months to 30 years) is flattening over some maturities. This dynamic in interest rates has been a popular, if imprecise, predictor of future recessions. On the other hand, we are coming off of the most profitable year for U.S. corporations since 1950; corporate profits were up 35% in 2021 (and employee compensation rose 11%).[6] That kind of economic momentum is impressive and should carry over into 2022, albeit at a slower growth rate. The late Barton Biggs used to say that

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[3] "The West's Green Delusions Empowered Putin", Michael Shellenberger. Featured on *Common Sense with Bari Weiss*, March 1, 2022.

[4] The tragedy of the commons is an economics problem in which every individual has an incentive to consume a resource, but at the expense of every other individual—with no way to exclude anyone from consuming. Initially it was formulated by asking what would happen if every shepherd, acting in their own self-interest, allowed their flock to graze on the common field. If everybody does act in their apparent own best interest, it results in harmful over-consumption (all the grass is eaten, to the detriment of everyone). Investopedia.

[5] "One of the worst quarters for Treasuries on record", Deutsche Bank Research, March 30, 2022

[6] U.S. Department of Commerce, Bloomberg News, 3/3/22.

anything mentioned on the front page of a major newspaper is already priced into the market.[7] In this case, if everyone is discussing the possibility of a recession, how should we anticipate that risk?

As usual for our firm, holding a diversified group of dependable equities with a long-term investment horizon seems a reasonable way to proceed. Raising cash simply in anticipation of a possible recession is unlikely to be successful because there are too many moving parts, i.e. timing the recession and timing the reinvestment of cash. Also, as mentioned above, inflation is likely to be more of a factor in the next decade than it was in the previous one, and ownership of publically traded companies has historically been a good way to hedge the threat of inflation (the risk to our purchasing power by depreciated dollars). Finally, the long awaited broadening of the equity market into more cyclical companies and sectors seems to be underway, so a more conventionally diversified portfolio may be more useful in the next few years.

[7] Barton Biggs was a highly respected investor and market strategist from Morgan Stanley.

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. Gross[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 Gross[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)
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	21.87	21.28	28.45	28.71	19.05	17.47	17.17	57	1.84	106.62	159.30	0.16	7.39	6.93%	691.07
*2022	4.20	4.07	-4.64	-4.60	N/A	N/A	N/A	55	N/A	108.30	166.86	0.17	6.07	5.60%	634.68

* 2022 performance returns are for the period ending 3/31/22.

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, 2021. 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, 2021. 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, 2022, the firm provides models to programs managing a total of approximately $0.17 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. 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 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 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.