

Todd 2Q 2019 Intrinsic Value Opportunity Review

	2Q 2019	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Intrinsic Value Opportunity (Gross)	1.9%	14.5%	1.0%	8.4%	3.8%	9.8%	12.7%
(Net)	1.7%	14.0%	0.2%	7.5%	2.9%	8.9%	11.9%
S&P 500	4.3%	18.5%	10.4%	14.2%	10.7%	14.0%	14.7%
Russell 1000 Value	3.8%	16.2%	8.5%	10.2%	7.5%	12.1%	13.2%

* Annualized Total Returns. Please refer to the attached Performance Disclosure for further information

Performance Review

The Intrinsic Value Opportunity strategy remains under pressure as value strategies in general have been out of favor. This deeper value strategy focuses on the least expensive third of the S&P 500 and then invests in three sleeves that contain the most highly ranked stocks on technical strength, profitability efficiency and financial strength. Unfortunately, the influence of value on the selection process has offset the benefits from the other attributes.

To give you a sense of how far out of favor value is, we examined returns for the S&P 500 by quintile based on P/E for the Year to Date period in the table below. As you can see, the cheapest 100 stocks in the S&P traded at an average P/E of roughly 9, and returned slightly over 10%. The most expensive quintile traded at an average of over 54 times earnings and returned 26.4%. The five year bet of the cheaper stocks have been higher than the comparable measure for the expensive stocks. This is an anomaly that we do not think should persist, and we believe with the central banks shifting back to monetary easing, they could be opening the door for better performance from value strategies in general.

SPX 12-31-18 to 6-30-19

Quintile by

	P/E	P/E	Return	Beta
Q1	9.1	10.7	1.09	
Q2	13.5	15.5	1.00	
Q2	18.2	18.8	0.94	
Q4	24.3	25.5	0.94	
Q5	54.1	26.4	0.98	

Source: Bloomberg



Our factor work showed a continuation of investor preference for growth and no interest in value metrics. Our Price/Intrinsic Value measure detracted during the quarter as did quality and other profitability metrics. Momentum and earnings growth metrics were the most additive.

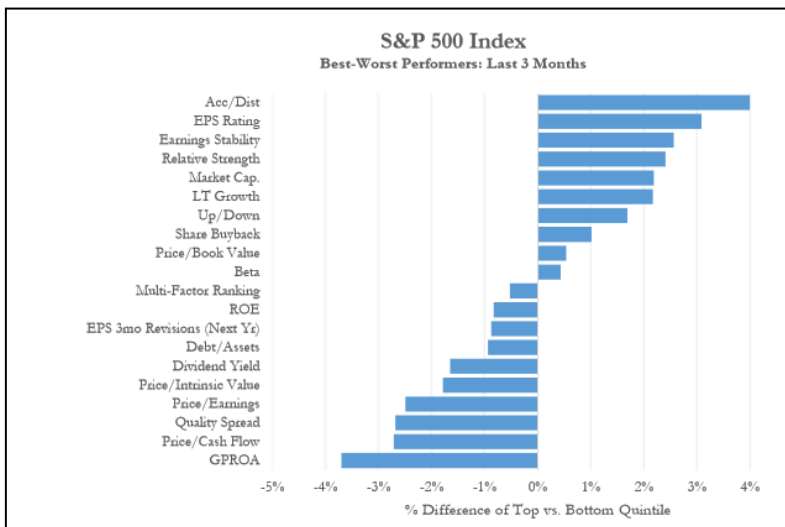
The strategy has a majority of its exposure in Consumer Discretionary, Technology, Health Care and Financials, specifically emphasizing Retail, IT Hardware, Semiconductors, Healthcare Equipment and Banks.

Our top five contributors to performance during the quarter were Qualcomm, Dollar General, Applied Materials, Starbucks and Target. Qualcomm reached a settlement with its largest customer (Apple) after a long period of litigation, resulting in a payment from Apple and a 6 year licensing deal. This removed legal uncertainty that had clouded the company for some time and shares rallied as a result. Dollar General posted strong results during the quarter driven by volume and pricing. Forward guidance was also better than expected as tariffs are as impactful as feared. Applied Materials continues to manage it's was through a difficult environment as weakness in Memory is being offset by its other businesses. Investors became more comfortable in Starbucks ability to drive margins higher and effectively compete in China as the quarter progressed. Target reported strong quarterly results on solid digital sales.

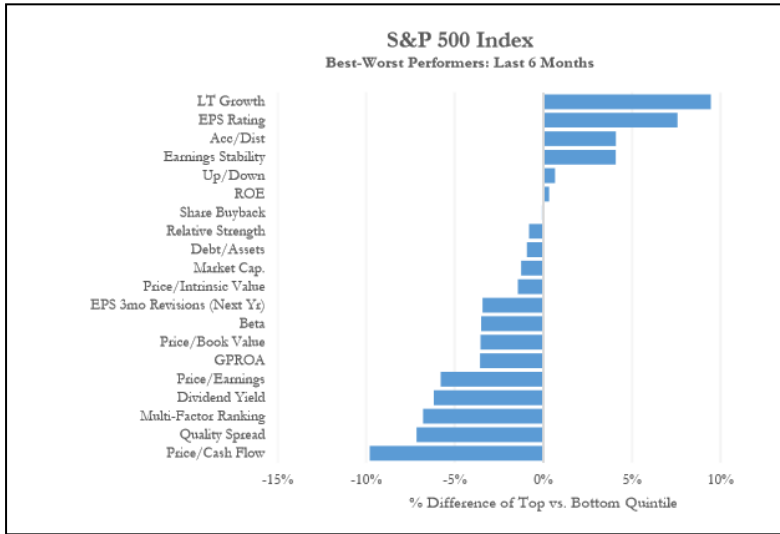
Our worst five detractors from performance during the quarter were Kohl's, Nordstrom, Robert Half, Advanced Auto Parts and Kroger. Kohl's reported declining same-store-sales and cut forward earnings guidance. Nordstrom also missed earnings estimates and lowered guidance as trends deteriorated. Robert Half missed as temporary staffing growth decelerated worker demand was cautious due to macro uncertainty. Investors have been skeptical that Advanced Auto Parts can improve margins to levels their peers operate at as rising wages pressure the industry. Kroger posted returns that indicate initiatives to stabilize margins and growth have not yet turned results around.

Factor Watch- GAAP now means “Growth at Any Price”

Our customary review of the factors that have helped and hurt performance over the past quarter (top chart) and year to date (bottom chart) periods ending 6-30-19 are presented below. As a reminder, these charts measure the difference between the highest ranking 20 percent of our index (equal weighted) based on each of these factors versus the lowest ranking 20%.



The most prominent theme we see this year is growth and we would note that investors continue to avoid most value stocks. Investors appear to be willing to pay any price for high assured growth stocks as High Growth has outperformed Low Growth by 10% YTD and Low Price to Cash Flow stocks have underperformed expensive ones by 10% as well. Investors seem to be suspicious of value, and consider most inexpensive names to be value traps. This mindset began during the early part of 2018, as investor confidence suffered when the Fed was aggressively raising interest rates and most value oriented names were shunned in favor of assured growth. We'll



infer that investors do not believe the economic expansion can continue, so they are not willing to venture into cheaply valued stocks like the Financials or Energy stocks as they have no confidence that their economic underpinnings will last. Our sense is that as the Fed starts lowering rates, the value sectors could see some interest when investors sense that the Fed is not trying to end the economic expansion.

We believe the Intrinsic Value Opportunity Strategy is at the bottom of its cycle currently, and that investors in the strategy should benefit from a recovery as the Fed cuts rates and the market begins to rotate away from the growth oriented trade.

As always, if you need any additional information, Please feel free to contact any of us.

- Curt Scott, CFA
- Jack White, CFA
- Jack Holden CFA
- Shaun Siers, CFA

07/19/19
S&P 500 – 2,977
Russell 1000 Value – 1,261

Refer to Performance Disclosure on the following page for more information on the performance numbers presented. These notes are an integral part of this letter and should not be reproduced or duplicated without these notes.

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Specific stocks discussed in this presentation are included to help demonstrate the investment process or, as a review of the Composite's quarterly results; and are not intended as recommendations of said securities and carry no implications about past or future performance. All or some of the specific stocks mentioned may have been purchased or sold by accounts within the Composite during the period, or since the period, and may be purchased or sold in the future. A complete listing of the holdings as of the period end is available upon request.

Todd Asset Management LLC ("TAM") is a registered investment adviser. The performance presented represents a composite of fully discretionary accounts invested in equity securities within the S&P 500 Index with the objective to seek capital appreciation. This goal is pursued by investing in a portfolio of securities that are in the least expensive third of the S&P 500 Index using a rules based process based on financial strength, profitability strength and market acceptance.

Todd Asset Management LLC, formerly Todd-Veredus Asset Management LLC began operations on June 1, 1998 as Veredus Asset Management LLC (VAM). Effective May 1, 2009, VAM combined with Todd Investment Advisors, Inc. (TIA). TIA (and its predecessors) was founded in 1967 by Bosworth M. Todd. Upon the combination of VAM and TIA in 2009, Veredus Asset Management LLC changed its name to Todd-Veredus Asset Management LLC (TVAM). On February 28, 2013, after a change in ownership involving some VAM unitholders, TVAM changed its name to Todd Asset Management LLC. The firm continues to offer the same strategies managed by individuals using the process founded under TIA.

The Intrinsic Value Opportunity Composite contains fully discretionary, taxable and tax-exempt accounts that use either the S&P 500 Index or the Russell 1000 Value Index as the benchmark. All fee-paying, fully discretionary portfolios under our management are included in a composite. Accounts are eligible for inclusion in the composite at the beginning of the first calendar quarter after the month of initial funding and upon being fully invested.

TAM claims compliance with the Global Investment Performance Standards (GIPS®). The Firm has been independently verified for the periods January 1, 2008 through December 31, 2018. VAM was verified for the period July 1, 1989 through December 31, 2007 by a previous verifier. TIA's compliance with the GIPS® standards has been verified for the period January 1, 1993 through April 30, 2009. The Intrinsic Value Opportunity Composite has been examined for the periods January 1, 2011 through December 31, 2018. A complete list and description of TAM composites and/or the verification and performance examination reports are available upon request by contacting TAM at 1-888-544-8633, or write Todd Asset Management LLC, 101 South Fifth Street, Suite 3100, Louisville, Kentucky 40202, or contact us through our Web site at www.toddasset.com.

The performance information is presented on a trade date basis, both gross and net of management fees, net of transactions costs, and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .80% applied monthly. From October 2009 to March 2014 the management fee schedule applied to the composite was 0.70%. Prior to October 2009, the management fee schedule applied to the composite was .60%. Actual investment advisory fees incurred by clients may vary. The currency used to calculate and express performance is U.S. dollars. All cash reserves and equivalents have been included in the performance.

The composite performance has been compared to the following benchmarks. The indexes are unmanaged, and not available for direct investment; they include reinvestment of dividends; they do not reflect management fees or transaction costs:

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected portfolio of publicly traded common stocks. The performance data was supplied by Standard & Poor's. It is included to indicate the effect of general market conditions.

Russell 1000 Value Index is a widely recognized index of market activity based on the aggregate performance of common stocks from the Russell 1000 Index, with lower price-to-book ratios and lower forecasted growth values. The performance data was supplied by Frank Russell Trust Company.



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