TODD
ASSET MANAGEMENT LLC

July 19, 2019
Intrinsic Value Team
Todd Asset Management

Todd Q2 2019 Large Cap Intrinsic Value Review

	2Q 2019	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	2.9%	15.0%	0.4%	13.8%	7.4%	11.7%	12.7%
(Net)	2.8%	14.7%	-0.2%	13.1%	6.8%	11.1%	12.0%
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

Our LCIV strategy remained under pressure in the second quarter as value strategies in general remained out of favor and investors bid up assured growth stocks. We believe this trend of underperformance should change as the Fed begins to lower interest rates to remedy their overshoot from last year. We also believe that if a modestly constructive trade deal is reached, uncertainty surrounding the outlook should ease up which could also prompt a rotation.

Stock selection drove most of our underperformance during the quarter. Financials and Industrials were our best performing sectors. Technology, Communication Services and Consumer Staples were our weakest areas. Our factor work showed a continuation of investor preference for growth and no interest in value metrics. Our Multi-Factor Ranking detracted as 3 of the 7 inputs that go into the ranking detracted during the quarter, including our Price/Intrinsic Value measure.

We remain overweight the more economically sensitive sectors, including Financials, Energy, Consumer Discretionary and Industrials. We also continue to be underweight in Communications, Consumer Staples, Technology, Utilities and Real Estate.

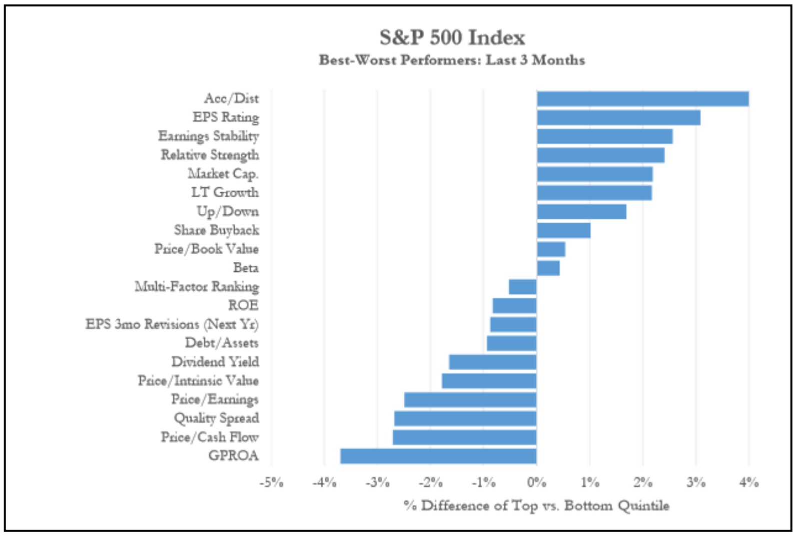
Our top five contributors to performance during the quarter were TE Connectivity, NVR, JPMorgan, United Rentals and Ameriprise. Concerns around high inventory levels and soft auto production had weighed on earnings estimates for TE Connectivity and shares moved higher after 1Q19 report was better than expected and earnings guidance was increased. Mortgage rates have come down considerably which has led to better order growth and demand at NVR. Shares of JPMorgan rallied as expectations of the Fed cutting rates rose. Solid loan growth, specifically within the Consumer segment, also helped earnings beat in 1Q19. United Rentals benefitted from a broad based recovery in rental rates and volumes, easing late-cycle concerns. The company's product mix is also emphasizing more Specialty equip. which yields higher margins. Strong equity markets and margin expansion in their Wealth mgmt. division drove Ameriprise shares higher.

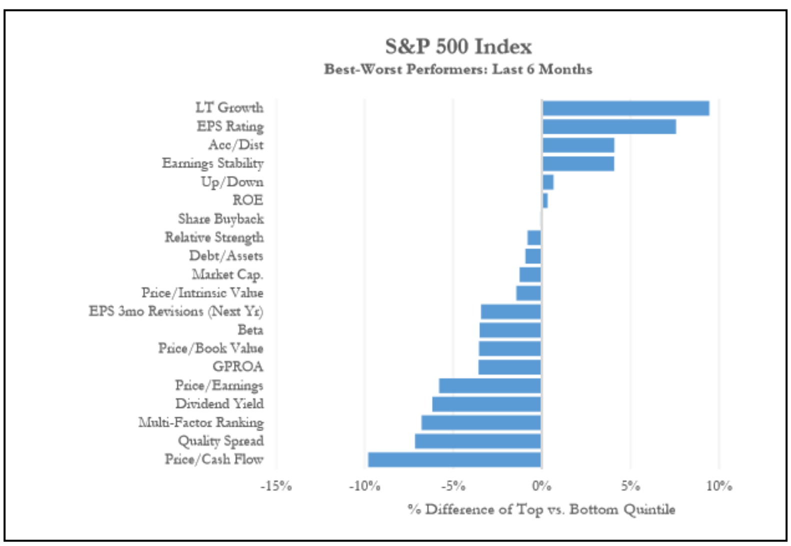
Our worst five detractors from performance during the quarter were Intel, Foot Locker, Alphabet, Altria and Cognizant. Intel's Datacenter results have disappointed as inventory levels correct due to ongoing weakness in China. This paired with elevated spending on 10nm chips is weighing on margins. Foot Locker's 1Q results missed and mgmt. lowered guidance on softer margins and store traffic. Alphabet

(Google) posted soft results as spending on cloud and slower paid-click growth is weighing on margins. Antitrust concerns also weighed on shares in late May. Increased uncertainty for e-cigs after court ruling removed 4 year extension through 2022 and increased competition continue to weigh on shares of Altria. Guidance was significantly lowered for Cognizant by the new CEO (specifically in Finance and HealthCare) and a number of analysts downgraded the name on uncertainty around the timing of turnaround efforts.

<u>Factor Watch- GAAP now means "Growth at Any Price"</u>

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%.

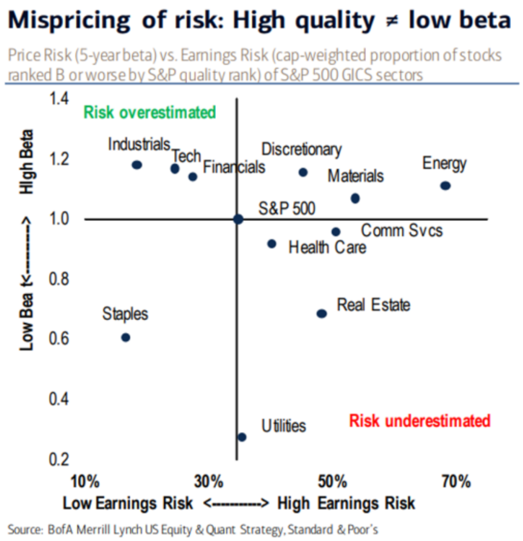




The most prominent theme we see this year is growth and we would note that investors continue to avoid most value stocks. Investors appear to be willing to pay any price for high assured growth stocks as High Growth has outperformed Low Growth by 10% YTD and Low Price to Cash Flow stocks have underperformed 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.

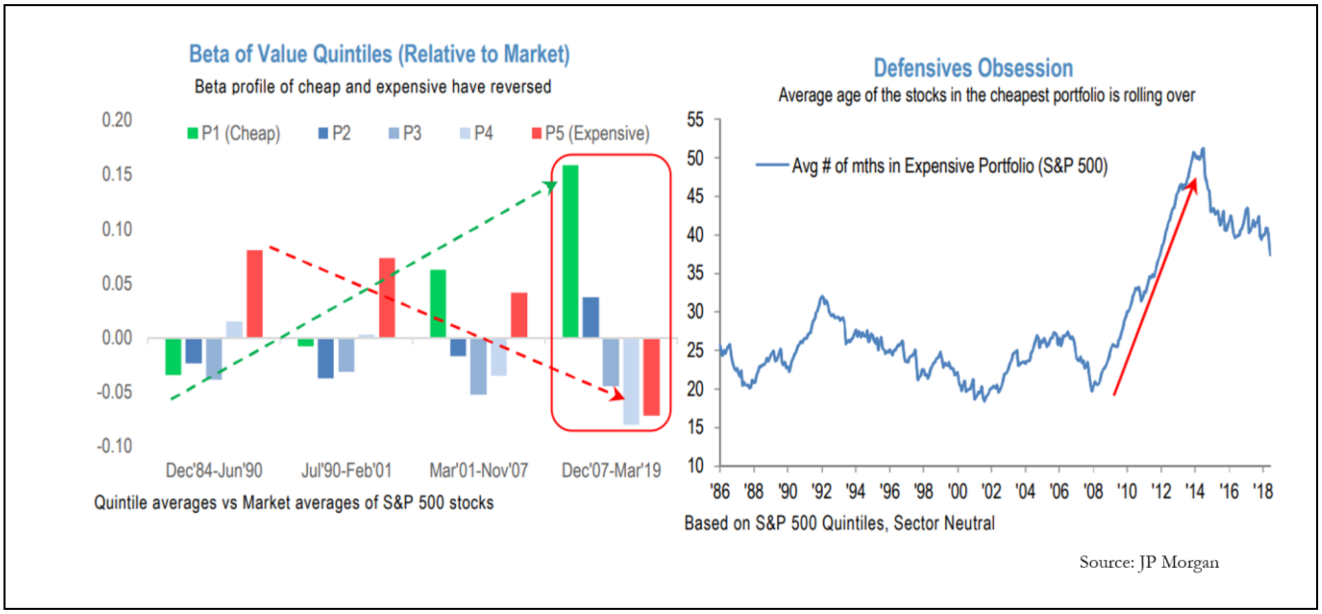
We believe our style is at the bottom of its cycle currently, much like where we were in early 2016, the last time that markets priced in a recession that did not occur. During that episode, when investors realized the economy was not going into recession our strategy recovered and by early 2018 was ahead of the indexes over most time frames. We believe another recovery is probably in the works for this strategy.

We have not changed our strategy. We invest in high quality, attractively valued companies with good fundamentals and constructive charts. The market has penalized them over the past year as the Fed has overshot on their rate tightening cycle and investors have been less willing to believe that economic growth is sustainable. In an odd twist, some of the higher quality companies are actually MORE volatile than the lower quality companies at this point, as can be seen in the illustration below.



- **Many Lower Beta stocks have higher earnings risk as measured by S&P quality rankings.**
- **Extraordinary Fed Actions have investors seeking defensive yield (Staples, Real Estate, Utilities) and assured growth (FANGS).**
- **We have been overweight Industrials, Financials and Discretionary, and underweight Staples, REITs, Utilities and the FANGS.**
- **Investor mindset has been "shoot first, ask questions later" as market has priced in two recessions over the past 5 years.**

We have also seen that the least expensive names in the market have become the most volatile as well, and would note that analysis of results gets difficult when there is no rotation within the most expensive sector of the market as seen in the illustration below.



The good news is that we believe some of these cycles are changing. Much of the financial uncertainty of the past year has been driven by the Fed aggressively raising rates. They now appear poised to lower rates and remove some of that concern. In fact, market forces have already lowered borrowing rates, which should be supportive for consumers that are in the markets for houses or autos. Much of the recent economic uncertainty has been inflicted by the trade dispute. China would benefit from a deal, and President Trump's re-election campaign probably would as well. We believe those concerns should dissipate and some agreement is likely. Some of our cynical friends have suggested the May imposition of tariffs by the US could have been a tactic to delay any resolution so that the best impact of any potential deal might be felt during the election season next year. I don't know if we would go that far, but it would make some sense. Remember that China is stimulating their economy pretty aggressively, which should help the growth outlook as well. Concerns about Brexit have weighed on European business confidence, and much of the S&P's international exposure is to Europe. We are not sure how that will play out, but do expect some clarity over the coming months as Parliament and the next PM decide how they will approach it. Lastly, many of the assured growth stocks (you know, the FANGs that have accounted for much of the market appreciation in recent years) are now squarely in the regulators crosshairs. This could force investors to broaden their horizons for selecting stocks if those names see political risk increase.

The crosscurrents in the market are maddening at times, as markets advance while investors worry about the economy. Realistically though, how bad can it be when stocks have hit new highs? The problem we see is that investors remain crowded in the one way trades of assured growth and technology, and unwilling to venture out to cheaper areas of the market because they perceive risk to the fundamentals in those areas. A "pessimistic bull" is how I've heard some investors describe it, and that characterization feels correct.

Investors are not embracing the market run up and skepticism remains high. While that could keep a lid on the market over the summer as we work our way through the debt ceiling debates, Brexit and whatever developments occur on the trade negotiations, we see a number of forces at work that probably support the market through year end. Concerns are high right now on a number of issues, much like they were in 2016. When the concerns eased up in the past, markets have rallied and rotated to out of favor sectors. We expect it to play out like that this time as well.

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

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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.

TODD ASSET MANAGEMENT LLC
LARGE CAP INTRINSIC VALUE COMPOSITE DISCLOSURE

Past performance does not provide any guarantee of future performance, and one should not rely on the composite or any security's performance as an indication of future performance. Investment return and principal value of an investment will fluctuate so that the value of the account may be worth more or less than the original invested cost. There is no guarantee that this investment strategy will work under all market conditions.

Registration of an investment adviser does not imply any level of skill or training.

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 tax-exempt fully discretionary intrinsic value accounts, invested primarily in large cap domestic equity securities with the objective to seek capital appreciation. This goal is pursued by investing in a diversified portfolio of equity securities that TAM believes are trading at a discount to their intrinsic value.

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 Large Cap Intrinsic Value Composite contains fully discretionary, tax-exempt accounts that use either the S&P 500 Index or Russell 1000 Value Index as the benchmark. Prior to April 1, 2010, this composite was known as the Relative Value Equity Composite; no changes in the strategy were made in conjunction with the name change. 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 Large Cap Intrinsic Value 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 transaction costs and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .60% applied monthly. Prior to September 2001, the management fee schedule applied to the composite was .50%. 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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