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A Little Like Watching Poker

Todd Large Cap Intrinsic Value Review

	3Q 2017	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	6.1%	16.7%	28.6%	9.5%	13.9%	13.6%	7.6%
(Net)	6.0%	16.2%	27.8%	8.8%	13.2%	12.9%	7.0%
S&P 500	4.5%	14.2%	18.6%	10.8%	14.2%	14.4%	7.4%
Russell 1000 Value	3.1%	7.9%	15.1%	8.5%	13.2%	13.2%	5.9%

* *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. Market 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:

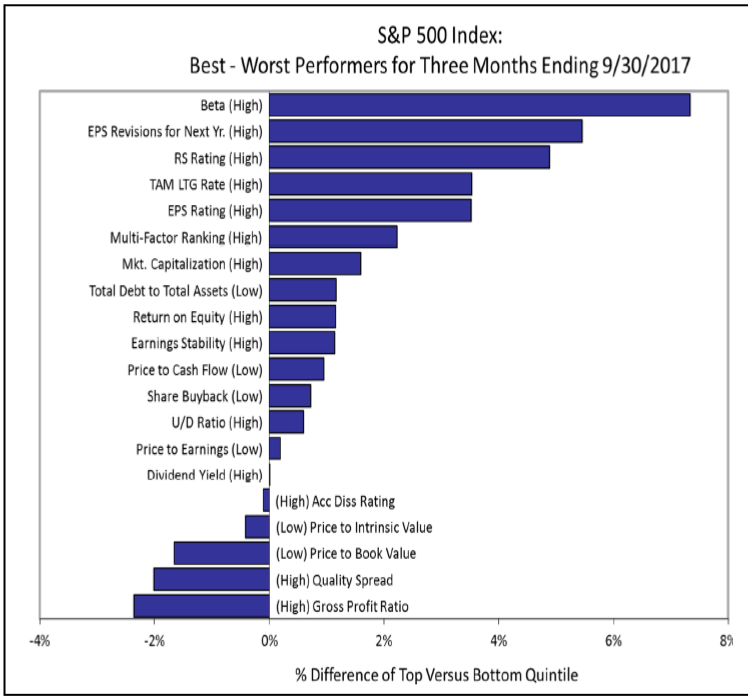
- North Korea unleashing a nuclear device (low probability in our opinion)
- Chinese debt downgrades leading to a financial crisis (low probability in our opinion)
- A hard Brexit (Brexit likely happens, but nobody wins in a hard one)
- Washington drama (Debt Ceiling/ACA/Tax Reform) and Presidential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

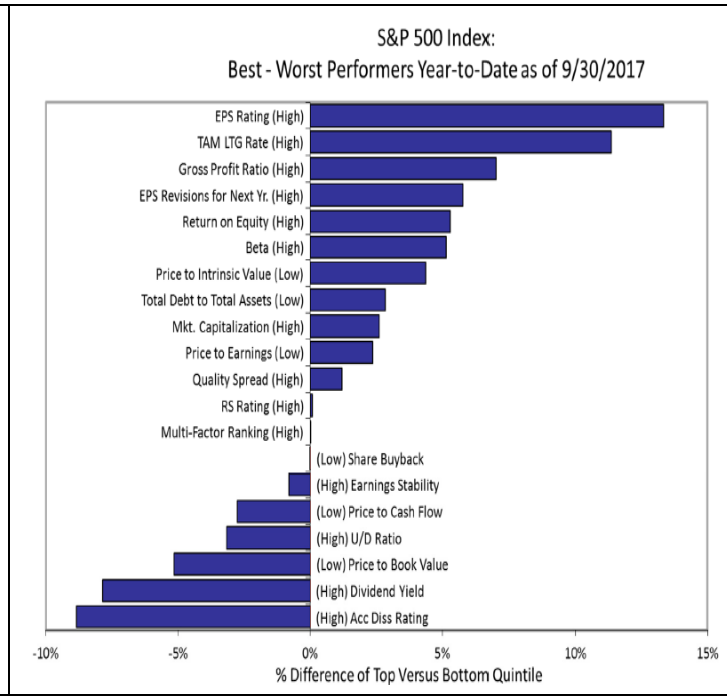
While those items may make for headlines, we believe the market is focused on more positive outcomes as worldwide economies are in a synchronized recovery.

- 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 year-to-date period are presented below. They indicate how the best 100 S&P 500 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 fundamental, technical and some financial strength rankings. Valuation and quality remain generally out of favor. For the year-to-date period, fundamental growth, quality and some valuation measures were rewarded. Technical and some valuation measures were under pressure thus far in 2017.

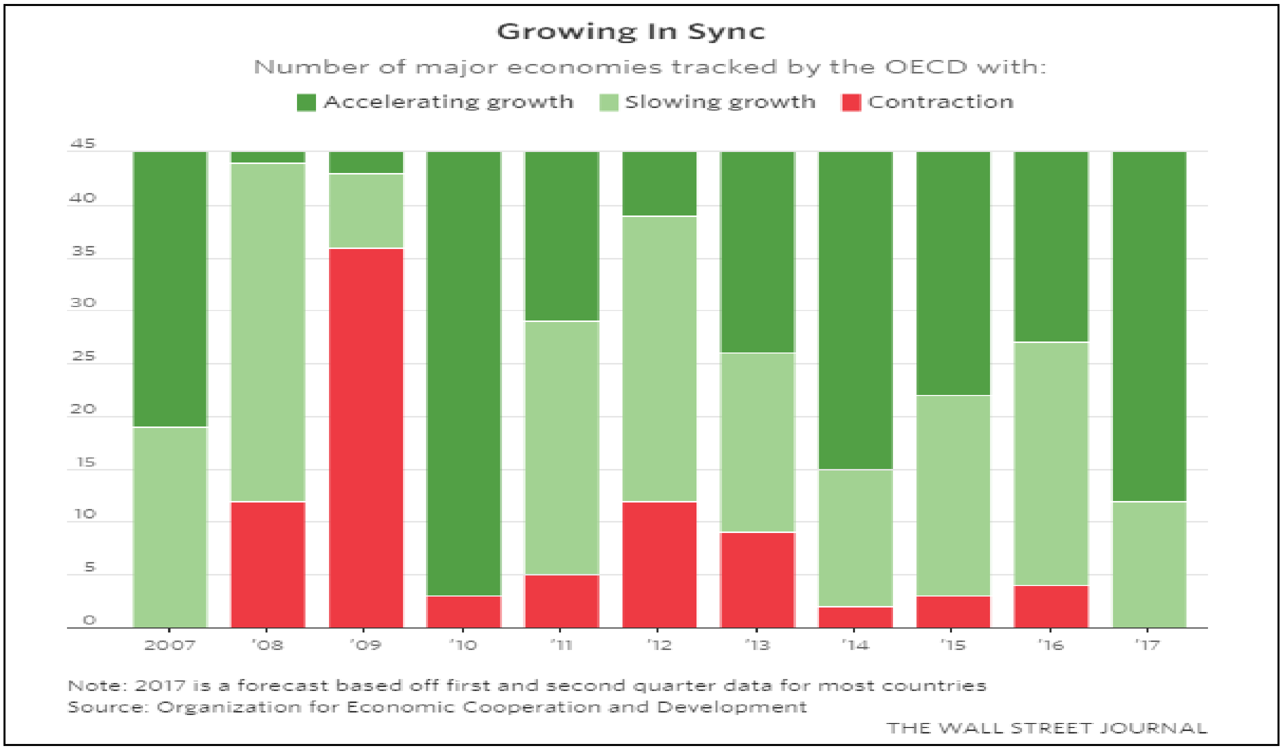


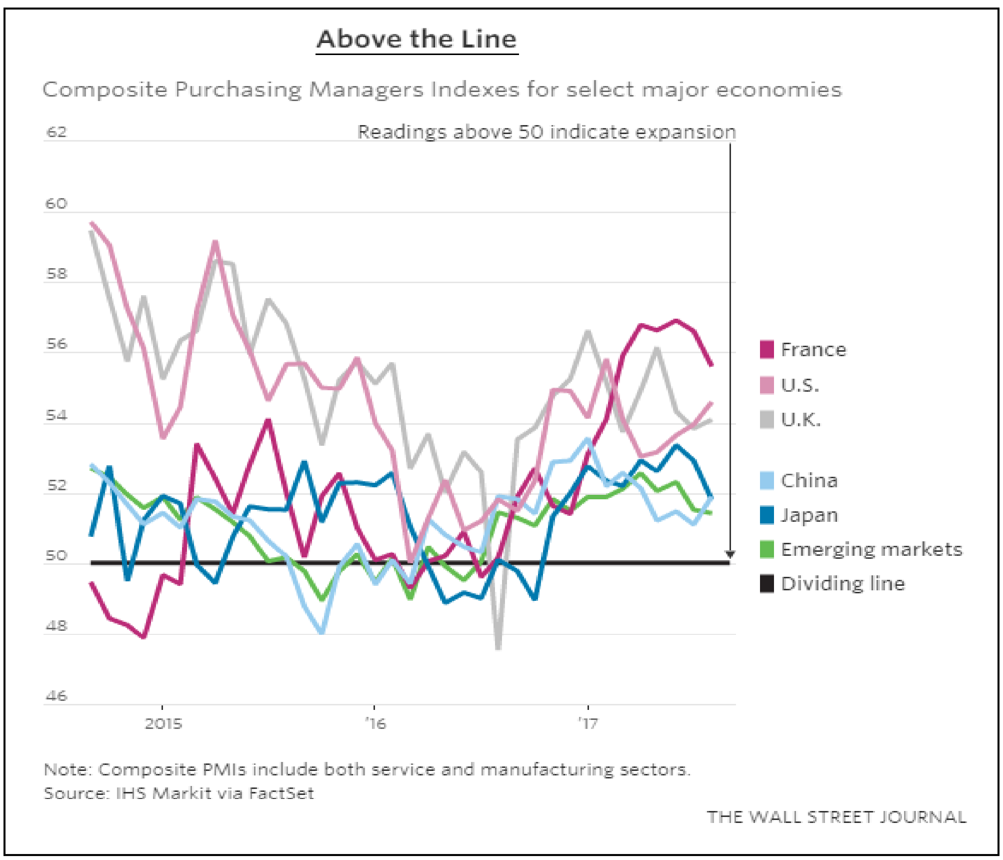


Source: Bloomberg, TAM

Year to date performance has been good for equities and growth has been in favor. The best sectors have been Technology and Healthcare, while the worst were Energy and Telecommunications. Value styles have generally been out of favor as investors worry about Financial and Energy oriented stocks. Concerns on Financials center on whether or not we will see higher rates needed to spur better earnings. Energy concerns center on oil prices. We see the potential for improvement in the outlook for these sectors, as Energy stocks were standout performers in the third quarter. We think probabilities favor somewhat higher rates as confidence is returning that the economy should see better growth ahead.

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*

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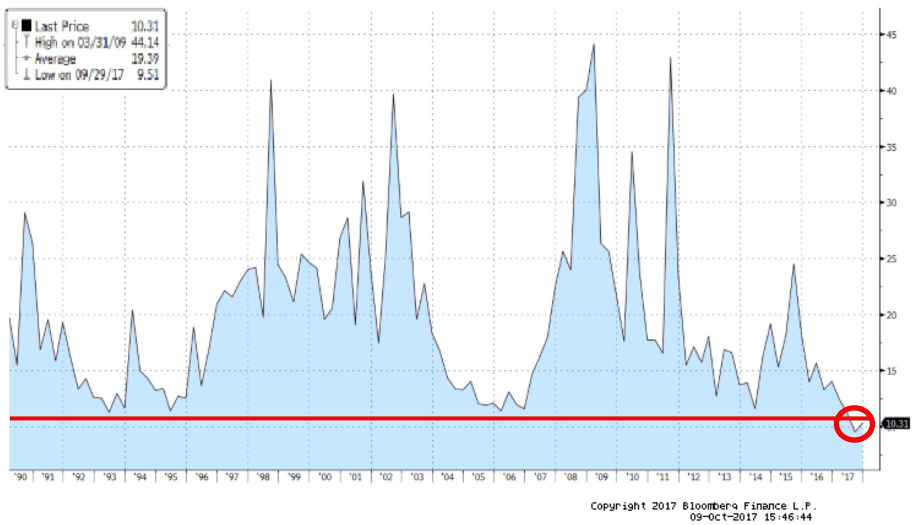
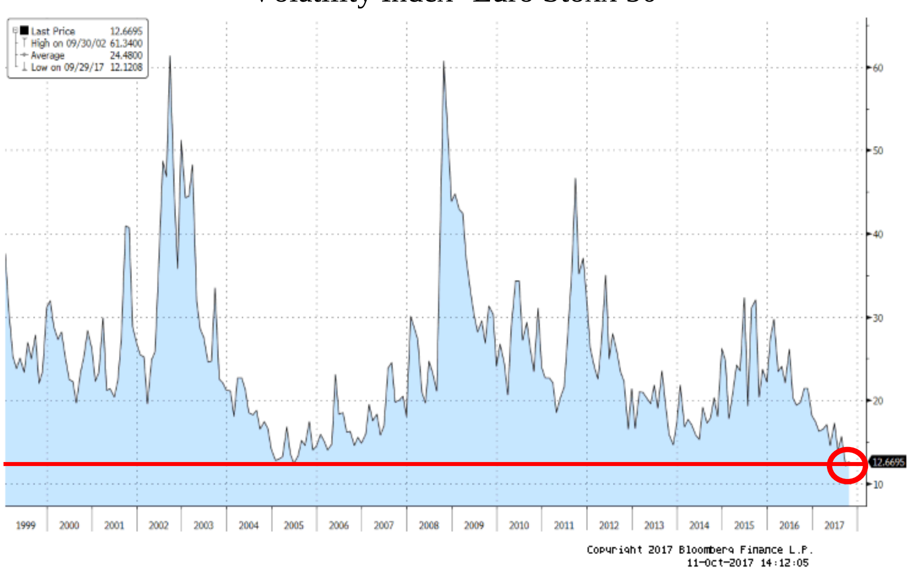
Volatility Index- S&P 500

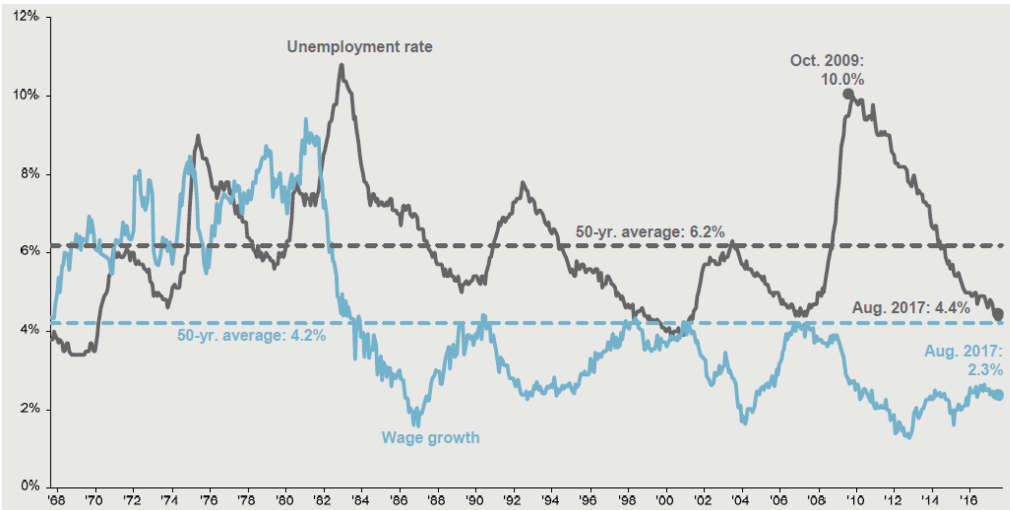


The Volatility Index, or VIX as it is known on Wall Street, is a measure of expected market volatility for an index over the next 30 days. We present S&P 500 VIX in the chart above. The comparable measure for the Euro Stoxx 50 VIX is presented below. Both measures recently set record lows, indicating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

Volatility Index- Euro Stoxx 50

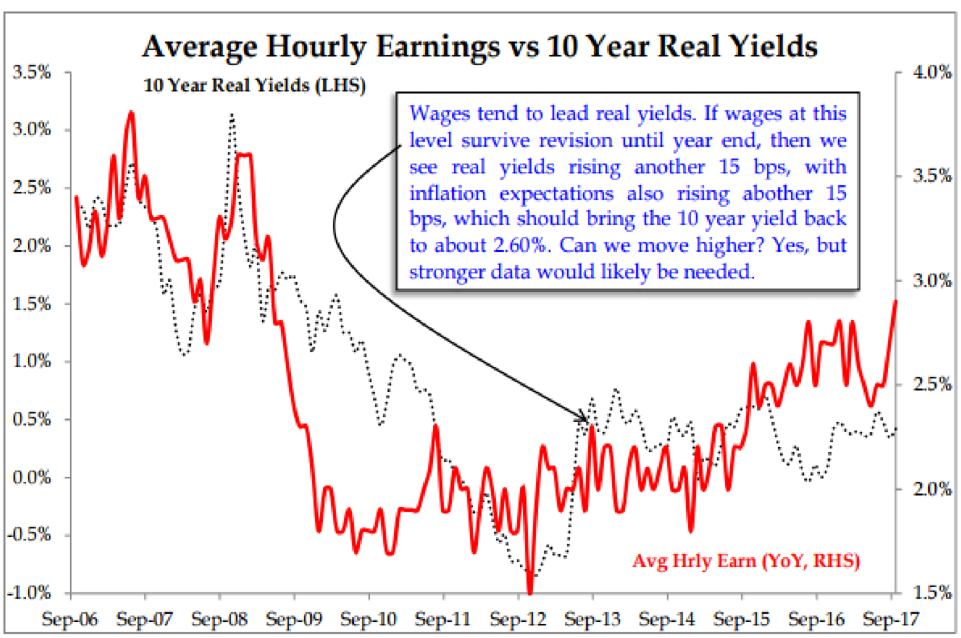


US Civilian Unemployment Rate and Year over Year Wage Growth Should Not Both be Low at the Same Time



Source: JP Morgan

The chart above is weird, and it's not just us saying that. The Fed thinks so too. Unemployment rates are near record lows, while wage growth remains modest. Historically, when wage growth crosses 4%, the Fed becomes much more aggressive about raising rates to head off inflation. Until we see higher wage growth, we think the Fed will remain slow and steady about normalizing rates. The chart below illustrates that real 10 year yields follow trends in Average Hourly Earnings, and those are both rising.



Source: Strategas

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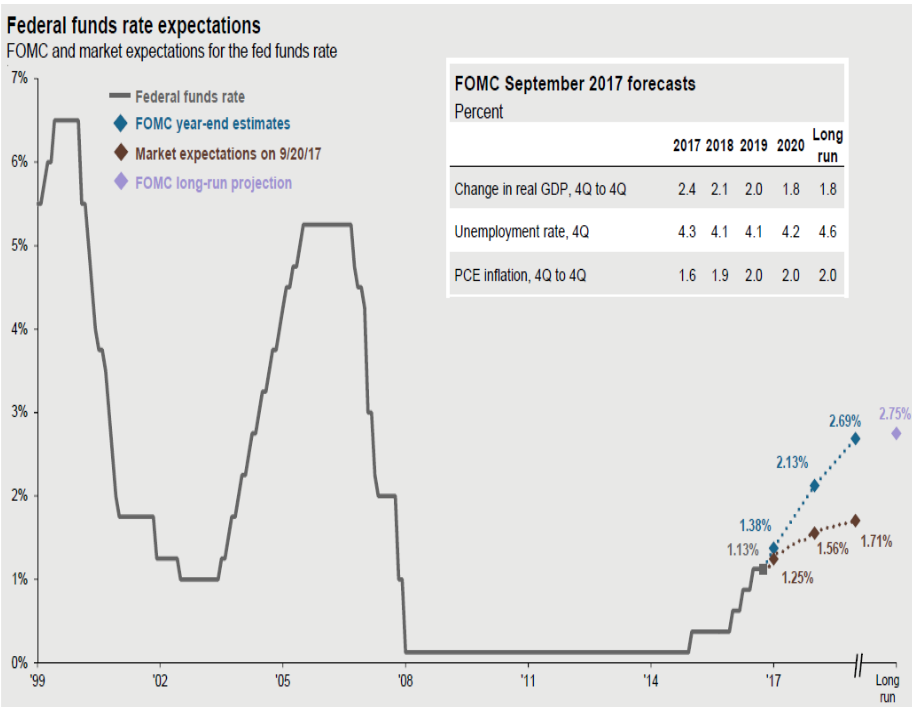
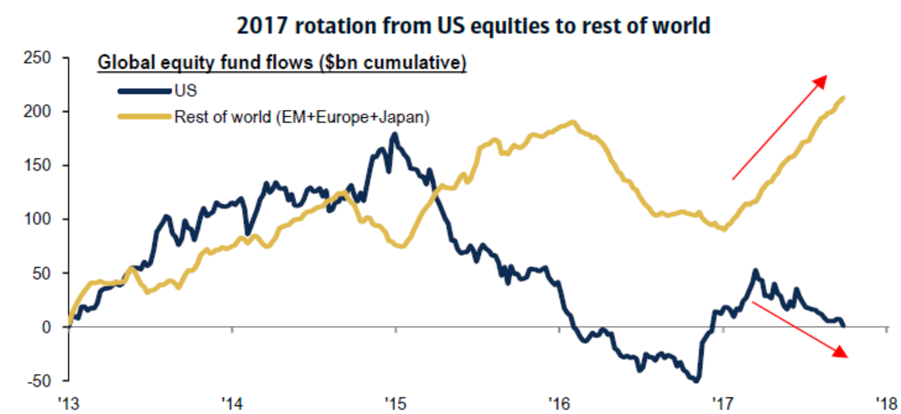


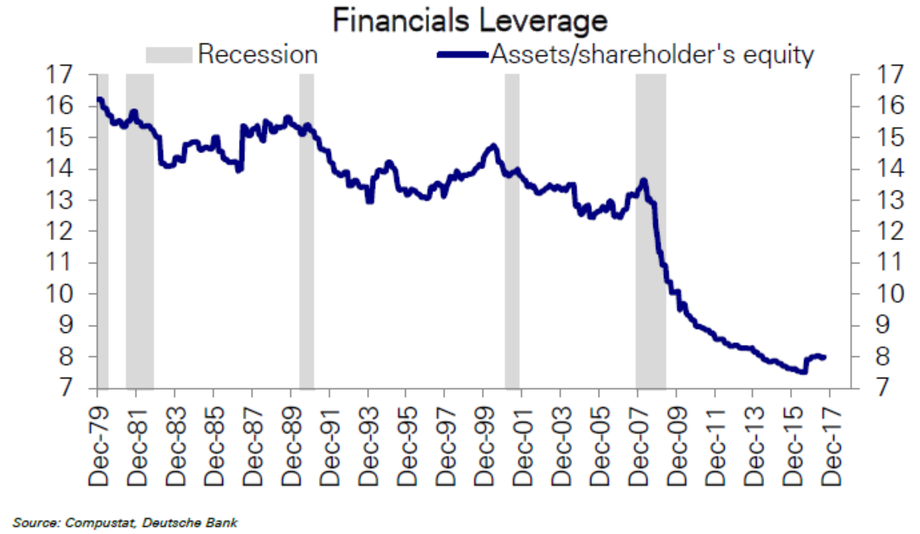
The chart to the left, from JP Morgan, illustrates the different expectations for Fed funds policy rates between the FOMC and the market. If the world is getting back to "normal" then the Fed's higher estimates are likely to be more correct. If we continue to see sub-par growth, the markets' lower assumptions are likely to be more correct. In either event, rates probably go higher from current levels.



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.

Why a 2008 Type Event is Unlikely



Post Financial Crisis, US banks have cut leverage roughly in half. Less levered banks means larger capital cushions in the event of an economic slowdown.

Performance Review

The LCIV strategy increased **+6.1%** (gross) during the quarter, outperforming both the S&P 500 (**+4.5%**) and Russell 1000 Value (**+3.1%**). Over the last 12 months, the LCIV is up **+28.6%** (gross) vs. the S&P 500 at **+18.6%** and Russell 1000 Value at **+15.1%.** The strategy is continuing a recovery that began over a year ago, and was prompted by better confidence and the belief that the economy has completed the "Great Reset" from the financial crisis. Economic growth since 2009 has been below average as consumer debt repayment, corporate debt repayment, currency manipulations, and quantitative easing have all taken their toll on investor confidence. With growth estimates starting to edge upward, and the Fed backing away from quantitative easing, we believe fundamental strategies should have the investment wind at their backs. This period reminds us very much of the early 2000s (post the internet bubble), a time frame when the LCIV went on to outperform the S&P 500 for most years in the 2000 to 2010 period.

Stock selection drove performance during the quarter, accounting for almost all of our outperformance. Selection was most impactful in Consumer Discretionary, Technology and Financials. Healthcare and Industrials were the areas that detracted the most from performance. Our work continues to show that investor preference among factors is broadening out.

Our Multi-factor ranking was one of the better performers again, along with earnings strength and beta. Several quality related factors deteriorated this quarter.

We are overweight the Consumer Discretionary, Financials and Industrials sectors. We are underweight the Consumer Staples, Utilities, Energy, Real Estate, Technology and Telecom sectors.

Our top five contributors to performance during the quarter were ON Semiconductor, NVR, United Rentals, IPG Photonics and Ameriprise. ON Semiconductor is experiencing strength in all of their businesses, particularly auto and industrial automation, as well as content gains in smartphones. NVR continues to benefit from the US housing market recovery which is supporting solid order growth and pricing. United Rentals saw shares rebound as construction activity continued driving solid demand and pricing in the rental market. Shares also rose following several hurricanes that hit the US on rebuilding potential. IPG Photonics continues to see strong order growth in China driven by older cutting/welding techniques being updated to support infrastructure spending and auto manufacturing. Ameriprise is benefiting from higher rates and markets. Their wealth management division is also seeing net inflows and margin expansion.

Our worst five detractors from performance during the quarter were Altria, HCA, CBS, Southwest Airlines and Delta Airlines. Altria shares sold off as FDA moved to cut level of nicotine in cigarettes. Uncertainty around the future of the Affordable Care Act and the potential for rising uninsured rates to continue weighing on bad debts and margins caused HCA shares to weaken. We eliminated this from the portfolio during the quarter. Several media names, including CBS, fell in early Sept. after Disney and Comcast talked down forward guidance. The airline industry saw capacity growth concerns resurface, bringing future earnings growth and margins into question. This weighed on Southwest and Delta shares during the quarter.

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, essentially tracking sideways for roughly eighteen months. Markets have broken out with the earnings recovery, and earnings are expected to continue advancing for the foreseeable future. If tax reform is enacted, 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
S&P 500 – 2,561
Russell 1000 Value – 1,179

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.

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 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 Large Cap 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, 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.