Investment Management of Virginia

Select Equity Income Portfolio
3rd Quarter, 2022

The Select Equity Income Portfolio Composite was down 6.72%, net of fees, for the quarter. This result was behind the S&P 500 Index's loss of 4.88% and behind of the Russell 3000 Value Index's loss of 5.56%.[1] For the year-to-date period, the Portfolio Composite is ahead (less bad) of S&P 500 Index (down 18% versus, net of fees, versus down 23.87% for that Index) and down approximately in line with the Russell 3000 Value Index, which is down 17.97%.

Equity markets revisited the lows of the summer, and while the Select Portfolio's defensive approach fared better than the indices, the current quarter sell-off spared few participants. The Energy sector positions were the only real standouts, and even the defensive sectors like Health Care and REITs were among the detractors. The Select Equity Income Portfolio positions are chosen to ride through difficult markets like this one, and we should be able to count on these companies to provide a steady dividend yield in the meanwhile.

The Portfolio[2]
The only major change we made in the portfolio was selling Tyson Foods (TSN) for The Hanover Insurance Group (THG). We also reduced Merck (MRK) and added to our position in Schlumberger (SLB).

The Hanover Insurance Group (THG): THG is a middle market commercial and personal insurance company which maintains a conservative balance sheet and high underwriting standards; this combination normally produces modest cyclical swings in earnings. THG's shares trade at a reasonable Price-to-Book multiple and Price-to-Earnings valuation as compared to its peers. In addition, the industry has consolidated, and THG should be an attractive takeover target. Finally, the company's investment portfolio should benefit from the rise in short-term interest rates.

Tyson Foods (TSN): We sold TSN because the thesis for owning the stock, a re-opening of restaurants post COVID shutdowns, has largely played out. In addition, the company was experiencing higher than expected cost increases from commodities.

Merck (MRK): We sold a portion of our Merck to take advantage of the relative strength in Health Care early in the quarter. We have maintained a core position because Keytruda, the company's blockbuster PD-L1 inhibitor, continues to gain approvals for fighting different types of cancer.

Schlumberger (SLB): We added to our position in SLB because the company should continue to benefit from increased worldwide oil production as countries scramble to meet their energy needs in the volatile geopolitical environment. The company provides the most comprehensive range of oilfield

[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.

services and products to the explorers and producers of hydrocarbons. The stock trades at a reasonable 15x earnings and pays a 1.95% dividend (as of 9/29/22).

The Equity Market

As we write this letter, it seems like many historic correlations are breaking down. For the year-to-date:

- Both U.S. equities and bonds (government and corporate) are down substantially. These two asset classes normally diversify one another.
- Year-over-year inflation is alarmingly high, but the U.S. dollar is hitting all-time highs and gold is coming off of a two-year low. Inflation is normally accompanied by a weak dollar and strong gold prices.
- U.S. unemployment remains low, but many investors suspect we are already in a recession.
- Oil prices (WTI spot prices) are 35% off of the highs this year in spite of a war in Ukraine and a looming threat by Russia to cut oil supplies to Europe.

Behind these contradictions is a credible threat of the use of tactical nuclear weapons by Russia, a threat most of the world had written off as a Cold War relic.

As we parse the list of investor concerns, it is important to remember that the United States is coming out of a long period of abnormally low interest rates. Interest rates represent the price of money, and, since the Great Recession in 2008, the price of money has been very low. That kind of liquidity (availability of money) can be very helpful, and certainly we needed a shot in the arm, no pun intended, during the height of the Covid pandemic. But, too much money can also be hard to put to work efficiently, and now, as the Federal Reserve reiterates its determination to fight inflation, we are adjusting to a more normal price of money, and the adjustment is difficult.

There are many contributors to the current weakness in the markets, but the tightening of the money supply over the past six months, one of the most severe contractions on a relative basis since World War II, has been an obvious negative catalyst.[3] U.S. Federal Reserve Board members know they must contain inflation, and they seem determined not to "pivot" to a less hawkish stance anytime soon. The current tightening cycle may push the U.S. economy into recession, if we are not already there.

We do not know if we are near the "bottom", but the equity market is down substantially, investor sentiment is terrible, institutional investors appear to be positioned very defensively, and inflation may be peaking. These are all reasons to be skeptical of extreme bearishness. A lengthy list of concerns is normal in a weak market, and waiting for good news to hit the tape is usually a good way to miss the rebound. The current arguments from bearish investors are popular, and the few remaining strategists who advocate buying into this weakness are feeling a little bit lonely. Their bullish outlook is, generally speaking, that the economic slowdown will be mild and that current equity prices properly reflect both the likely decline in earnings and an appropriate price-to-earnings multiple. We do not really participate in this (or any) market timing debate, but, on the whole, we believe this is a good time for long-term investors to stick with a disciplined investment approach and not the time to cut equity exposure substantially. It is also a little bit comforting to realize that equity returns after a mid-term election are, on average, better than in other years:

[3] Professor Jeremy Siegel in CNBC "Squawk Box" interview. 9/26/2022.

“The silver lining for investors is that markets have tended to rebound strongly in subsequent months (after mid-term elections), and the rally that has often started shortly before Election Day hasn’t been just a short term blip. Above-average returns have been typical for the full year following the election cycle. Since 1950, the average one-year return following a midterm election was 15%. That’s more than twice the return of all other years during a similar period”. [4]

[4] “Can Mid Term Elections Move Markets” Capital Ideas by Capital Group. Page 4; 9/27/22.

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	-17.64	-18.00	-23.87	-17.97	N/A	N/A	N/A	19	N/A	40.16	0.00	0.00%	519.95

* 2022 performance returns are for the period ending 9/30/22.

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 June 30, 2022. 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 June 30, 2022. 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 September 30, 2022, the firm provides models to programs managing a total of approximately $0.13 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, 7231 Forest Avenue, Suite 204, Richmond, Virginia 23226, 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.