

### *Todd Intrinsic Value Opportunity Review*

	4Q 2018	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Intrinsic Value Opportunity (Gross)	-16.8%	-11.8%	1.6%	2.0%	8.8%	13.2%
(Net)	-17.0%	-12.5%	0.7%	1.2%	8.0%	12.4%
S&P 500	-13.5%	-4.4%	9.3%	8.5%	12.7%	13.1%
Russell 1000 Value	-11.7%	-8.3%	7.0%	6.0%	11.0%	11.2%

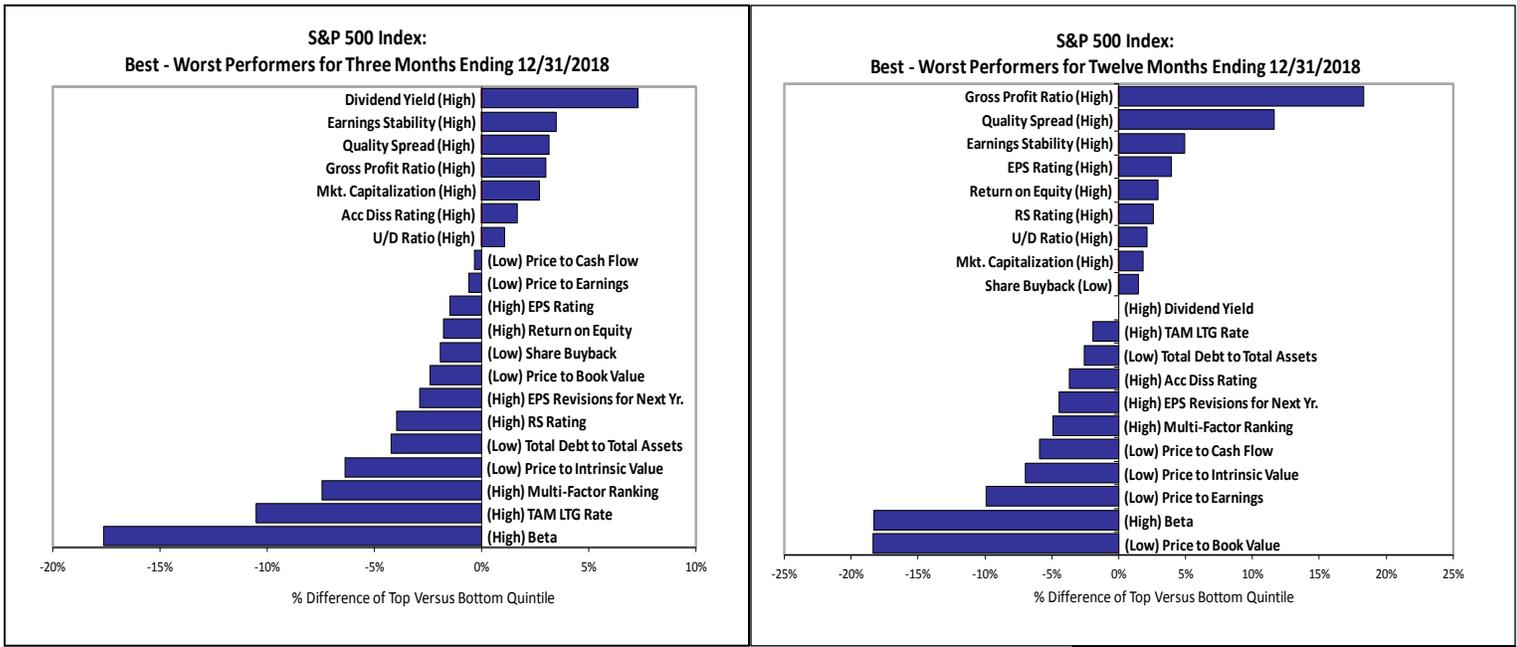
\* Annualized Total Returns. Please refer to the attached Performance Disclosure for further information

### **Performance Review**

The IV Opportunity strategy declined -16.8% (gross) during the quarter, underperforming the S&P 500 (-13.5%) and Russell 1000 Value (-11.7%). Year to date, the IVO is down -11.8% (gross) vs. the S&P 500 at -4.4% and Russell 1000 Value at -8.3%.

The US stock market anticipated a recession in the second half of last year. The 20% decline from the S&P 500 peak in September to the trough in December is confirmation of that. The US bond market is probably gearing up for one as well, as the decline in bond yields seem to indicate. The odd thing about this is that the Federal Reserve and most economists do not expect one. Looking at performance for the last quarter, current fundamentals didn't matter, but geopolitics and Fed policy did. Investors are anticipating an economic contraction that we do not think will occur. This feels very much like an echo of a similar episode the US experienced in 2016, and our sense is it probably plays out the same way, i.e. no recession and a recovery in stocks with good fundamentals.

Looking at the charts at the top of the next page, our factor work showed a flight to safety as additive factors narrowed to only 7 of the 20 we track, led by quality factors and dividend yield. This is reminiscent of the environment we saw back in the first part of 2016. Valuation metrics, including our Price-to-Intrinsic Value, underperformed as did earnings strength.



Source: Todd Asset Management, Bloomberg

Sector and industry exposure is most notable in Consumer Discretionary, Technology, Health Care and Industrials. Retail, Technology Hardware, Security, Health Care Facilities and Capital Goods were all areas being emphasized.

Our top five contributors to performance during the quarter were Foot Locker, O'Reilly Automotive, Advanced Auto Parts, Juniper Networks and Fastenal. Foot Locker reported stronger than expected same store sales and earnings in November on better demand for running and women's footwear. The safety profile (stable EPS growth) of the auto parts companies, O'Reilly and Advanced Auto, helped shares during the risk off phase in December. Increased demand for maintenance due to ageing consumer vehicles is also driving sales for these companies. Juniper Networks is set to be an early beneficiary of increased datacenter and telecom spending on infrastructure for 5G network rollouts in 2019-20. Fastenal has been able to keep pricing stable despite concerns over tariffs increasing costs, as much of its sourcing comes from China.

Our worst five detractors from performance during the quarter were Capri Holdings (previously Michael Kors), DaVita, Celgene, Best Buy and NetApp. Poor retail results with the Kors brand caused sales to miss estimates in the most recent quarter as light inventories weighed on product availability. DaVita missed consensus estimates last quarter and continues to face reimbursement

headwinds, particularly from Medicare. Celgene, despite reporting better than expected results, continues to need pipeline success to boost revenues in anticipation of the patent expiration of its largest drug, Revlimid. Best Buy shares sold off as Apple preannounced soft iPhone demand



expectations in December. NetApp is seeing revenue growth decelerate due to client concerns over the macro environment restraining spending.

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

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Jack Holden CFA  
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01/18/19  
S&P 500 – 2,669 (Intraday)  
Russell 1000 Value – 1,165 (Intraday)

***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 INTRINSIC VALUE OPPORTUNITY 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 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 September 30, 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 September 30, 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](http://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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