Investment Management of Virginia

Select Equity Income Portfolio
1st Quarter, 2022

The Select Equity Income Portfolio Composite was down slightly, 0.29%, net of fees, for the quarter. This result was ahead of the S&P 500 Index's loss of 4.60% and also slightly ahead of the Russell 3000 Value Index's loss of 0.85%. The Select Equity Income Portfolio Composite was up 14.18% over the past 12 months; this was behind the 15.65% return of the S&P 500 Index and ahead of the 11.10% return of the Russell 3000 Value Index.[1]

Our focus on high-quality, dividend paying stocks performed admirably during a quarter where the NASDAQ saw a "bear-market" draw down of over 20%. The Portfolio's standouts included energy and healthcare sector positions; underperformers included the semiconductor stocks such as Broadcom and Microchip, which were coming off of exceptional performance last year.

The Portfolio[2]

Schlumberger (SLB): We sold Kinder Morgan (KMI) which had been a relative underperformer and replaced it with Schlumberger during the quarter. Schlumberger is the largest oilfield services company in the world and will benefit directly from new capital spending by the major oil companies. The war in Ukraine has put the sector in the spotlight and highlighted the need for dependable oil and gas supplies even during a transition to alternative energy sources. The company has remained cash flow positive through the last five years of weak oil prices and has maintained a strong balance sheet despite the downturn. We expect the company to increase the dividend as activity in the oil services sector picks up.

International Business Machines (IBM): IBM has gradually evolved as a provider of cloud and data platforms. The company spun off its declining mainframe business and has acquired high growth companies (such as Red Hat) which allow IBM to compete in the rapidly expanding hybrid cloud market. The company is also a leader in blockchain technology. Despite the stagnant share price, the company generated over $10 billion of free cash flow in the past year, which it will use to fund its dividend and to buy back shares. The stock is trading at 12.3x earnings estimates compared to 24x for the overall hardware sector.[3] As the company starts showing year-over-year revenue growth, we expect this valuation gap to close.

MDC Corporation (MDC): MDC is a build-to-order homebuilder with operations in some of the fastest growing regions of the country. The stock has declined recently because of supply shortages and long lead times for new home deliveries (in addition to higher mortgage rates). However, favorable demand and pricing trends, a lack of existing home supply, and a focus on affordable homes should help the company continue to report strong results for the foreseeable future. The stock currently trades at 3.5x earnings, which is at the bottom of the historical range, and pays a healthy 5.3% dividend.

CVS Health (CVS): We sold a partial position in CVS because the stock reached our initial valuation target. The company continues to execute well on its strategy of becoming a one-stop healthcare hub, and we are maintaining a smaller position. Despite the stock price move, CVS still trades at a reasonable 13.0x earnings and pays a 2.1% dividend.

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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 GIPS report, 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.

[3] All stock price data, including dividends and comparable multiples, are from FactSet

Tyson Foods (TSN): We sold a partial position in TSN because the stock had reached our initial valuation target. We are maintaining a core position because the company is benefiting from robust demand in both its retail and restaurant business after COVID shutdowns. The stock trades at 11.0x forward earnings which is still a discount to its historical average and well below peak cycle levels.

Kinder Morgan (KMI): As we mentioned, we sold our KMI and switched into Schlumberger. While we were happy with KMI's 5.0% dividend yield, we felt that SLB had more potential for long term capital appreciation.

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.[4] Germany's good intentions overlooked the risk of the Tragedy of the Commons,[5] 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.[6] 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

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[4] "The West's Green Delusions Empowered Putin", Michael Shellenberger. Featured on *Common Sense with Bari Weiss*, March 1, 2022.
[5] 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.
[6] "One of the worst quarters for Treasuries on record", Deutsche Bank Research, March 30, 2022

compensation rose 11%).[7] 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 anything mentioned on the front page of a major newspaper is already priced into the market.[8] 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] U.S. Department of Commerce, Bloomberg News, 3/3/22.
[8] Barton Biggs was a highly respected investor and market strategist from Morgan Stanley.

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. Gross[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 Gross[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)
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	10.85	10.17	18.40	2.87	19.15	18.53	19.96	24	0.70	44.50	3.19	7.16%	528.62
2021	23.64	22.94	28.71	25.37	17.70	17.17	19.34	22	1.94	54.62	0.92	1.68%	691.07
*2022	-0.14	-0.29	-4.60	-0.85	N/A	N/A	N/A	19	N/A	49.65	0.00	0.00%	634.68

* 2022 performance returns are for the period ending 3/31/22.
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. 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 Select Equity Income Portfolio composite has had a performance examination for the periods July 1, 2001 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 the Company 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 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. 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 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 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.