

Todd Q3 2019 Intrinsic Value Opportunity Review

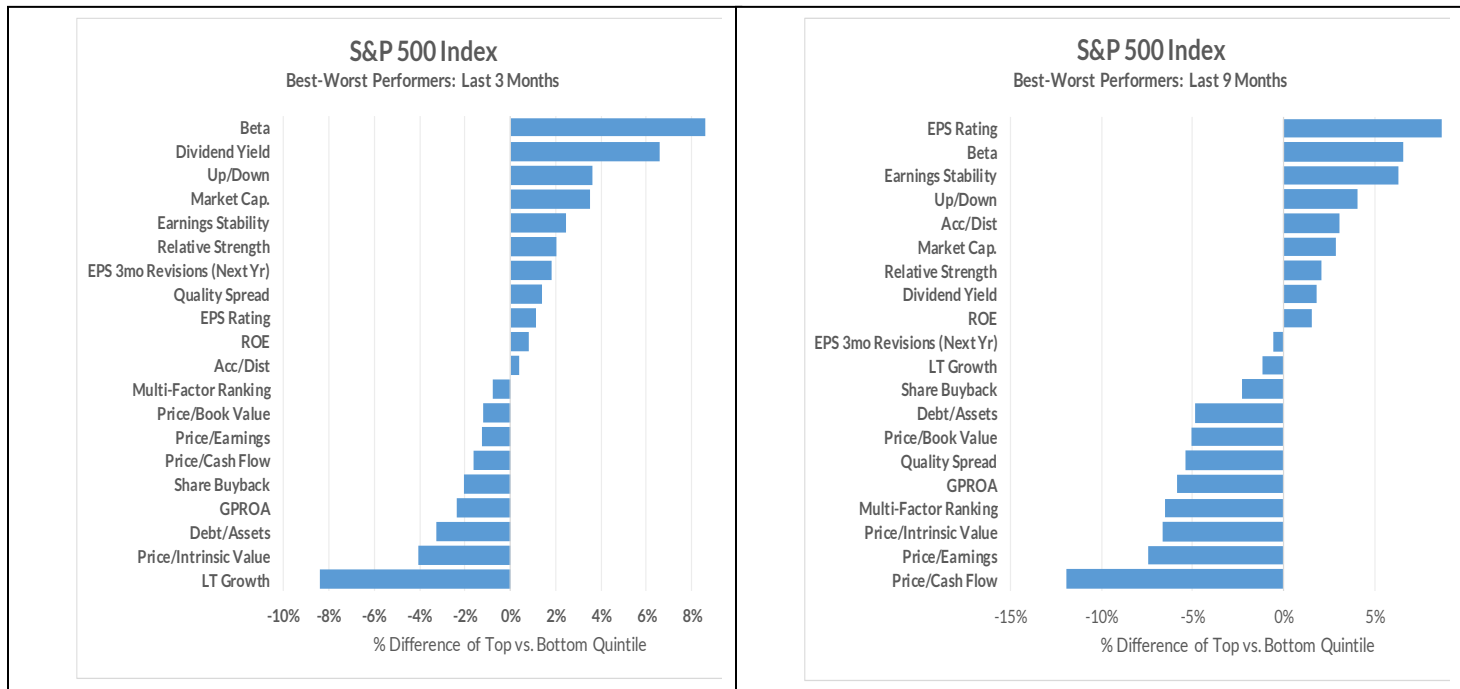
	3Q 2019	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
IV Opportunity (Gross)	2.7%	17.6%	-2.2%	7.1%	3.8%	9.8%	10.9%
IV Opportunity (Net)	2.5%	16.8%	-3.1%	6.2%	3.0%	8.9%	10.0%
S&P 500	1.7%	20.6%	4.3%	13.4%	10.8%	13.3%	13.2%
Russell 1000 Value	1.4%	17.8%	4.0%	9.4%	7.8%	11.3%	11.5%

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

Performance Review

Recession worries have dominated conversation for the past few months. Concerns around trade and geopolitical events continued to mount and were further validated during the quarter by weakening leading indicators and manufacturing indices. As a result, investors have largely continued to favor “growth-at-any-price” and shunned value for much of the quarter. However, we have witnessed a notable shift in sentiment in August as interest rates bottomed at the height of Brexit uncertainty and hawkish US/China trade rhetoric. A rotation back into Value from Growth and into Cyclical from Defensives unfolded in September and gave us an indication that these stretched trades may unwind if recession is averted, due to: lower rates from the Fed, a resilient US consumer, bottoming of manufacturing activity and resolution to Brexit and US/China trade.

Our factor work continues to show little interest in value metrics for the most recent quarter and year, although value did have a brief reprieve in September as investors rotated out of growth and momentum. Price/Intrinsic Value detracted during the quarter as our profitability and financial strength metrics. Large cap, low beta and high dividend yield were the best performers, along with several market recognition metrics.



Source: Bloomberg, William O'Neil + Co and Todd Asset Management

The strategy has a majority of its exposure in Consumer Discretionary, Technology, and Industrials. Specific industries of emphasis include Retail, Apparel, IT Hardware, Semiconductors and Capital Goods. These areas helped drive outperformance for the quarter, as did our absence in Energy which underperformed the broader market.

Our top five contributors to performance during the quarter were Lam Research, Kroger, Dollar General, Target and Home Depot. Lam Research shares rallied on investor hopes that capital spending in memory chips, which has been depressed for some time, would recover in coming quarters and put a trough in earnings in place. The company has about 70% of its revenue exposed to the memory space. Kroger, which had sold off in prior months, recovered as valuation became stretched and found support. Dollar General shares continued to perform well and posted strong results and guidance as pricing has been firm and tariff pressures are being managed and offset. Shares of Target jumped following a very strong quarterly release that showed earnings growth of +24% yoy, which was considerably more than expected. This was largely driven by margin expansion, which bucked a downward trend thanks to digital sales and more firm pricing. Home Depot benefited from the risk on rally in the 2nd half of the quarter after reporting a solid 2Q and guiding for sales to reaccelerate moving forward. Lower mortgage rates also led to increase refinancing activity which is likely feeding savings into more home improvement.

Our worst five detractors from performance during the quarter were Tapestry, Ralph Lauren, Corning, HCA Healthcare and Xerox. Tapestry (formerly Coach) posted disappointing quarter results and lowered forward earnings guidance as recovery efforts in their Kate Spade brand are taking more time. Broad based industry pressure from wholesale channels and outlets is also weighing on retails names. This is weighing on Ralph Lauren as well as investors wait for revenues to reaccelerate higher. Corning shares sold off following cautious comments on end market demand that caused earnings estimates to decline. HCA Healthcare reported light quarterly results as weaker surgical volumes weighed on margins and a proposed government rule to increase pricing transparency caused shares to sell off. Xerox also posted light results as revenues declined -9% yoy with guidance for weakness to continue, although margin expansion should help to offset.

We continue to believe recession concerns are overstated. Manufacturing activity, which has undoubtedly slowed, is due for a cyclical recovery. The Fed should continue to ease policy. Lower rates paired with strong employment should continue to support the US consumer and spending going forward. Finally, US/China trade rhetoric looks to be easing as a “phase 1” deal was recently announced. While modest, we think this signals a de-escalation that could lead to more progress as we enter a presidential election cycle. If recession concerns abate, we believe our strategy should find more traction as increased confidence in the economic cycle should bode well for Value disciplines.

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

10/16/19
S&P 500 - 2,999
Russell 1000 Value - 1,256

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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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 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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