Investment Management of Virginia

Small Capitalization Portfolio
3rd Quarter, 2022

The Small Capitalization Portfolio Composite was down 1.64%, net of fees, for the quarter, slightly ahead of the 2.19% loss for the Russell 2000 Index.[1] The Portfolio Composite is ahead of the Russell 2000 Index for the year-to-date and over the 1, 3, 5-year and since inception periods.[2]

This quarter devolved into material losses during a late September sell-off amid increasingly bearish sentiment. From a transaction standpoint, after a busy start to the year, we made relatively few changes during the quarter. We added to both of our Energy companies as those stocks sold off with the market despite good quarterly results and positive outlooks, and we sold two underperformers. One silver lining from the current market weakness is that we are starting to see more companies approach attractive entry prices. We have used previous downturns in the market to buy interesting companies that are normally too expensive or too large. This downturn should be no different, and we are waiting as those opportunities begin to emerge.

The Portfolio[3]

In August, we added to our position in World Fuel Services (INT). World Fuel is a global fuel broker in the Aviation, Marine and Land fueling markets. INT had been negatively impacted by rapidly rising jet fuel prices to start the year, but those issues were remedied by the end of the second quarter. Ironically, World Fuel's Marine division actually benefited from the rising and volatile fuel prices as it squeezed smaller competitors out of the market. Moreover, World Fuel's Land business, which is primarily U.S. based, benefited from its January acquisition of Flyers Energy. We like World Fuel for its solid balance sheet, attractive dividend yield (2.27% on 9/28/22), and exposure to markets that are expected to grow coming out of Covid lockdowns (cruise ships and international air travel, for example).

In August, we added to our position in Tidewater, Inc. (TDW). Tidewater was a new position in the portfolio in the second quarter, and we used weakness in the broad market to fill out our position. Recall that TDW is a leading global marine support and transport company servicing the offshore energy industry. The improving supply/demand dynamics in the industry are reflected in TDW's increasing day-rates. The war in Ukraine has also caused consumers (businesses and governments) to look for new sources of supply; offshore drilling is a likely area for multi-year investment by independents and the major oil companies.

In August, we liquidated our position in KVH Industries (KVHI). KVHI had been a long-term holding in the portfolio. The company has interesting technology but has never been able to leverage that to meaningful bottom-line results. The company has been in turnaround mode for a few years now and recently changed its management team. We were concerned that the company was poised for another

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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] Portfolio inception 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.

multi-year turnaround effort, so we decided to move on. We added to our position in World Fuel (INT) with the proceeds.

In August, we liquidated our position in Green Dot (GDOT), another long-term holding of this portfolio. GDOT has been in a multi-year turnaround process; recently, competition from venture capital-funded Neobank and other online banks has increased. GDOT is profitable but is now competing against some new companies willing to lose money for the sake of growth and market share. Lastly, GDOT's largest customer, Wal-Mart, appears to be exploring multiple ways to grow its own financial services offerings, possibly meaning a lesser role for GDOT in the future. We added to our position in Tidewater with the proceeds.

In September, we trimmed our position in Cross Country Healthcare (CCRN). On continued strong demand for travel nurses, the stock reached our maximum position size towards the end of the quarter, so we cut it back a bit. We continue to believe CCRN is a beneficiary in a secular shift in nursing procurement and the industry supply/demand fundamentals, thus it remains a meaningful position in the portfolio.

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.[4] U.S. Federal Reserve Board members know they must

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

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:

"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". [5]

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

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. Gross[C] (Percent)	Benchmark Russell 2000 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	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	34.32	33.61	19.96	24.59	25.27	17	0.65	31.64	72.28	0.80	1.97	6.22%	528.62
2021	23.85	23.24	14.82	21.44	23.35	14	0.58	32.10	85.37	0.00	2.39	7.45%	691.07
*2022	-20.12	-20.42	-25.10	N/A	N/A	12	N/A	24.76	34.72	0.00	1.64	6.61%	519.95

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

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. 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 Small Capitalization Portfolio composite has had a performance examination for the periods January 1, 1994 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 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. 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 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 GIPS report. 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 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.