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ASSET MANAGEMENT LLC

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Failure to Launch

Todd Large Cap Intrinsic Value Review

	3Q 2015	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-9.0%	-8.8%	-3.6%	12.1%	12.3%	9.1%	7.0%
(Net)	-9.1%	-9.2%	-4.2%	11.4%	11.7%	8.4%	6.3%
S&P 500	-6.4%	-5.3%	-0.6%	12.4%	13.3%	9.8%	6.8%
Russell 1000 Value	-8.4%	-9.0%	-4.4%	11.6%	12.3%	8.2%	5.7%

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

The LCIV posted a gross return of -9.0% for the quarter, compared with the S&P return of -6.4% and the Russell 1000 Value return of -8.4%. Year to date, our returns were -8.8% vs the S&P loss of -5.3% and Russell Value loss of -9.0%. Bonds gained 1.3% in the quarter, while mid and small cap stocks lagged their larger counterparts with returns of -8.5% and -9.3% respectively. MSCI developed markets lagged the US and Emerging Markets cratered. The EAFE index declined -10.1%, while the ACWI ex-US and Emerging Markets indexes declined -12.1% and -17.7% respectively.

"Failure to Launch" is how we would describe the quarter. What does that mean? Investors grew impatient as central bank actions did not seem to be helping to "launch" economic growth. Some examples included:

- The Fed did not raise rates in September and then botched the announcement of that decision. This uncertainty led investors to ask if they knew of a dire economic outlook that consensus does not call for.
- Japan saw negative economic growth despite very accommodative policies.
- Chinese growth continues to slow as they shift from manufacturing to services. Additionally, they devalued the currency and mismanaged their stock markets during some stressful periods.
- Europe got past the Greek crisis, and growth is improving due to very easy monetary policies. The fourth quarter has some challenges for them. Immigration, implementing the Greek deal and the UK debate over renewal of their EU membership are several issues we are watching.
- Commodity dependent Emerging Markets are seeing poor economic growth, as commodity prices have plunged.

We probably should not be surprised the S&P experienced a correction in the quarter. Currency appreciation, decreasing oil related capex, constrained consumer finances and limited government spending have crimped earnings expectations. All the market needed was an excuse to decline, and the Chinese devaluation provided that. A muddied Fed message provided the excuse for the retest of the August lows during September. Investors are questioning whether the US succumbs to the weaker international environment, but we think the rest of the world might respond to a stronger US.

US GDP growth should continue as recessions usually only result from the Fed raising rates to restrictive levels to fight inflation. Other parts of the globe are weaker than expected. Global growth forecasts should improve towards year end as developed and emerging economies take stimulative actions. This should support the seasonal case for a year-end rally in the US markets.

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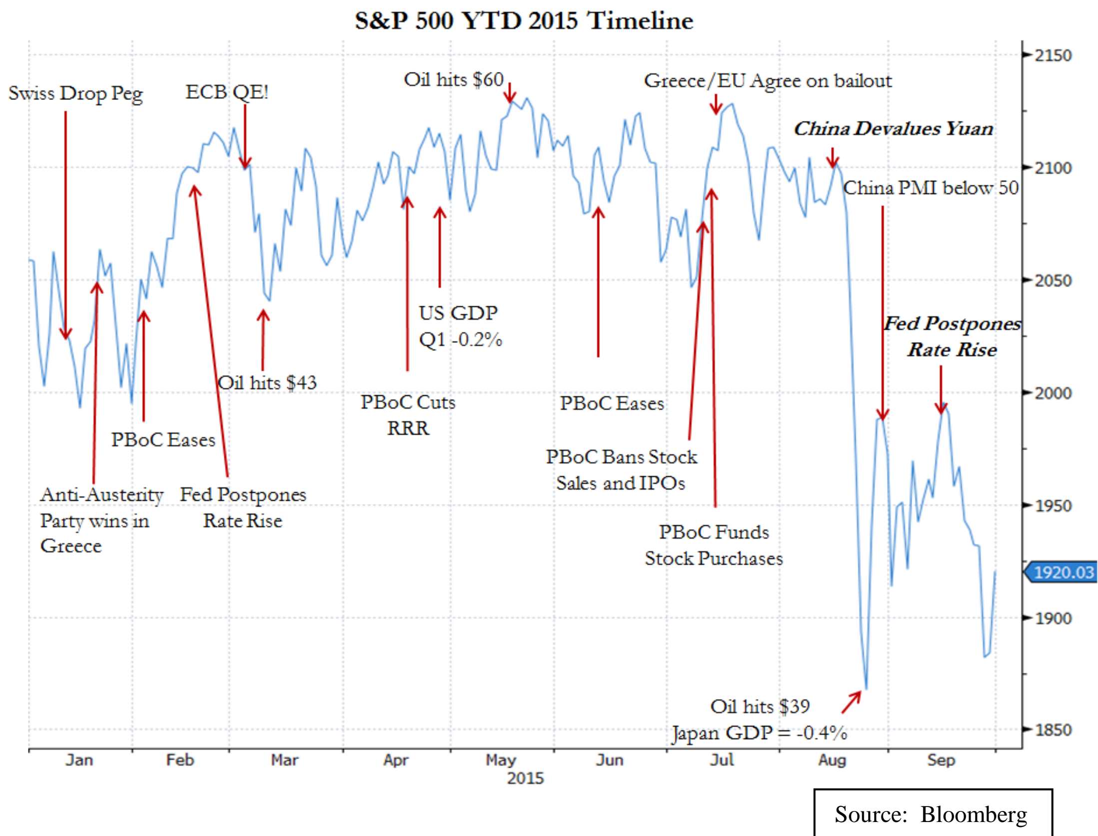
Some Noteworthy Items:



The S&P moved to new highs early in the year, and stayed in that range until August. What the averages mask is that as the year progressed, more stocks were weakening and the market was being held up by a relatively few leaders that became fairly expensive. Investors were worried, and seeking assured growth at any price.

The correction we just experienced was triggered by a surprise Chinese devaluation of their currency. That was the proverbial "straw that broke the camel's back", albeit it was a pretty big straw. As you may note above, the European Central Bank remains very accommodative, and is pursuing quantitative easing. The Bank of Japan is also continuing quantitative easing. The People's Bank of China is lowering rates, reducing reserve requirements and pursuing non-traditional financing to support the economy and markets. While the Fed is expected to raise rates in December, rates are nowhere near restrictive. We suspect they will stay low for a long time. Usually, lower oil prices and accommodative policies results in better growth. We expect a market recovery.

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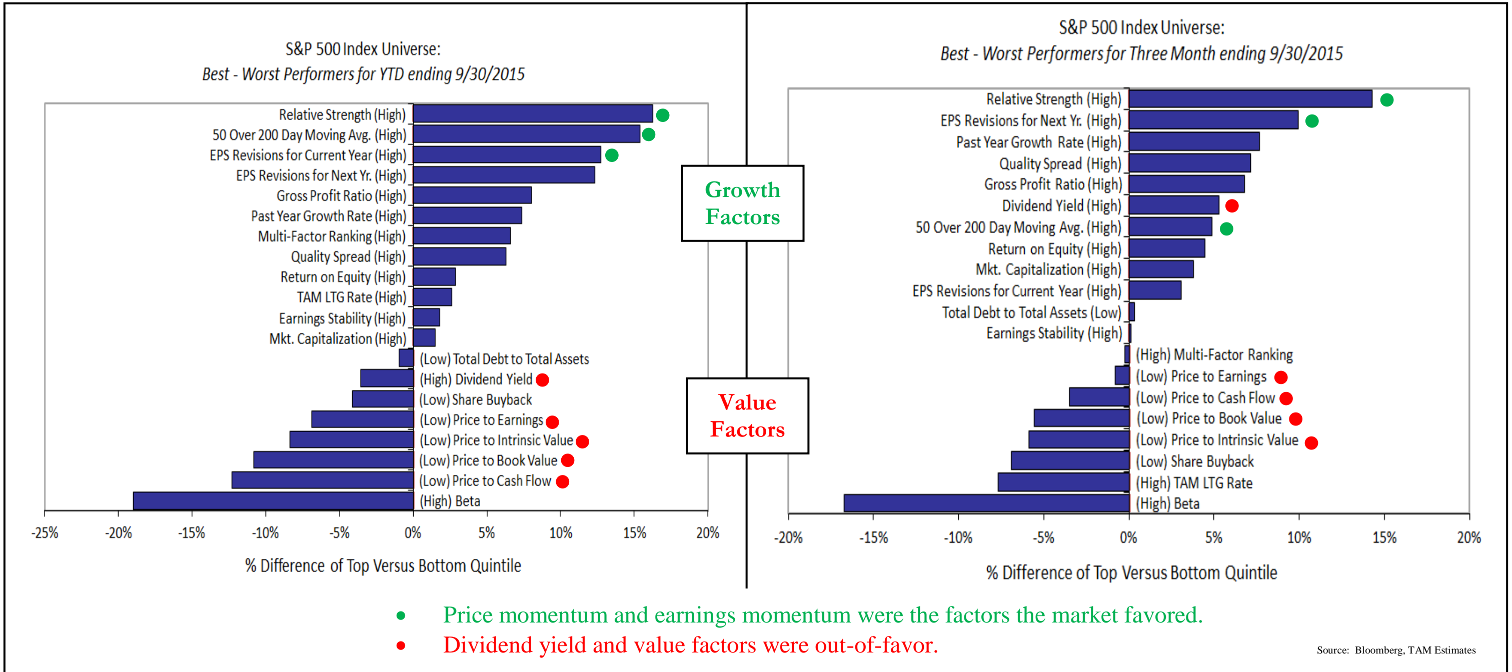
What Worked… And What Didn't.



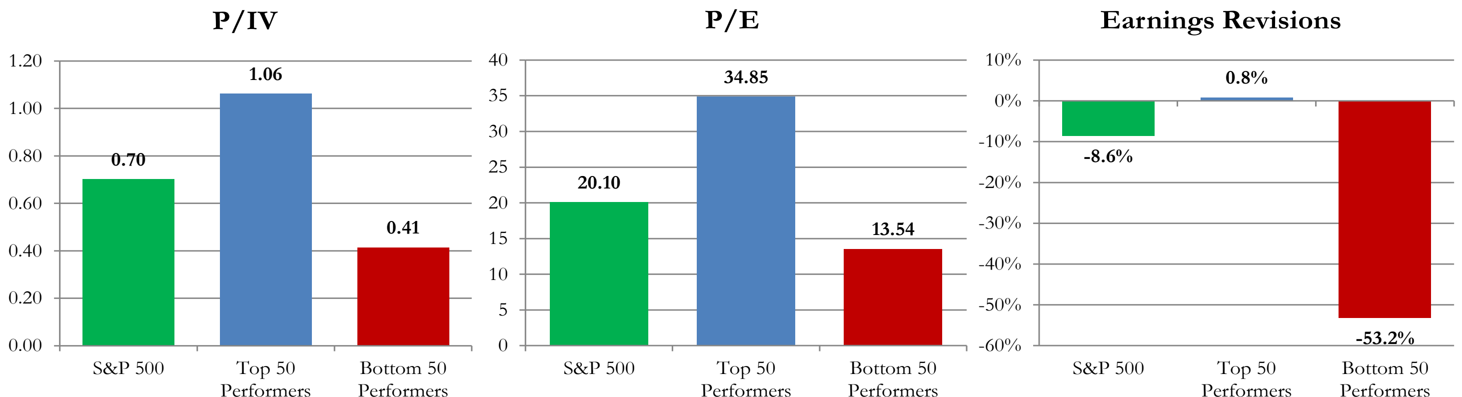
Value did not help performance thus far in 2015. The factor chart above illustrates how value factors lagged growth/momentum factors this year.

The chart below shows selected characteristics for the S&P 500, and the best 50 and bottom 50 performers YTD. The best 50 traded above their Intrinsic Value, and at a P/E of almost 35X earnings. The bottom 50 traded at 40% of Intrinsic Value and 13X earnings. Earnings revisions were the reason, as the bottom 50 had estimates cut in half. Some would call that a "value trap."

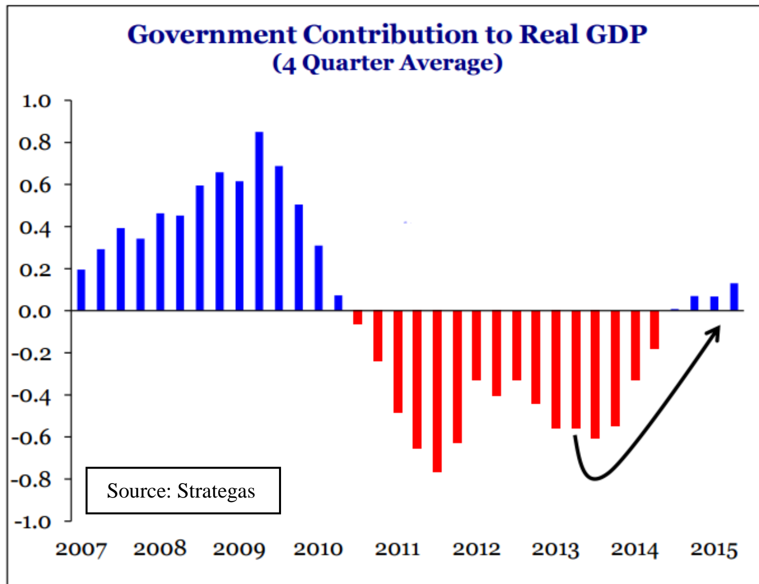
This anti value bias probably changes when investors get more comfort with the earnings outlook.

S&P YTD 2015 Leaders and Laggards

A Value Trap?



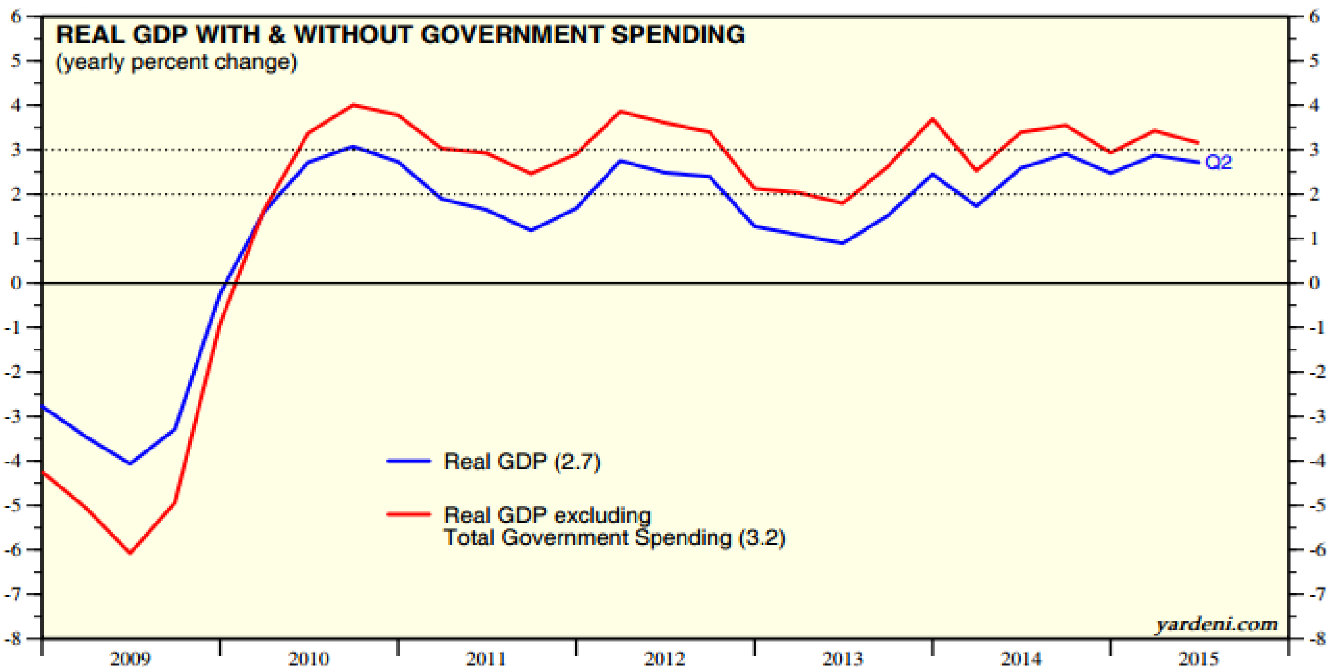
Source: Bloomberg, TAM Estimates



One headwind to GDP growth has been the drag from government spending, as illustrated in the chart to the left from Strategas.

Since 2010, Government spending has reduced GDP by as much as 0.8% year over year. Much of that was from State and Local governments curbing spending. As real estate markets and employment have improved, so have the finances for these organizations. This helped Government spending recover.

Real GDP with and without Government spending is illustrated in the chart below from Yardeni Research. Since 2010, the measure without Government spending has been significantly stronger. As Government Spending recovers, we expect overall growth to improve.



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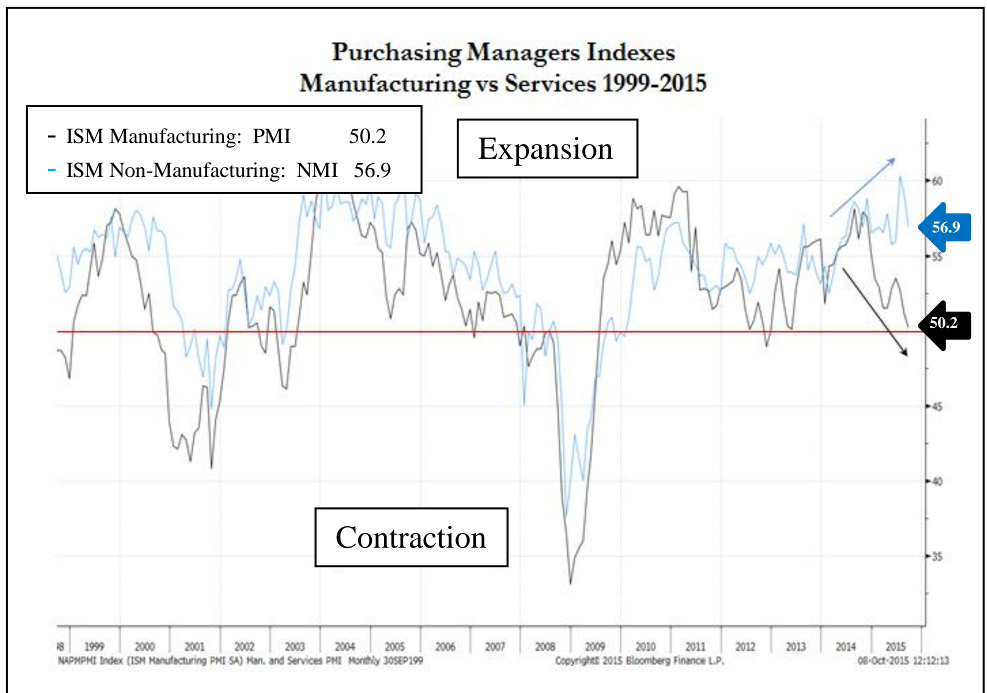
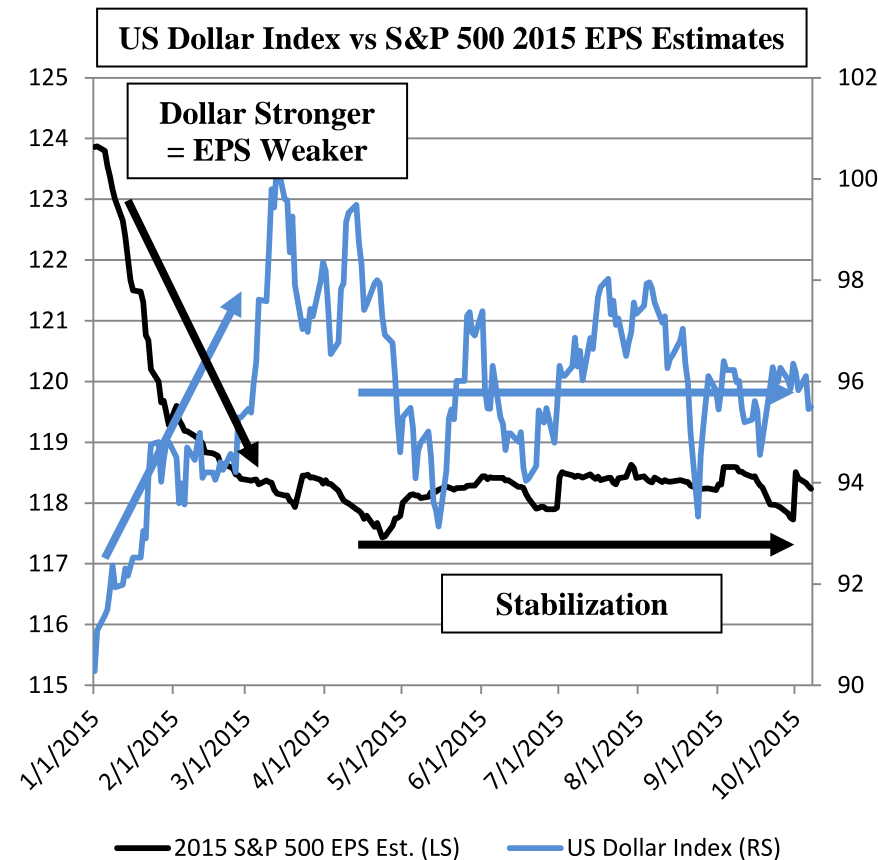
PMI's indicate whether manufacturing and service industries are expanding (above 50) or contracting (below 50). Manufacturing has weakened this year due to the Dollar surge making US goods expensive, and the decline in oil capital goods spending. ***Services remain strong.***

These measures have diverged, as noted in the chart to the right. Our sense is they will converge again, especially as the impact of the dollar and lower oil prices ease over the next couple of quarters.



Source: Bloomberg



One consequence of the ECB and BoJ easing is a stronger dollar. The dollar index rose over 10% from January, 2015 to March, 2015 as noted in the chart to the left. At the same time, earnings estimates declined dramatically.

Since about 40% of S&P 500 sales are overseas, a 10% currency move equals an instant 4% decline in overall revenues, measured in dollars. That impact lasts a year after the currency tops out. The currency topped out in March, implying a return to growth over the next couple of quarters, all else being equal.

Performance Review

The LCIV underperformed both the Russell 1000 Value and the S&P 500 during the quarter. YTD we are slightly better than the Russell 1000 Value, and still lagging the S&P 500 gross of fees. Most of the shortfall came from stock selection, as valuation factors fared very poorly during the quarter and YTD period. We have a distinct value bias in our stock selection, and it has hurt us thus far this year. Additionally, our disciplines continue to point us to be overweighted in the Industrial and Consumer Discretionary sectors, and the stocks with value biases in those sectors tended to underperform the indexes as well. With the most attractive quintile on Price to Intrinsic Value underperforming the least attractive quintile by 1500 basis points year to date, it is not surprising that we are trailing the indexes.

Stock market corrections are usually a harbinger of a change in leadership. Investors have shunned value factors in search of assured growth, leading to the big performances posted by the Amazon and Netflix type names through the end of the third quarter. We believe this is starting to change in a manner that should benefit our style.

Our stock selections in Consumer Discretionary, Financials and Industrials cost us performance compared to both the S&P and Russell 1000 Value, while our selections in Energy helped compared to both indexes. Our IT holdings hurt performance compared to the S&P and helped compared to the Russell 1000 Value. Our discipline combines attractive valuation measures with signs that fundamentals are good (and improving) and indicators' showing the market is rewarding those attributes. While those attributes may not have helped in the most recent quarter, over the long term they add value.

The best five contributors to portfolio performance during the quarter were NVR, Nvidia Corp, Cameron Int'l, Altria and Alphabet (Google). NVR performed well as expectations for housing improved, while Nvidia posted better results for their gaming circuit boards. Cameron got a takeover proposal, while Altria was seen as a safe haven. Alphabet, the old Google, benefitted from better results and financial discipline with a new CFO. The five portfolio laggards were United Rentals, Tegna (the old Gannett broadcasting division), Macys, Gilead and McKesson. Gilead and McKesson each got pressured by profit taking and concerns over drug pricing impacting their reimbursements. Macys was impacted by creeping economic concerns. Tegna completed the spinoff of their publishing business, but got swept up in concerns about broadcasters experiencing soft advertising revenues. United Rentals was impacted by weaker oil related capital spending.

We have heavier than S&P weightings in the Consumer Discretionary, Financial, Industrial and Health Care sectors. We are approximately equal weighted the Technology sector and underweighted in the Staples, Energy, Materials, Telecommunications and Utility sectors. Our comparisons versus the Russell 1000 Value differ slightly from this as we are underweight Financials, equal weight Staples and Overweighted in the Technology sectors versus that index. During the quarter, we have added to Industrials and reduce our Energy holdings. Our disciplines continue to favor the Industrials, notably the airline and aerospace sectors. We have taken positions in two airlines and continue to like the sector. The energy sector is distinctly out of favor on our discipline as the commodity bust is leading to weaker earnings and a washout in the stocks. While they may see a rally off the bottom, we will wait for them to act better on our factors before considering adding to most of those names. The refiners still score well on our rankings though.

Review and Outlook

In our last letter, we suggested Chinese weakness and the European negotiations with Greece could make for a more volatile, dicey outlook. That turned out to be half true as Europe got relatively quiet, but China mishandled their stock markets and economic slowdown. A surprise Chinese devaluation led to the late August swoon in the US markets. Truth be told, many underlying trends in the market had

suggested it was susceptible to such a pullback. What we did not factor into our thinking was the Fed statement after deciding against raising short term rates. In her statement, Chairwoman Yellen noted that economic growth in the first half was above most FOMC members' expectations, and employment was strong. Both of these would have indicated a basis for starting to normalize rates upward. She then noted heightened concerns about China and international volatility. That part was what spooked investors, who are unsure if the Fed sees something more sinister afoot, or if they have just declared themselves bankers to the world. The following week, Chair Yellen gave a detailed explanation of why the Fed should raise rates in December, in an apparent attempt to let investors know that the Fed was not expanding their mission and contain the damage.

The global economy has been weaker than expected, and that could continue. The US economy is strongest among the developed nations, but that is like having a good house in a bad neighborhood. The US has worked past the excessive consumer leverage that prompted the financial crisis, so the private sector should have firepower to continue expanding. The other portion of the economic growth equation is Government spending. It has been a headwind, detracting from US growth from 2010 until the beginning of this year. This has changed, as municipal and state government finances have repaired. It should be a support for growth next year. S&P earnings saw a downward reset as the trade weighted dollar surged in the fourth quarter of last year. Next quarter, the earnings reset should be complete and the consistent downgrades to estimates should abate. The headwinds from a higher dollar are still with us, but the initial dramatic reset should be behind us. The economy is nearing full employment, and while we had a disappointing employment report recently, the US is still producing jobs. Our belabored point here is that while we should not have been surprised by a correction in the US, we should also not be surprised if there is a seasonal recovery as well. The US consumer as well as State and Local Governments have money and the initial effects of the higher dollar are easing. We are watching trends in these factors to see if they can make for better than expected results next year. We believe that could provide a lift to US stocks later in this year into the New Year.

As always, we are here to assist you. If you need any additional information, please feel free to contact any of us.

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Todd Asset Management LLC

10-16-2015
S&P 500 – 2033
Russell 1000 Value – 977

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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LARGE CAP INTRINSIC VALUE COMPOSITE DISCLOSURE

Past performance does not provide any guarantee of future performance, and one should not rely on the composite 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 and were not recommendations for purchase or sale by investors. 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. Investors should not construe the Composite's performance or any security as predictive of future results. 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, TVAM redeemed ownership units held by individuals who supported the growth products founded under VAM, and changed its name to Todd Asset Management LLC. The firm continues to offer the same products and strategies managed by the same individuals and 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 verified for the period January 1, 2008 through June 30, 2015 by Ashland Partners & Company LLP and 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 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Large Cap Intrinsic Value Composite for the period January 1, 2011 through June 30, 2015. To receive a complete list and description of TAM composites and/or a full disclosure presentation which complies with the GIPS® standards, please contact 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%. 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 (all shown with dividends reinvested):

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected unmanaged portfolio of publicly traded common stocks. The performance data includes reinvested dividends and 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.