TODD
ASSET MANAGEMENT LLC

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Slow Is More Sustainable

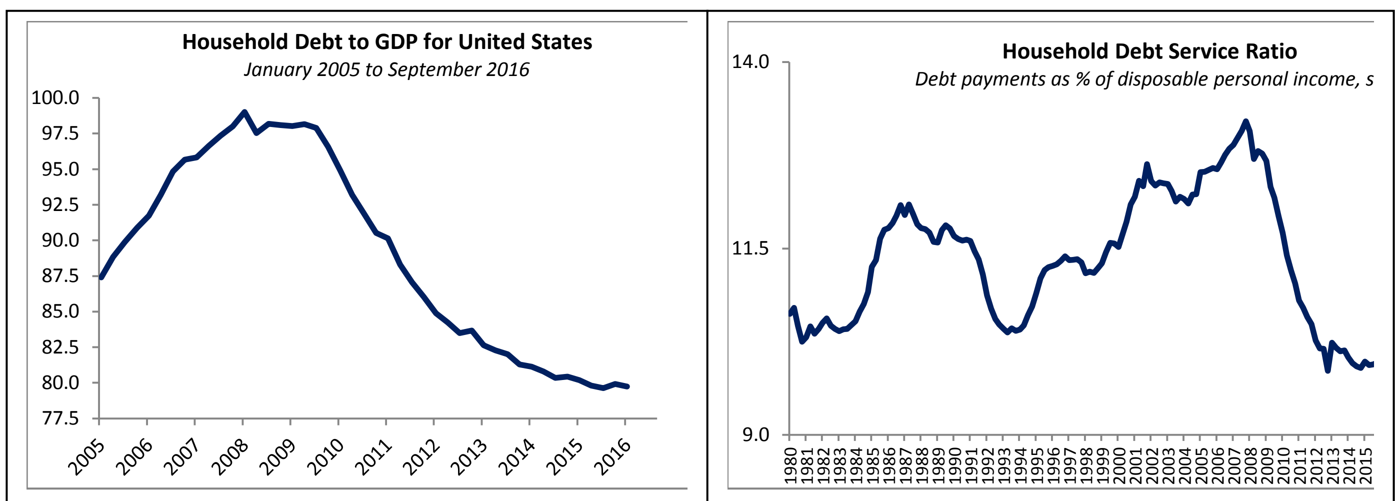
Todd Large Cap Intrinsic Value Review

	3Q 2016	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	6.2%	0.8%	5.9%	7.7%	13.6%	11.2%	6.3%
(Net)	6.0%	0.3%	5.2%	7.1%	12.9%	10.5%	5.7%
S&P 500	3.9%	7.8%	15.4%	11.2%	16.4%	13.2%	7.2%
Russell 1000 Value	3.5%	10.0%	16.2%	9.7%	16.2%	12.4%	5.9%

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

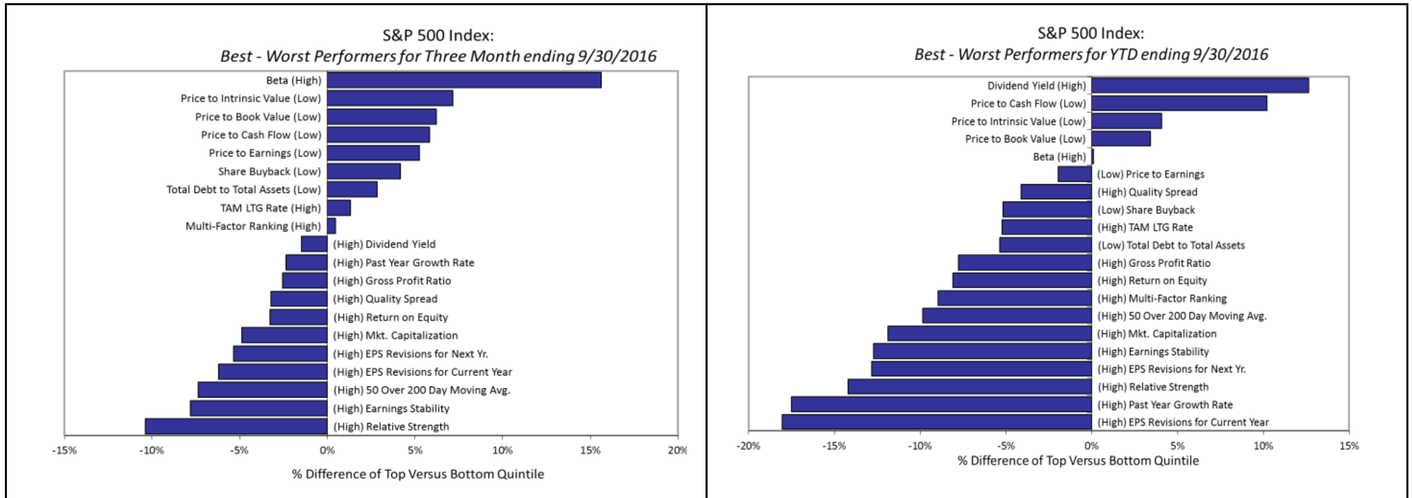
The LCIV rebounded in the third quarter to gain 6.2% (gross) and outperform the S&P's gain of 3.9%, and Russell 1000 Value return of 3.5%. Fundamental disciplines saw a recovery last quarter, and we believe should continue to gain over coming quarters.

There has been much talk over the past few years of the abnormal nature markets have taken on. Negative interest rates exist for much of the world's sovereign debt, something that is clearly abnormal. We have also seen that recoveries in developed market economies have been slower and shallower than prior instances. Consumer debt repayment, curtailed government spending and reduced business investment are the culprits. These have led to tenuous recoveries and periodic recession worries. The catastrophic nature of the last recession has put the fear of another 2008 episode in investor's mindset, since that is the most recent reference point. We would pose another possibility to consider. What if slower growth is the path to sustainable growth? Most Developed Markets have larger populations of older citizens who tend to consume and spend less, and their newer millennial generations are generally debt averse. Less debt means spending within their means, and sustainable growth in consumer demand. Debt fueled expansions tend to lead to busts. As you can see in the charts below, U.S. Consumer debt has dropped from almost 100% of GDP at the peak in 2008 to less than 80% currently. Debt service costs have dropped to levels last seen in the Reagan administration. If this expansion is occurring with less debt and consumers are spending less on debt service, then it is probably much more sustainable than prior ones.



Source: Bloomberg

U.S. markets are acting better, and fundamental disciplines are starting to drive them. Our customary factor performance charts are illustrated below, with the QTD period on the left and YTD on the right. For the YTD period we only saw four factors where the best quintile outperformed the worst. That more than doubled to nine factors in the third quarter.



Source: Bloomberg, TAM estimates

In the beginning of the year, the markets were reeling after the fed nudged rates up slightly, and we saw weaker economic results due to weather and an inventory correction. The earnings recession also weighed on sentiment. Safety and dividend yield were the only factors the market rewarded as investors went into a capital preservation mode anticipating another 2008. Since then, the economy has continued to create jobs and produce more consumer income. The earnings recession from last year has begun to abate and investors are rewarding more fundamental factors in the third quarter. This has helped our returns, and the Todd Asset Management proprietary multi-factor model is once again adding value in the US.

Central banks have begun to back away from the negative rates they embraced last year. The Chart below indicates which countries and maturities had negative rates as of early October, and they account for about $12 Trillion of sovereign bonds. That is a huge number and has caused distortions in markets. We would not be sorry to see negative rates go away. On paper, their intent is to make savings less attractive and force money to get invested in productive assets. In reality, they scare investors into thinking the economic situation is dire, and actually *increasing* their savings. They also tend to cripple banks that are dependent on interest income from loans. During the Brexit scare at the end of Q2, rates tumbled worldwide and the US 10 year bond yield dropped to new lows of 1.36% only to rebound to 1.75% currently. Since then, the US Fed and Bank of England have indicated they will not pursue negative rates. Additionally, the ECB and Bank of Japan have disappointed markets by not increasing the size of their bond purchases or lowering rates. This is leading investors to think the Central Banks are indicating they have done enough and it is now time for elected officials to introduce growth oriented policies. Think of it this way, if negative rates were the answer, Japan and Europe should be booming right now. They are not. Central banks probably would like to figure out a graceful way out of negative rates without scaring the marketplace.

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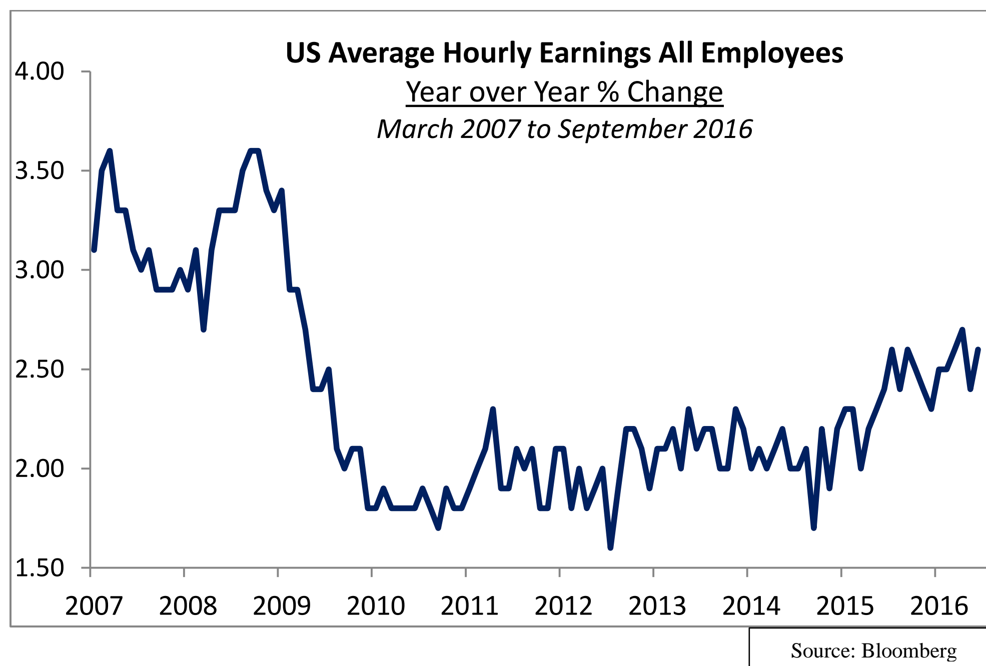
Global Yields						
	3 Month	1 Year	2 Year	5 Year	10 Year	30 Year
Australia	1.59	1.70	1.91	1.91	2.25	-
Belgium	-0.75	-0.66	-0.64	-0.40	0.28	1.22
Canada	0.50	0.58	0.59	0.74	1.19	1.81
France	-0.69	-0.63	-0.61	-0.36	0.33	1.13
Germany	-0.85	-0.70	-0.66	-0.49	0.04	0.65
Italy	-0.36	-0.24	-0.08	0.35	1.38	2.50
Japan	-0.29	-0.31	-0.26	-0.19	-0.06	0.50
Netherlands	-0.75	-0.72	-0.63	-0.60	-0.39	0.72
Norway	0.49	0.49	0.61	0.93	1.28	-
Spain	-0.41	-0.24	-0.21	0.13	1.12	2.21
Sweden	-0.75	-0.76	-0.67	-0.31	0.25	-
Switzerland	-	-0.97	-0.94	-0.82	-0.50	0.05
U.K.	0.30	0.20	0.21	0.41	1.02	1.71
U.S.	0.29	0.66	0.84	1.26	1.74	2.47

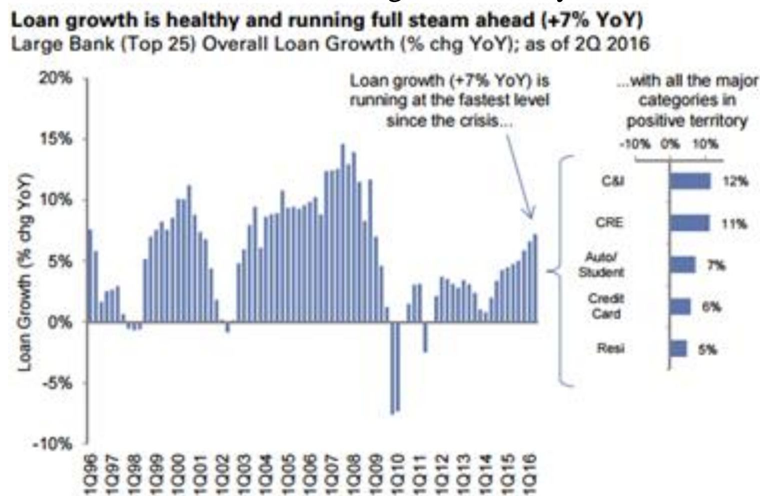
Source: Strategas. Data as of 10-13-16

Against this backdrop of negative rates, inflation is starting to pick up in the US, and is expected to accelerate for most developed markets as well. In the US, wages are accelerating as unemployment has crossed below 5%. Average Hourly Earnings have increased 2.6% year over year recently and are trending up as can be seen in the chart below. If this continues, the Fed will consider it a green light to raise rates again. This could be a source of volatility in both bond and stock markets in coming quarters.



Source: Bloomberg

We believe earnings estimates are in the process of bottoming for both the S&P 500 and the ACWI ex-US indexes. A range of headwinds have faced companies: the decline in oil prices, currency fluctuations, inventory drawdowns, weather related slowdowns and Chinese economic weakness. We believe the negative impacts of these forces are waning. Oil has recovered, while most major currency fluctuation disruptions occurred over a year ago. Inventories are in good shape, with auto and housing inventories near or at recent lows. Total inventories are also in good shape with manufacturing and trade inventories closer to the 2009 lows than the 2007 or 2000 highs. Pent up demand still exists in Europe, and US consumers are finally hitting their stride as far as wage gains are concerned. Additionally, loan growth in the US and overseas is increasing, which indicates better demand for goods and services. Considering these factors, we think earnings in the US and abroad are in for a good recovery.



Source: Federal Reserve, Goldman Sachs Global Investment Research.

There is the thorny issue of the US election ahead and if you think we are going to be commenting on the different candidates' positions, we are going to have to disappoint you. What we will say is, regardless of the rhetoric between now and election day, one of our current candidates will be elected, eliminating one uncertainty we face. Elections here and worldwide have taken on a populist tone as dissatisfaction with income inequality and slower economic growth becomes apparent. We believe this rise in populism may be sowing the seeds for greater growth ahead. Politicians enjoy being employed and in power. If they need to change from austerity policies to pro-growth policies to remain in power, we believe they will. If they do not, a new crop of replacements that support higher growth will emerge. Governments are going to be under pressure to raise growth rates. For developed markets, this suggests infrastructure programs, reforms aimed at job creation and investment incentives may gain some support. If you couple those with the low rates that should remain in place for some time to come, better worldwide growth would be the probable outcome. If, on the other hand, governments choose to do nothing, or pursue policies that slow overall growth further, then the outcome would be continued tepid growth with a chance of recession. We favor the growth case, but recognize there is still a chance for renewed economic weakness. After the rally from the February lows, markets appear in a trading range since the Brexit trying to determine which way this will go. As this becomes clearer, so will the market direction.

Performance Review

The LCIV strategy increased +6.2% (gross) during the quarter, outperforming both the S&P 500 (+3.9%) and Russell 1000 Value (3.5%). A reversal in investor preference from the first half of the year helped to bring our discipline back in to favor. The unwinding low-volatility, high yield trade gave way to fundamentals and value. Investors have become more comfortable with the idea of slow growth being sustainable, which has allowed them the comfort to start looking at fundamentals again.

Stock selection drove performance during the quarter, particularly within Financial, Technology and Industrial sectors. Factor analysis shows that valuation metrics and our Multi-factor Ranking helped to differentiate between winners and losers. Our underweight position in the higher yielding sectors (Consumer Staples, Utilities and Telecom) also added to performance as the yield trade came undone during the quarter.

We are overweight the Consumer Discretionary, Financials, Industrials and Technology sectors. We are underweight the Consumer Staples, Utilities, Energy, Health Care, Materials and Telecom sectors. Our underweight position in the high yield sectors stems from their expensive valuation metrics and weak earnings growth profiles.

Our top five contributors to performance during the quarter were Nvidia, ON Semiconductor, Intel, Illinois Tool Works and Priceline. Nvidia continues to benefit from the high and rising demand environment for GPUs (graphic processing units) used in gaming, data analytics and automotive infotainment applications. ON Semiconductor has seen strength in their Industrial, Communications and Auto segments. The company also completed the acquisition of Fairchild Semi in late September, further boosting sentiment. Intel saw their stock rise into the 2Q16 earnings release as analysts boosted estimates on better PC and iPhone sales. Illinois Tool Works posted strong 2Q16 results and guidance, which surprised investors expecting soft commentary following the Brexit vote. Priceline also posted better than expected results despite investor concerns over macro headwinds. Upbeat outlook on European travel demand was reassuring and the stock responded.

Our worst five detractors from performance during the quarter were NVR, McKesson, Altria, Hartford Financial, and Public Service Enterprise. NVR saw weakness due to concerns over margins and slowing momentum in the housing market. McKesson sold off with the news surrounding Mylan's EpiPen pricing as the entire drug channel came under public scrutiny. Altria sold off as investor preference shifted away from high yield. Hartford sold off sharply following a bad miss on their 2Q16 earnings release due to higher loss trends, particularly in auto. Public Service Enterprise also sold off with the broader yield trade during the quarter.

The market has been range-bound since the Brexit vote, with better employment reports being countered by concerns over valuation and elections. For better or worse, the election will be held in early November, taking one source of uncertainty off the table. We anticipate a better tone to earnings in Q3, but will not know for sure until they are reported. In the S&P 500, the early year

rotation towards yield and safety has given way to an environment that is more constructive for fundamentally driven managers. We believe that as investors gain comfort with the idea of slow growth being sustainable that this trend should continue. The "safety trade" is expensive and is likely to continue to relinquish their gains as rotation back towards the inexpensive sectors continues. As that occurs, we believe our portfolios are positioned to perform well.

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

10-17-2016
S&P 500 – 2,126
Russell 1000 Value – 1,020

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
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.

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. 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 verified for the period January 1, 2008 through June 30, 2016 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, 2016. 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%. 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 index(es) 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.