

A Little Like Watching Poker

Todd International Intrinsic Value Review

	3Q 2017	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
International Intrinsic Value (Gross)	7.6%	23.1%	21.8%	3.7%	8.1%	7.0%	3.1%
(Net)	7.4%	22.3%	20.8%	2.9%	7.2%	6.1%	2.2%
MSCI ACWI ex.-US	6.3%	21.6%	20.1%	5.2%	7.5%	5.7%	1.7%

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

Ever watch poker on TV? Tune in and you'll see a few people around a table trying not to let others guess what they are thinking. Those that are best at estimating probabilities and guessing what others are thinking tend to win the games. Market action this year is a little like watching poker. News outlets and many strategists have been concerned about any number of things, but the market has sized them up like a poker player and decided the probability of them occurring is low. Poker is a game based on incomplete information and odds. Information is more incomplete recently than it had been in the past, given the political gaming we see. Still, the market is advancing steadily with low volatility, which indicates to us that investors are focused on earnings and growth rather than the political side of the equation. The press does not know how to deal with incomplete information (or probabilities) and has been focused a number of concerns including:

- North Korea unleashing a nuclear device (low probability in our opinion)
- Chinese debt downgrades leading to a financial crisis (low probability in our opinion)
- A hard Brexit (Brexit likely happens, but nobody wins in a hard one)
- Washington drama (Debt Ceiling/ACA/Tax Reform) and Presidential Tweets
- Thirteen percent of Germans voted for an extreme right wing nationalist party
- Hurricanes, natural disasters (unpredictable and transitory)

While those items may make for headlines, we believe the market is focused on more positive outcomes as worldwide economies are in a synchronized recovery.

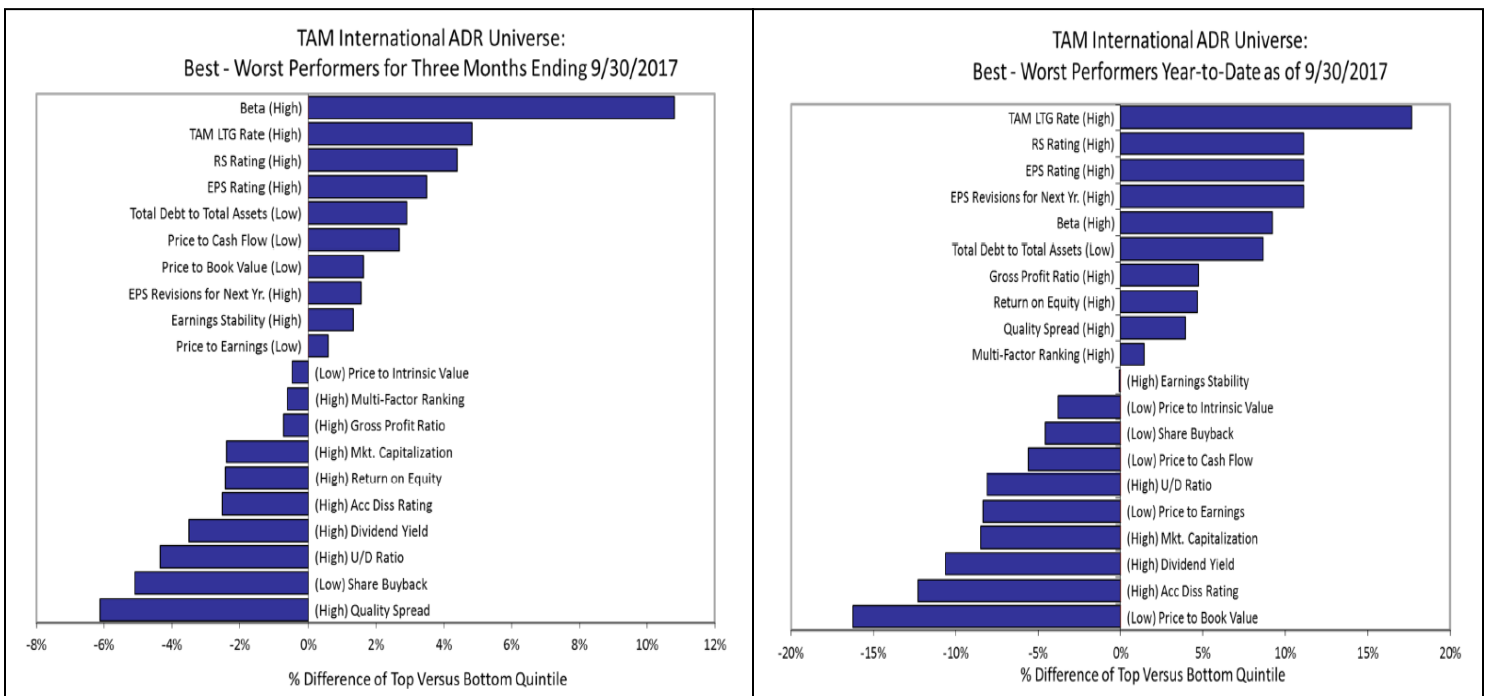
- The economic outlook is improving globally
- Earnings are recovering as the "Great Reset" is over (See "The Great Reset" on the TAM website) and pent up demand exists
- Central banks are tiptoeing away from quantitative easing and normalizing rates
- Inflation remains low, even as commodities look more constructive
- Potential for tax reform in the US, labor reform in Europe, and political reform in Latin America are adding to global confidence.

Odds favor equity markets continuing their advance. As the economic outlook remains firm, bond rates are rising. Investors are hard pressed to make low bond returns meet their long term



goals and they need to consider stocks. Investor sentiment remains poor, indicating to us that probabilities of being at a market top are low.

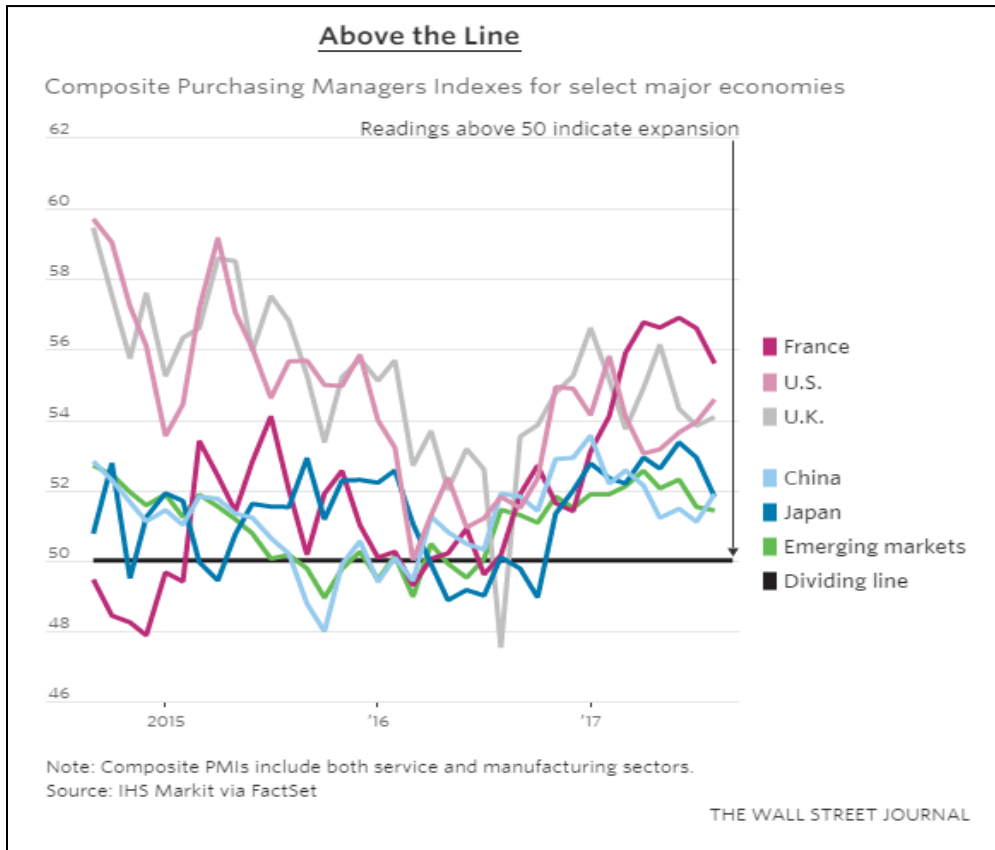
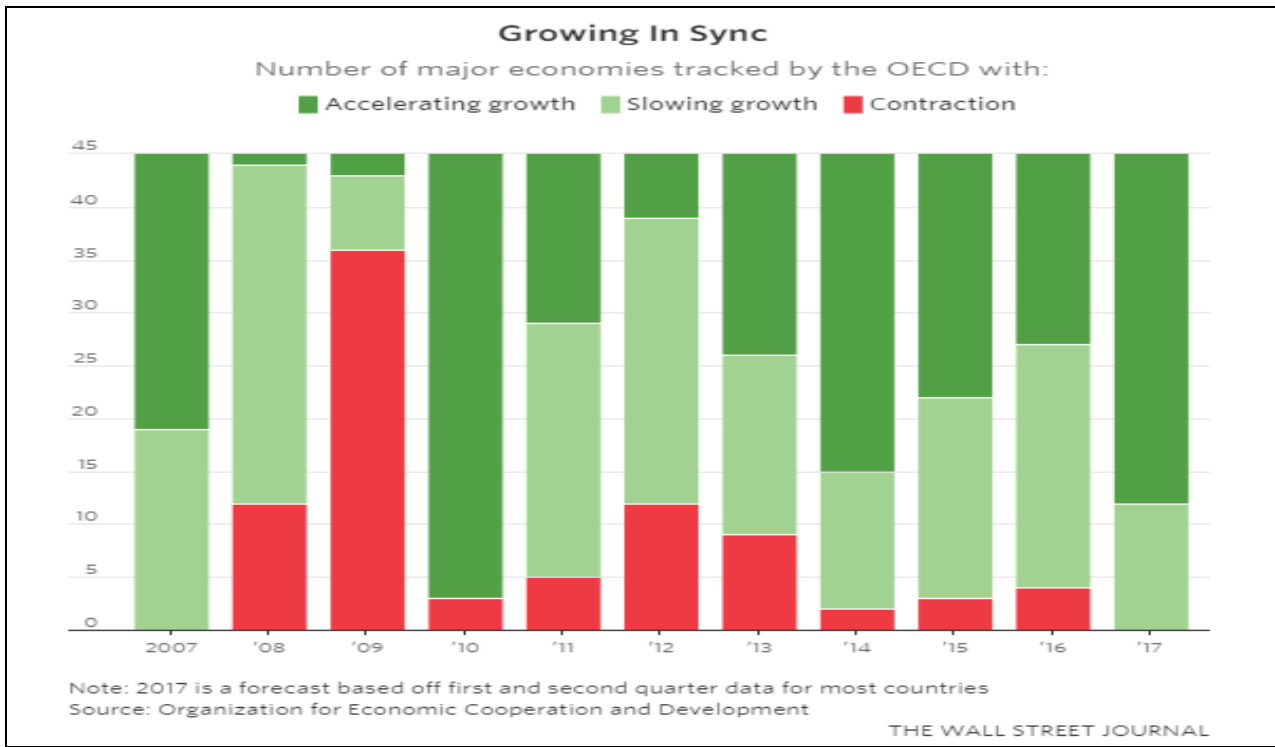
Our customary charts that illustrate the factors being rewarded within the marketplace during the third quarter of 2017 and the year-to-date periods are presented below. They indicate how the best 100 of the largest US traded international stocks compared to the worst 100 for each measure. The number of factors being rewarded continues to expand off of the very low levels we saw in 2016. The quarter felt like a “risk on” period as the reflation trade from late last year returned. Beta was rewarded, along with fundamentals, longer term technical and many valuation measures. Quality, several financial strength and shorter term technical measures were out of favor in the quarter. For the year-to-date period, fundamental growth, quality and longer term technical measures were rewarded. Shorter term technical measures and some valuation metrics were under pressure thus far in 2017. These trends are similar to the US.



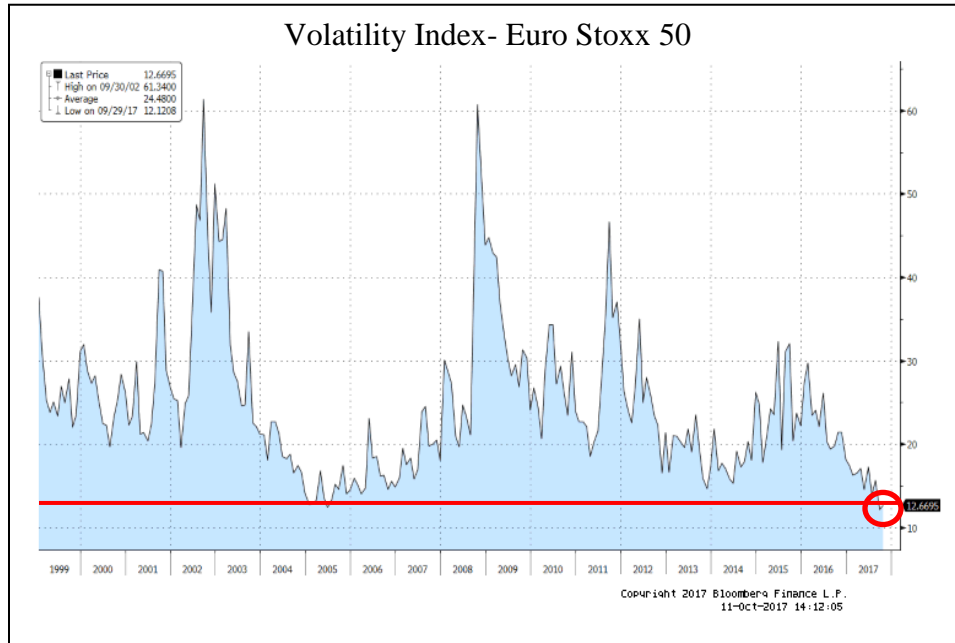
Source: Bloomberg, TAM

Year-to-date performance has been good for equities and growth has been in favor. The best sector has been Technology, returning almost twice what the index did. Value styles have generally been out of favor as investors worried about Energy stocks. Energy concerns center on oil prices. Commodity stocks were standout performers in the third quarter as the market rotated back in after oil prices firmed up. We believe commodities probably continue to firm up, and bond rates probably move up as well over the next 12 months. That would help the Energy and Financial sectors and should bolster value stocks in general as confidence improves.

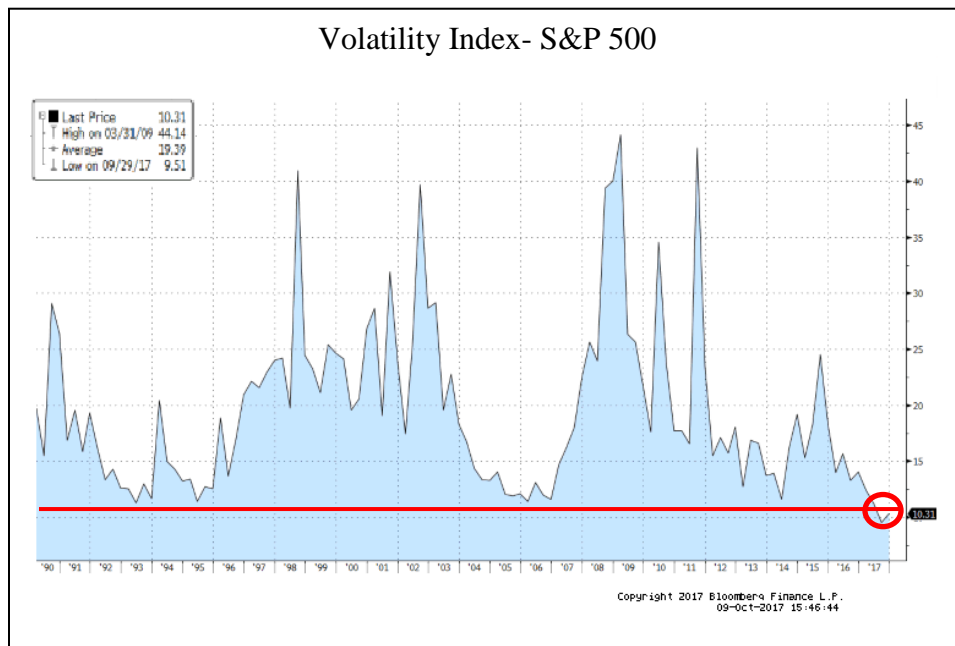
Interesting Charts We Saw This Quarter

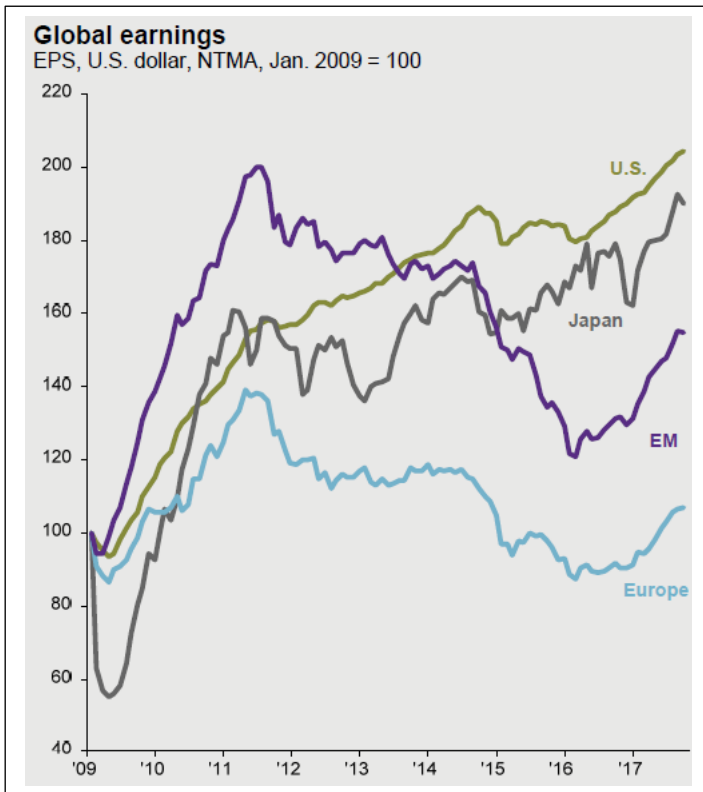
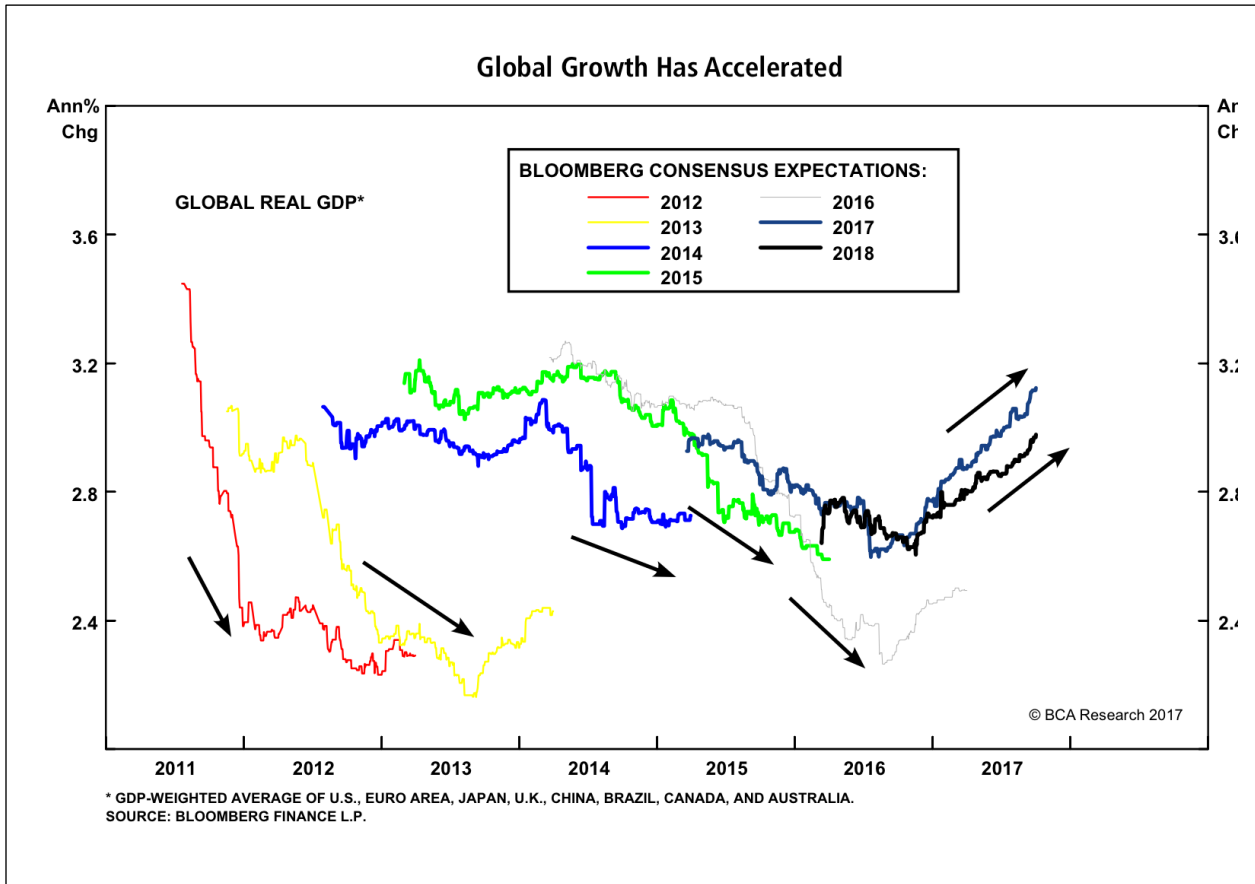


“For the first time in a decade, the world’s major economies are growing in sync, a result of lingering low-interest-rate stimulus from central banks and the gradual fading of crises that over years ricocheted from the US to Greece, Brazil and beyond.”- *WSJ August 23, 2017*

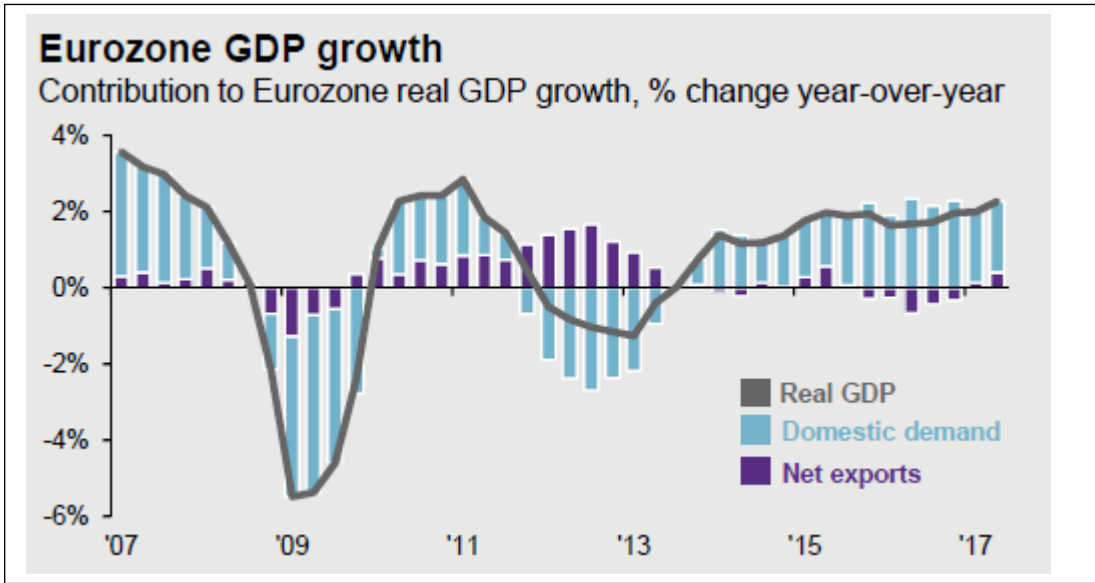


The Volatility Index, or VIX as it is known on Wall Street, is a measure of expected market volatility for an index over the next 30 days. We present Euro Stoxx 50 VIX in the chart above. The comparable measure for the S&P 500 VIX is presented below. Both measures recently set record lows, indicating investors worldwide are less worried than headlines would suggest. This measure can stay low for years at a time.

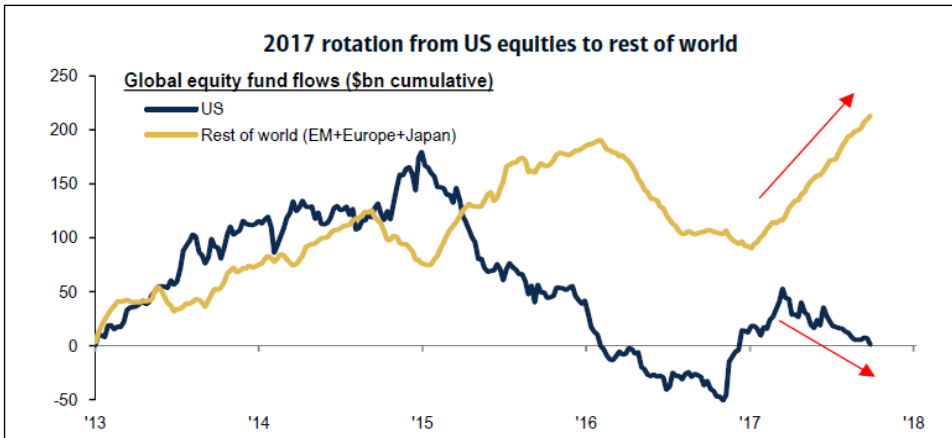




The chart above, from BCA Research, illustrates how consensus estimates of global real GDP growth have progressed for each year since 2012. Through 2015, the pattern was generally for analysts to cut estimates (sometimes dramatically) through most of the year. Something interesting happened in mid-2016, and estimates began being revised upwards for 2016, 2017 and 2018. Those GDP growth estimates are among the highest over the past 5 years, and are still being revised upwards. Global earnings estimates, shown in the chart to the left from JP Morgan, also hit an inflection point in mid-2016 and are improving for all regions.



The chart above, from J.P. Morgan, shows the sources of real GDP growth in the Eurozone. Domestic demand has accounted for most of the economic growth since 2014. Since 2015, the Euro has appreciated versus the Chinese Yuan. This suggests that imports will be higher.



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

Fund flows are a good measure of sentiment. Fund flows to international markets are picking up compared to US flows which are declining.

Performance Review

The International IV strategy gained **+7.6%** (gross) during the quarter, exceeding the MSCI ACWI ex-US return of **+6.3%**. For the trailing twelve months the strategy has returned **21.8%** (gross) versus **20.1%** for the index. International markets are developing much like the US did, but with a delay. Fundamental disciplines are starting to gain traction after a period where fear dominated last year and they were not rewarded. We believe our strategy is a beneficiary of this development and should have a good opportunity to outperform for some time to come.

Stock selection drove our relative outperformance during the quarter while our sector positioning was also additive. Financials, Telecom and Technology were our best performing sectors. Our worst performing sectors were Materials and Industrials. From a regional perspective our outperformance was also driven by stock selection, particularly in Emerging Markets and Europe ex-UK. Selection in the UK and our overweight position here both detracted from performance.

We remain overweight Technology, Financials and Industrials. We are also remaining underweight Consumer Staples, Health Care, Materials, Real Estate and Utilities. Among regions, we are overweight Canada and the UK. We are underweight Japan, Pacific ex-Japan and Emerging Markets. We have continued adding to Emerging Markets over the past few quarters.

Our top five contributors to performance during the quarter were Repsol, New Oriental Education, Icon, Mobile Telesystems and Yandex. The recovery in oil prices helped to improve the cash flow and dividend outlook for Repsol. Their downstream operations should also benefit from solid refining margins. New Oriental Education continues to see strength in enrollment as newly opened learning centers are driving sales. Tuition rates remain strong as well. Icon saw bookings and sales momentum continue outside of the Pfizer business, which was a concern earlier this year after a cancelled cholesterol trial. Mobile Telesystems saw shares bounce back as lawsuit related concerns around their largest shareholder (Sistema) eased. They were also helped by improved economic outlook in Russia, better pricing and data usage growth. Yandex gained market share from Google following an anti-trust ruling which opens up Android devices to non-Google apps. Their joint-venture with Uber also gave shares a lift and removes a major competitive threat to their taxi business.

Our worst five detractors from performance during the quarter were Netease, Shire, British American Tobacco, Allergan and Vipshop. Netease released disappointing quarterly results as online gaming revenues were down and investments in the gaming pipeline weighed on margins. Concerns around Shire's hemophilia business and ADHD drugs weighed on shares. We were concerned that angst around debt levels post-Baxalta and competitive pressures would persist so we eliminated the position to fund better opportunities. British American Tobacco shares sold off as the FDA moved to cut the level of nicotine in cigarettes. Allergan shares sold off due to concerns around patent protection for Restasis (dry eye) and downgraded earnings revisions on flat prescription demand. Vipshop has seen its margins deteriorate as competitor discounts (Alibaba and JD) have weighed on pricing, particularly in apparel.



As we enter the seasonally strongest period of the year for markets, many voices are arguing for caution in investing, and suggesting that new highs are unsustainable with stretched valuations. Our observation would be that markets had a difficult time during the earnings recession of 2015 and 2016, remaining pressured for roughly eighteen months. Markets have broken out with the profits recovery, and EPS are expected to continue advancing for the foreseeable future. If a synchronized economic recovery continues to gain strength, earnings comparisons will likely be even better than expected. Betting against this advance has been a losing proposition, and our sense is probabilities favor the advance continuing.

As always, we are here to assist you. 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

Todd Asset Management LLC

10-18-2017

MSCI ACWI ex-US- 297

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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TODD ASSET MANAGEMENT LLC INTERNATIONAL 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.

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 primarily in large cap internationally domiciled, US traded equity securities, with the objective to seek capital appreciation. This goal is pursued by investing in a diversified portfolio of these equities which TAM believes are trading at a discount to their intrinsic value. The minimum account size for this composite is \$1 million.

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 International Intrinsic Value Composite contains fully discretionary, taxable, and tax-exempt accounts that use either the MSCI ACWI ex-US (Gross) or the MSCI EAFE Index (Gross) as the benchmark. Prior to April 1, 2010, this composite was known as the International 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 June 30, 2017. 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 International Intrinsic Value Composite has been examined for the periods January 1, 2011 through June 30, 2017. 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, gross and net of management fees, and net of transaction costs and foreign withholding taxes, and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .80% applied monthly. Prior to January 2007, 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. As of 6/30/2013, the primary benchmark was changed to the MSCI ACWI ex-US from the MSCI EAFE. The ACWI better reflects the strategy guidelines with emerging market and Canadian exposure. Both indexes have been presented in the past. As of the aforementioned date the EAFE has been removed.

The composite performance has been compared to the following benchmark. The index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs.

MSCI ACWI ex-U.S. (Gross) Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. The ACWI ex-U.S. includes both developed and emerging markets. For investors who benchmark their U.S. and international stocks separately, this index provides a way to monitor international exposure apart from U.S. investments.