TODD ASSET MANAGEMENT LLC

April 23, 2018
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What if it's not late cycle?

Todd Large Cap Intrinsic Value Review

	1Q 2018	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-0.5%	18.8%	10.2%	13.4%	12.5%	9.8%
(Net)	-0.6%	18.1%	9.5%	12.7%	11.8%	9.1%
S&P 500	-0.8%	14.0%	10.8%	13.3%	12.7%	9.5%
Russell 1000 Value	-2.8%	7.0%	7.9%	10.8%	11.0%	7.8%

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

The first quarter of 2018 was feast or famine as a January for the record books gave way to a February and March that were dismal. By the end of January, most worldwide markets were up 4 to 11%. The best results for larger economies came from the US (up 7.5%) and Hong Kong (up 10.8%). January results were bolstered by Tax Reform in the US and an anticipated pickup in investment that should help the US and its trading partners. Then, in a case of "no good deed goes unpunished" strong US employment growth for January (reported early February) spurred a selloff as US rates rose. The weakness spread from the US to international markets. As the selloff intensified, volatility spiked, algorithmic programs kicked in and low volatility funds were liquidated. US stocks declined over 10% in a few days, while international indexes declined slightly more than 9% peak to trough. Markets recovered slightly through mid-March, when concerns about US tariffs led to a retest of the lows leaving most markets in the red for the quarter.

We hear arguments from bearish strategists that it is late in the US cycle, and they anticipate a recession in the foreseeable future. Some of the things supporting a late cycle call would be:

- Inflation fears are being stoked as oil prices remain strong, US unemployment is low and inflation measures are rising. Still, on an absolute basis inflation remains low.
- Minutes of central bank meetings for both the US Fed and Bank of England reinforced the potential for rates to increase more than anticipated as the outlook improves.
- Some economic indicators show that different gauges of industrial activity globally are declining from high levels.

We do not think it is late cycle, and believe the US and worldwide economies should have visibility to grow over the next several years. Why we believe this is not a late cycle call:

- GDP estimates are rising for most of the world. International economies are much earlier in the cycle than the US, and capital spending could extend the US cycle.
- Interest rates are still negative in many parts of the world, and low in the US. Expansions tend not to end until central banks end them with an inverted yield curve.
- US tax cuts are only being felt by businesses and consumers now. Repatriation of capital in the US is still to come. An increase in Federal spending is now in the works.
- Leading economic indicators are still improving. Typically, recessions don't happen until they deteriorate.

Some strategists are concerned that the return of volatility may indicate the end of this market advance. We do not believe so for two reasons:

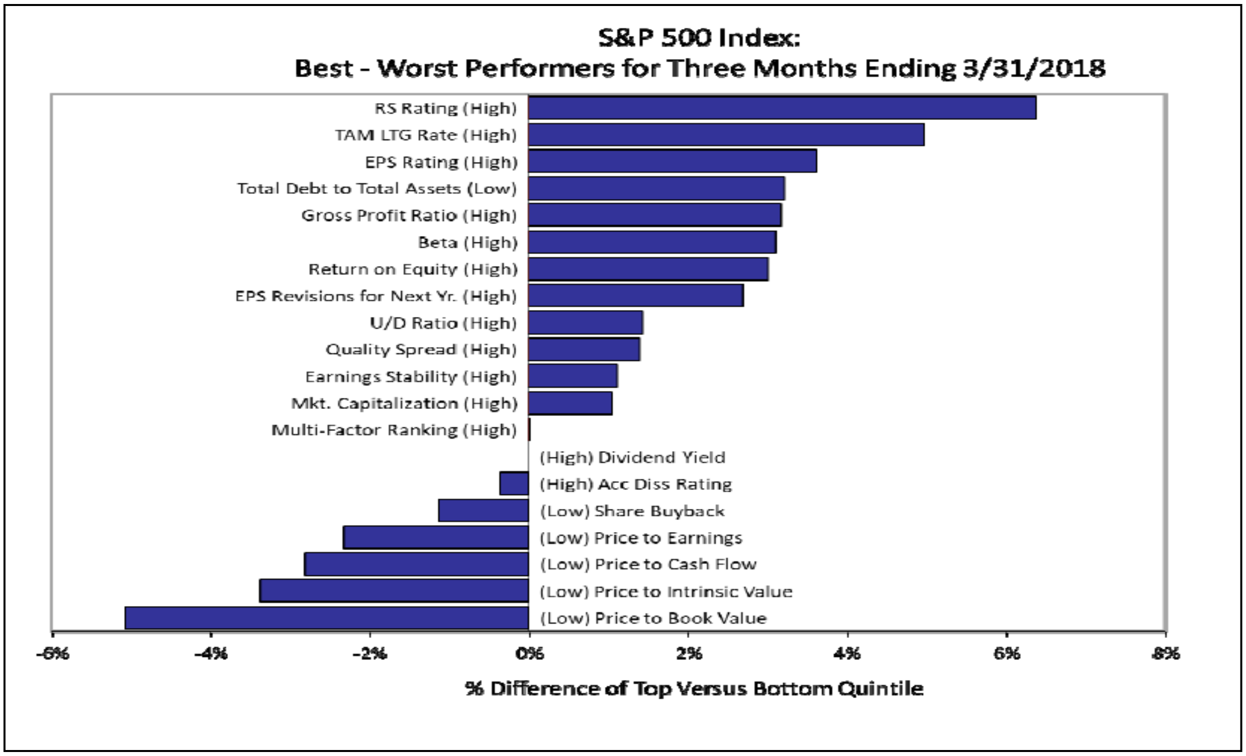
1. Rates have generally risen since the beginning of the year, indicating no flight to safety mentality. German yields are negative out to five years, where they had been negative out to seven years in early January. US 10 year rates have risen from 2.4% to over 2.9% in the same time frame. Japan bought bonds early in February to keep rates low as market forces pressured them upward.
2. Earnings and economic growth estimates have increased. Inflation is rising slightly but is still at low levels.

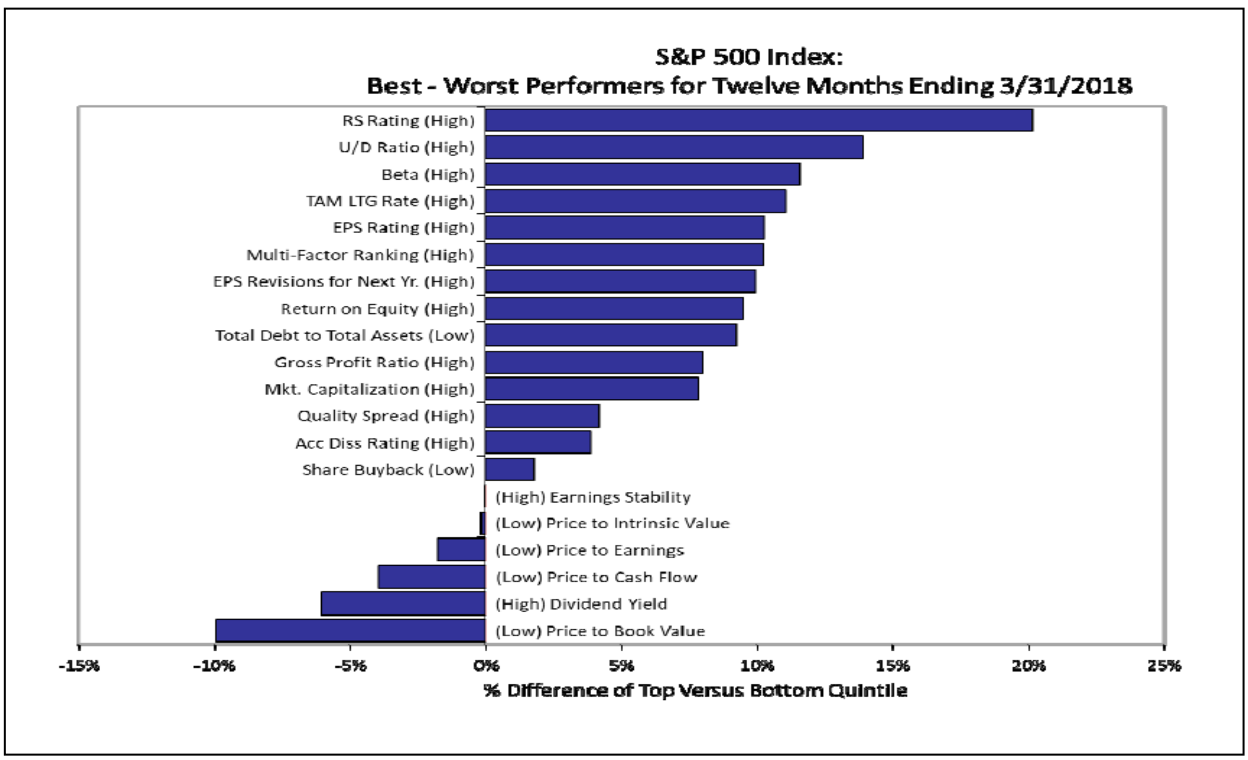
We think that markets sense the end of the abnormal period of negative rates and extraordinary central bank actions. This correction probably indicates the return of more "normal" markets. This return to normality likely takes years, but as better growth occurs you would expect cyclical sectors to perform better and rates to rise. Another byproduct of this would be that fundamentals regain traction and value oriented fundamental managers like us should outperform.

We are not sure how long this correction takes to run its' course, especially as trade tensions are coming to the front of political concerns in early April. We remain positive on the outlook for equity markets over the intermediate and longer term, as we do not see any reason for a near term recession unless a full blown trade war erupts. We still think that is unlikely, but the probability is higher now than it was before President Trump announced tariffs. Markets are going through some growing pains as the end of abnormality starts to sink in, but that should lead to markets that truly are normal. That should ultimately be a good development for markets and investors.

The factors we measure to evaluate what styles are in favor are presented on the next page. S&P factor performance over the past three months tended to favor the relative strength, growth visibility and some quality measures. Lagging factors included valuation measures, and some financial strength factors. This continues the trend that we saw over the trailing twelve months. Valuation is out of favor, as highly visible growth stocks have "sucked the air out of the room" for many other disciplines. We believe as the Fed continues to normalize rates higher that investors are likely to return to valuation as a good measure for stock selection, but that has not happened yet.

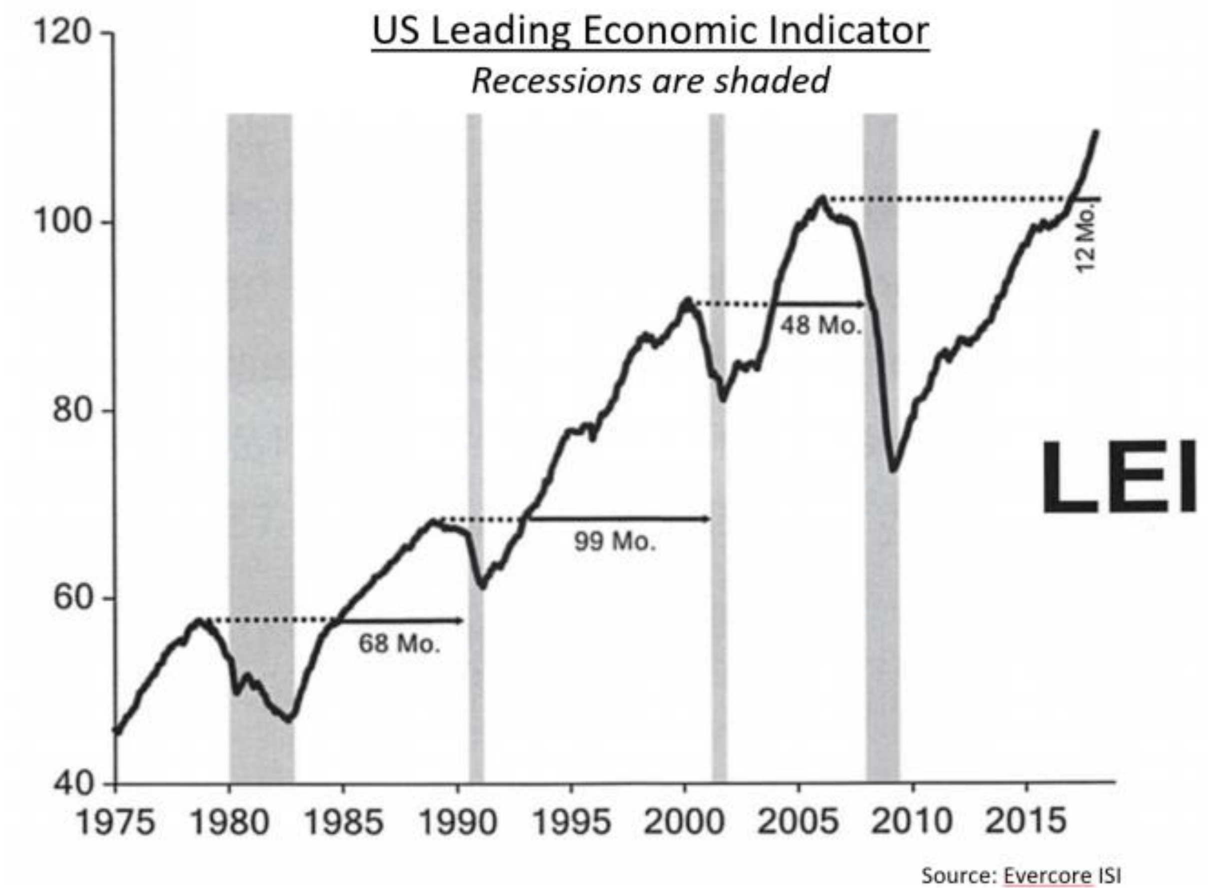
The factor analysis is illustrating that more than half of the twenty factors we monitor are adding value. This is a significant improvement over where we stood 18 months ago, and we believe it highlights that a period where active managers should have the potential to outperform is at hand. Most active managers use at least some of these factors in their stock evaluation.





Source: Bloomberg, TAM estimates

Interesting charts we saw this quarter



US Leading Economic Indicators hit a new high a year ago. Historically, recessions don't start until at least four years later and usually six years afterwards.

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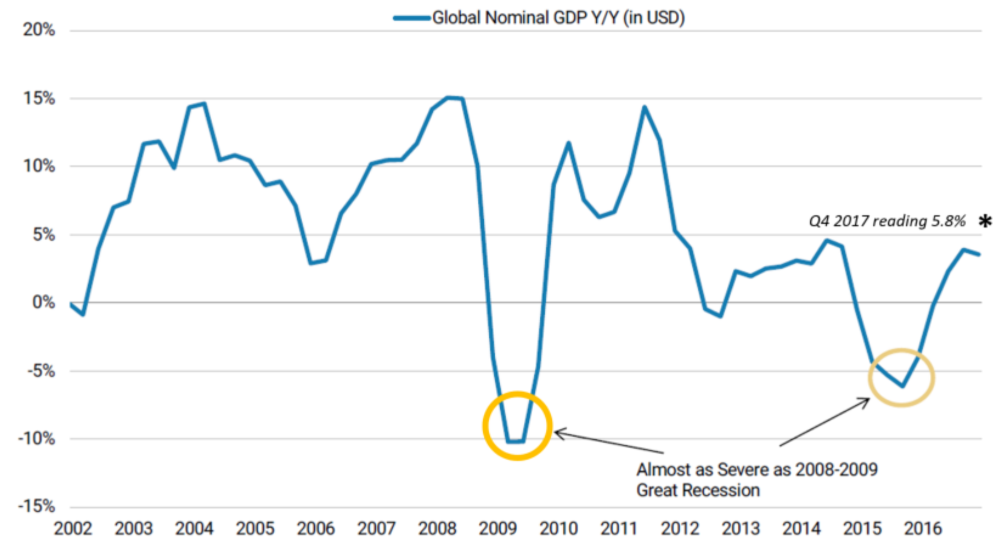
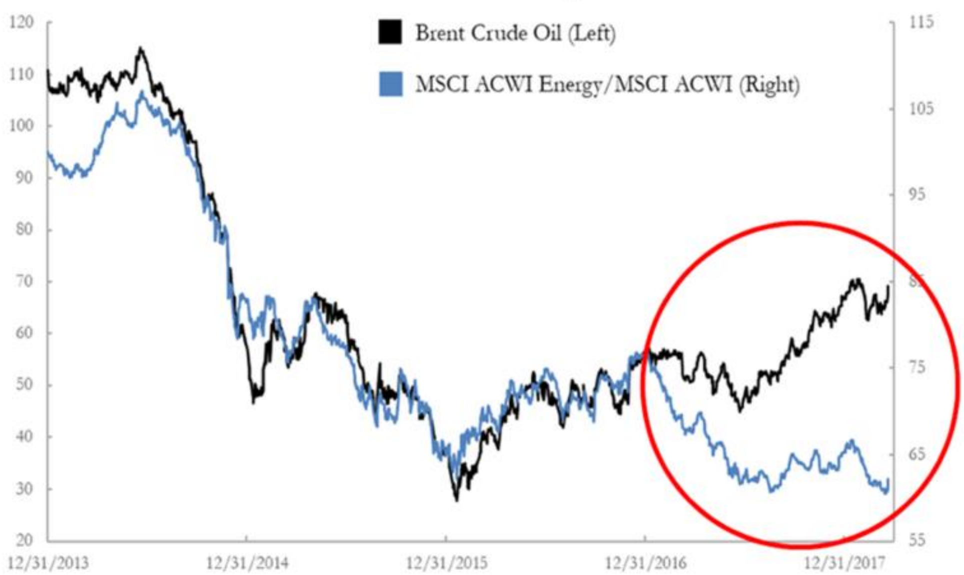
Global Nominal GDP in US Dollars Has Rebounded from Significant Contraction in 2015



Worldwide GDP growth continues to recover in US dollar terms, and estimates are still rising.

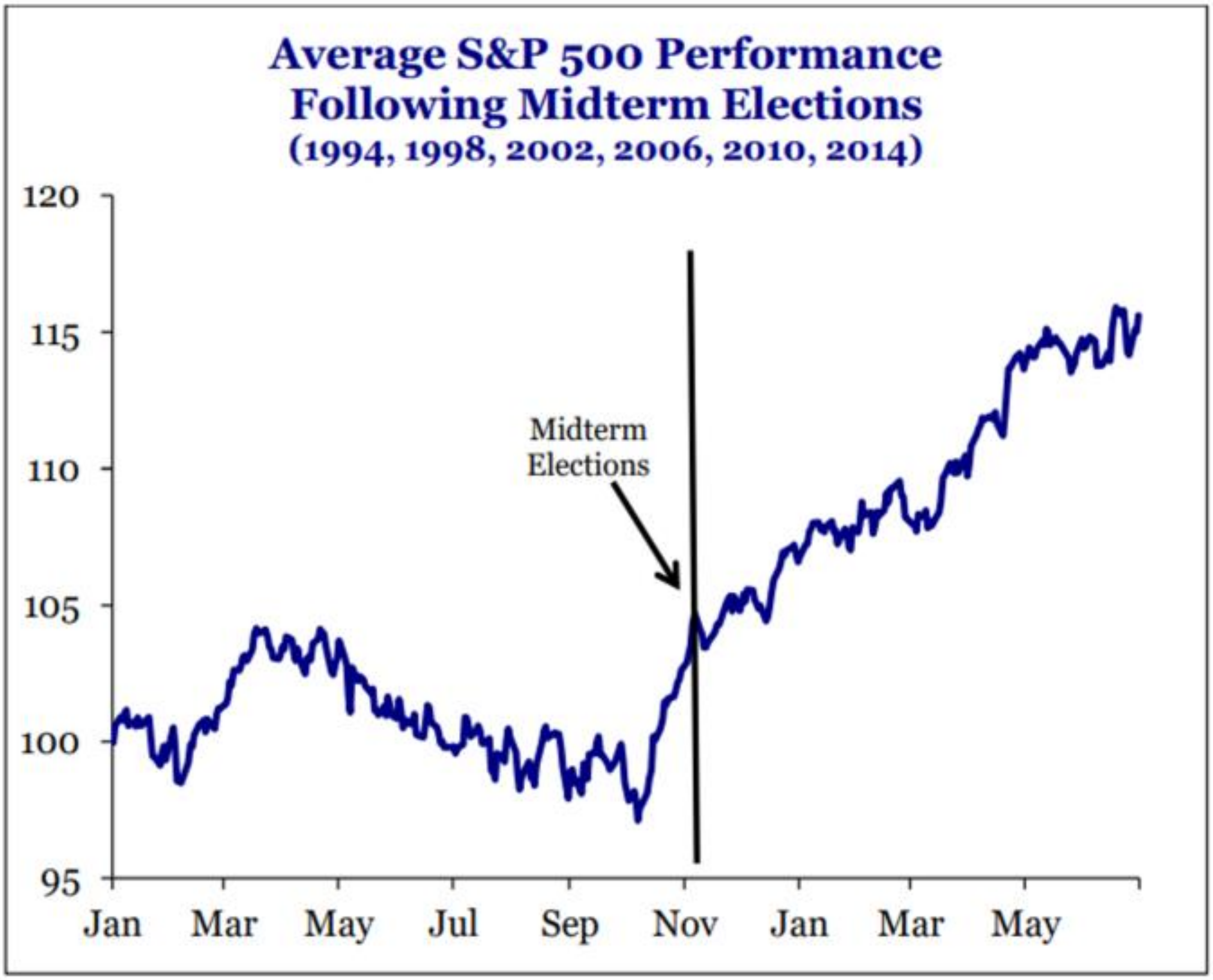
Source: Haver Analytics, Morgan Stanley Research, IMF Estimates

Brent Out of Shape



Source: Bloomberg and MSCI

We recently sent out this *Chart of Interest,* highlighting that oil prices are rising while oil stocks linger near relative lows. We expect oil prices to remain firm and for the stocks to play catch up.



Source: Strategas

Midterm elections could keep US and World markets range bound until some clarity emerges. After that, expect a significant relief rally.

Source: Bloomberg, TAM

The economic recovery coupled with deregulation and tax reform are all combining to boost S&P earnings estimates. This boost in earnings should be sustainable and has helped valuation levels for the market.

Large Cap Intrinsic Value Quarterly Review

The Large Cap Intrinsic Value strategy lost -0.5% (gross) during the first quarter, outperforming the S&P loss of -0.8% and the Russell 1000 Value loss of -2.8%. Most markets surged during January as evidence of continued global economic strength was reported. During February and March, the market pulled back and volatility increased. Reasons for the pullback evolved as time passed. At first, a strong employment report led to inflation concerns. Following that, rates came into focus, as the Fed raised short term rates and the worries about inflation drove longer term interest rates upward. As this progressed, we saw several economic indicators in global markets moderate slightly. The rate concerns morphed into trade war concerns as President Trump singled out China and targeted tariffs to correct imbalances that he perceived in the US/China trading relationship. The most recent concern has rotated to geo-politics, as the Syrian conflict has turned into a shooting war and Russia's relations with the west are being strained. The specter of domestic politics also weighed on sentiment as the Mueller Investigation ramps up, and concerns are growing that the Republicans lose ground in the midterms. Currently, it feels like investors are looking for reasons to be concerned.

With the S&P up 34% from the presidential election to the January peak, and 10% from when the initial tax bill was passed, some profit taking was to be expected. It is always difficult to predict these events and we usually have to suffer through the barrage of TV commentators telling us "The sky is falling" that inevitably follows a decline like this before reason prevails again. With the economy remaining on firm footing and rates remaining low, our sense is that a recession is not imminent. The market may bide its time over the summer as we wait for some clarity on the midterm election outcome. We still think this is a secular bull market and the longer term outlook is for further gains.

Market notes from the quarter:

- Technology, Consumer Discretionary and Financials were the leadership for the S&P 500. All of these were beneficiaries of expected higher growth in capital spending, consumer income or loans.
- Telecommunication Services, Consumer Staples, and Energy stocks were the laggards. Considering the market pullback from January, the Telecoms and Staples did not offer much protection. Investors may not consider them safe havens any longer.
- Energy stocks were weak despite oil prices increasing. We expect earnings for the sector to show a dramatic improvement in the upcoming quarters and have started adding to that sector recently.

Our best portfolio contributors during the quarter were ON Semiconductor, Booking Holdings, Cisco Systems, Intel and Marathon Petroleum. Most of these names benefitted from either the development or application of technology we use pretty regularly. ON provides semiconductors to industrial and automotive end markets and recent results were ahead of estimates. Booking Holdings is the new name for Priceline, and the stock rose as the company implemented measures to compete with Airbnb. Cisco and Intel were strong throughout the quarter, as investors gain confidence that the capital spending and tax reform should drive better results. Marathon Petroleum saw continued gains after posting upside during the fourth quarter and noting stronger demand for refined products.

Our weakest contributors during the quarter included NVR, Ameriprise Financial, Oshkosh, PulteGroup and Celgene. Interest rates rose during the quarter prompting the two homebuilders we own, NVR and PulteGroup, to suffer some profit taking. We still believe the housing cycle has a good outlook. Ameriprise posted good results, but indicated flows to investment products and advisor growth were challenging. Oshkosh weakened with other machinery companies after trade tariff concerns led to profit taking in the machinery stocks. The stock has recovered from prior episodes of this nature, and we think that is likely to occur again. Celgene had disappointing research results from an experimental drug, followed by the resignation of the President of the company and is under review.

Compared to the S&P, we modestly outperformed mostly because of our stock selection in technology, our underweighting in consumer staples. Our stock selection in Consumer Discretionary cost us some performance, but like in many prior quarters, that sector was driven by a 54% gain in Netflix and a 24% gain in Amazon. Most of the other stocks in the sector lagged those results.

During the quarter, we increased our energy holdings to an overweight position versus the S&P 500. Our above market weight sectors are now the Energy, Industrial, Financial and Consumer Discretionary stocks. We remain underweighted in the Staples, Utilities, Real Estate and Material Sectors, as our disciplines do not indicate good prospects for their outperformance going forward.

In summary, we are enduring a correction (decline of over 10% but less than 20% from the peak) in the market. We do not anticipate it becoming a bear market (i.e. a decline of over 20% from the prior peak). Volatility has increased back to normal levels after the low volatility phenomenon of last year. Some investors fear corrections, but they are natural and usually signal that some underlying change is occurring in the market. We believe the change this time is that the worldwide economies are finally re-entering a more normal phase after ten years of post-financial crisis restructuring and de-leveraging. This correction could take longer to play out and be followed by a very strong year-end rally if mid-term election history repeats itself. Corrections often lead to rotation of leadership as well, and a shift from growth to value seems overdue. We think that rotation is probable over the next few quarters.

Curt Scott, CFA
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Todd Asset Management LLC

4-23-2018
S&P 500 – 2,669
Russell 1000 Value – 1,194

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, 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 Large Cap intrinsic Value Composite has been examined for the periods January 1, 2011 through December 31, 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, 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.