

The Reset Button

Todd Large Cap Intrinsic Value Review

	4Q 2015	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	5.1%	-4.1%	13.8%	11.5%	13.7%	7.3%
(Net)	4.9%	-4.7%	13.1%	10.8%	13.0%	6.7%
S&P 500	7.0%	1.4%	15.1%	12.6%	14.8%	7.3%
Russell 1000 Value	5.6%	-3.8%	13.1%	11.3%	13.0%	6.2%

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

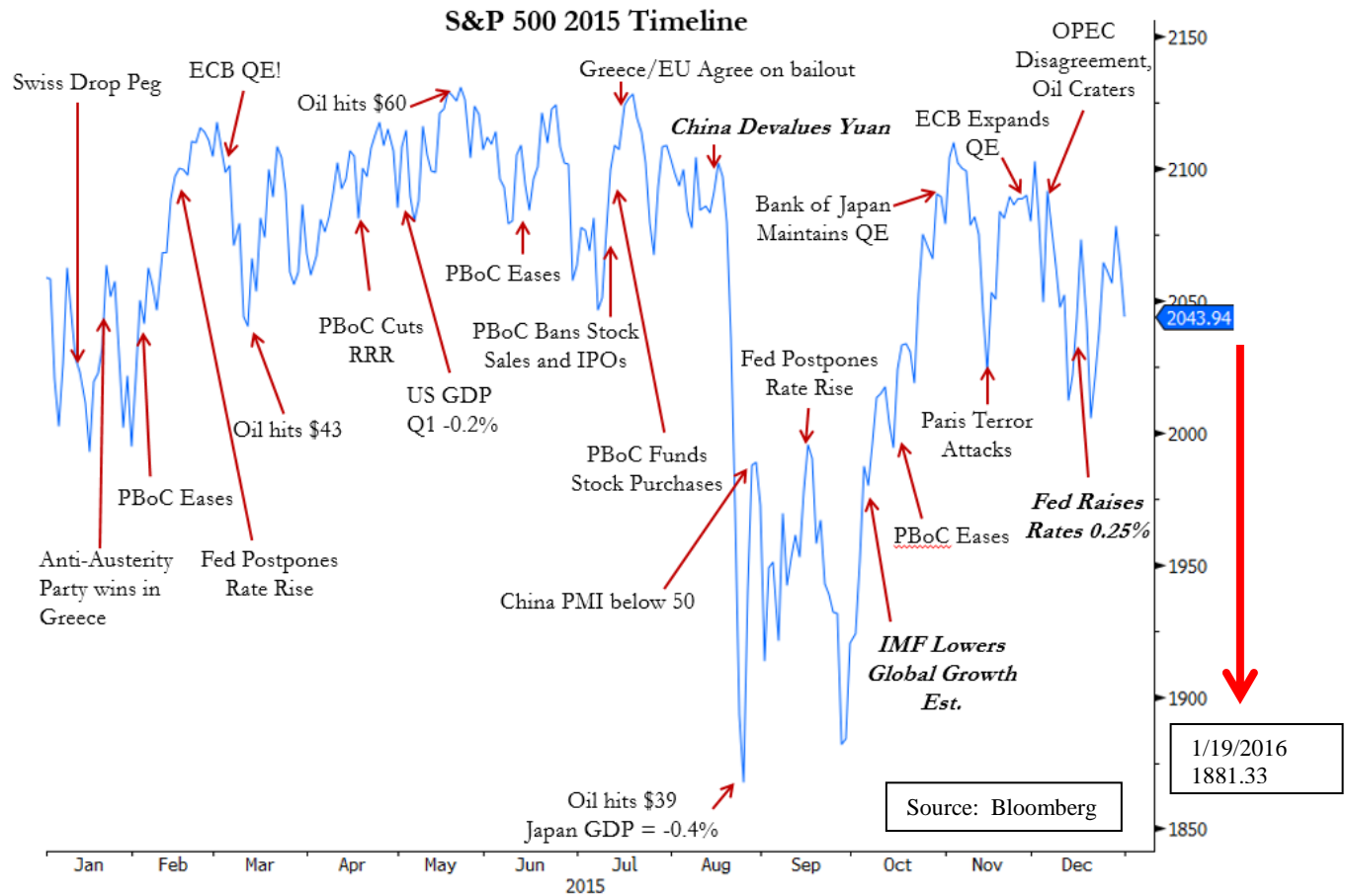
The LCIV posted a gross return of 5.1% for the quarter, compared with the S&P return of 7.0% and the Russell 1000 Value return of 5.6%. During Q4 US bonds lost -0.6%, while mid and small cap stocks lagged their larger counterparts with returns of 2.6% and 3.7% respectively. MSCI Developed Markets lagged the US returning 5.1% and Emerging Markets returned 0.5%. The EAFE index returned 4.8%, while the ACWI ex-US index returned 3.3%. Year to date, our returns were -4.1% vs the S&P gain of 1.4% and Russell Value loss of -3.8%.

Investors and central banks hit the “Reset” button in 2015. By that, we mean their assumptions for corporate earnings, asset returns, exchange rates, commodity prices and Central Bank easing were reset for many different markets as the year unfolded. The biggest resets we saw were:

- Economic growth expectations were reset lower for many economies during the year.
- In the US, this resulted in a wholesale shift to growth investing. Many stocks exhibiting value characteristics were abandoned. Anticipation of higher rates resulted in a reset to a significantly stronger dollar, with correspondingly lower sales and earnings for US multinationals.
- In China, the economic reset to a 6 or 7% growth rate was accompanied by a mismanagement of their stock market surge, effectively closing them after their bear market. The result has been a reset of central bank easing expectations and a Yuan devaluation
- In Europe, the Swiss reset their Franc, de-pegging it from the Euro. The ECB began aggressively easing, resetting the euro lower versus most currencies.
- In Japan, the Central bank stepped up and expanded their QE program after a recession, resulting in a reset, i.e. Yen devaluation.
- Commodities worldwide bore the brunt of all these resets as weaker demand and oversupply resulted in price weakness.

Are the resets over? Early indications are probably not yet. Lower economic growth may persist for some emerging markets as a result of higher debt levels or commodity declines (or both.) Despite growth concerns, US markets are still elevated. More dollar strength could hurt earnings estimates. Is investing this year a lost cause? Investing should produce better returns than last year with higher volatility because employment and consumer income is growing, and energy prices remain low. Housing and auto demand are better, though general industrial demand is weak as exports and capital spending for oil drilling has been curtailed. Our economy is digesting these developments. Low rates and stimulative actions by Europe, China, and Japan should lead to firmer growth estimates at some point later this year.

Some Noteworthy Items:

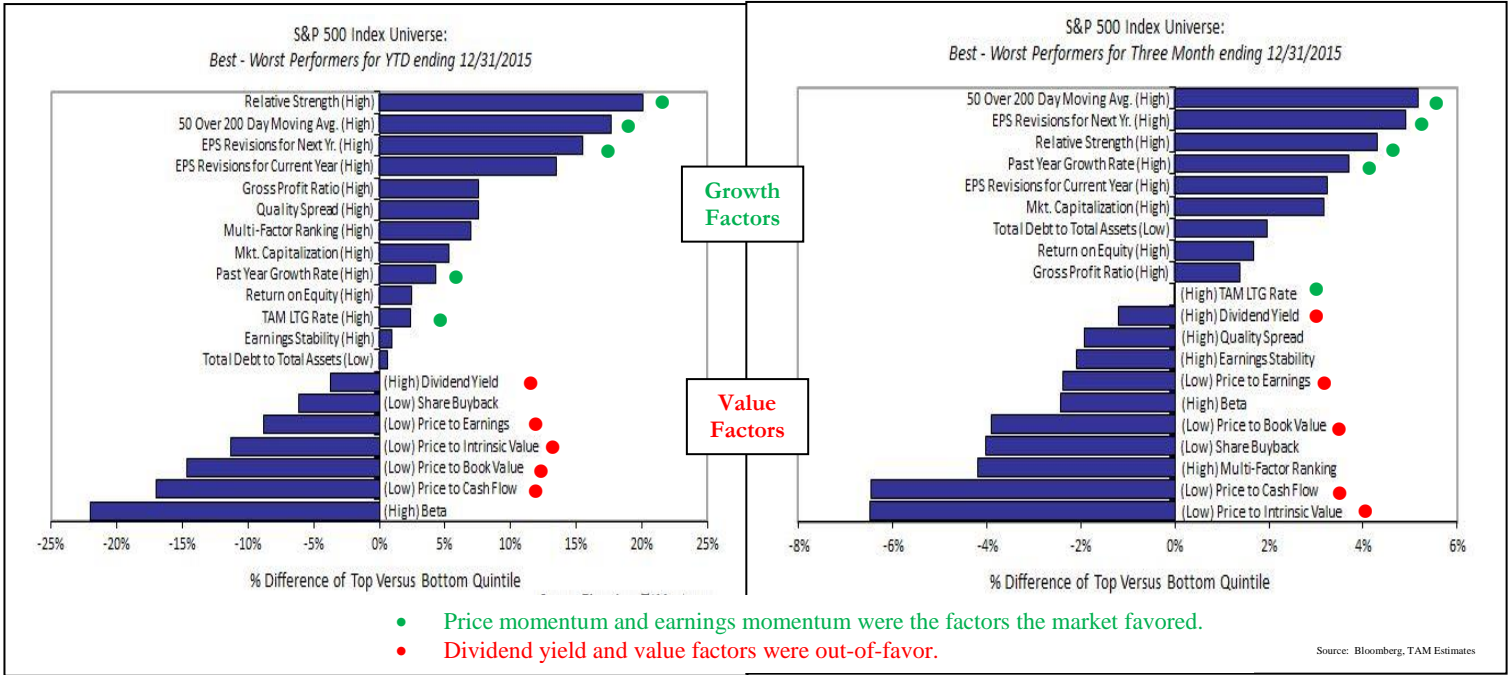


We expected a market recovery in Q4 after the surprise devaluation of the yuan. While that did happen, we are now revisiting the lower end of our recent trading range early in the New Year. Economic growth worldwide remains suspect and investors are reading commodity weakness as a precursor to disappointments.

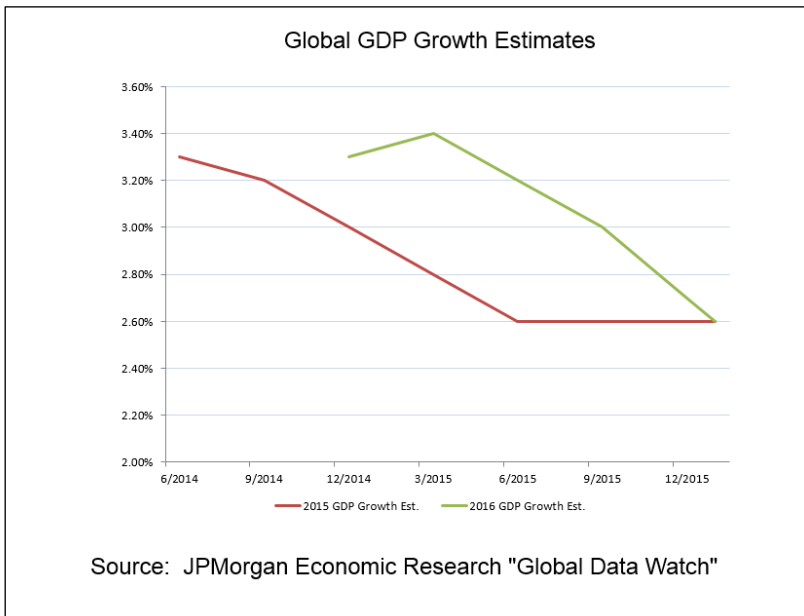
Anticipation of the first increase in the Fed Funds rate led to a market that we characterize as “violently unchanged” for the year. Also, earnings were pressured due to a surging US dollar and negative impact on capital expenditures from oil price declines. We are waiting for the Q4 earnings season to get a better sense of 2016 earnings expectations. If further dollar strength occurs, coupled with the current decline in oil prices, the net result could be more pressure on first half earnings estimates.

Investors sought growth stocks last year, and only a handful at that. When only a few names can make money and most others are left behind, we get concerned about the market’s overall health.

What Worked... And What Didn't.



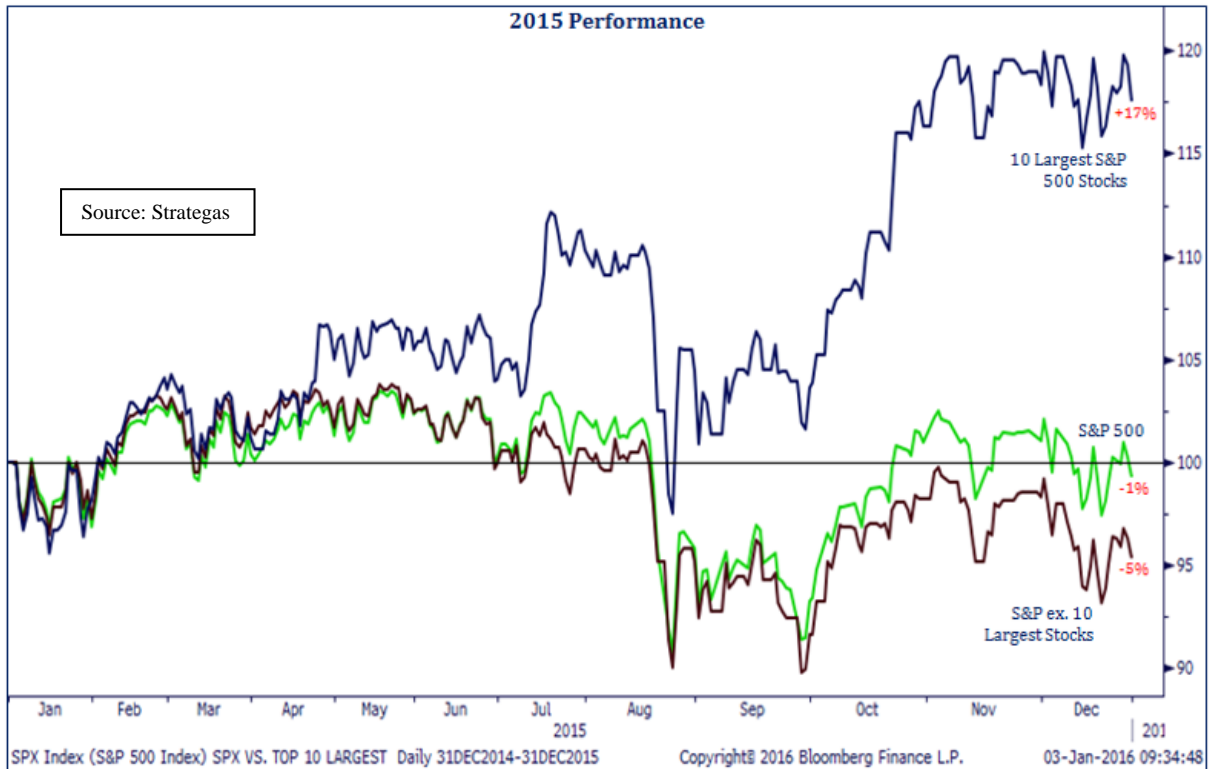
The market continued to favor growth characteristics and shun value in the fourth quarter. We present our customary charts illustrating the factors that worked for the year (chart left) and the quarter (chart right). Valuation measures underperformed while characteristics showing assured growth and momentum recognizing that growth were rewarded. Our value bias produced results that were in line with the value index, but lagged the S&P.



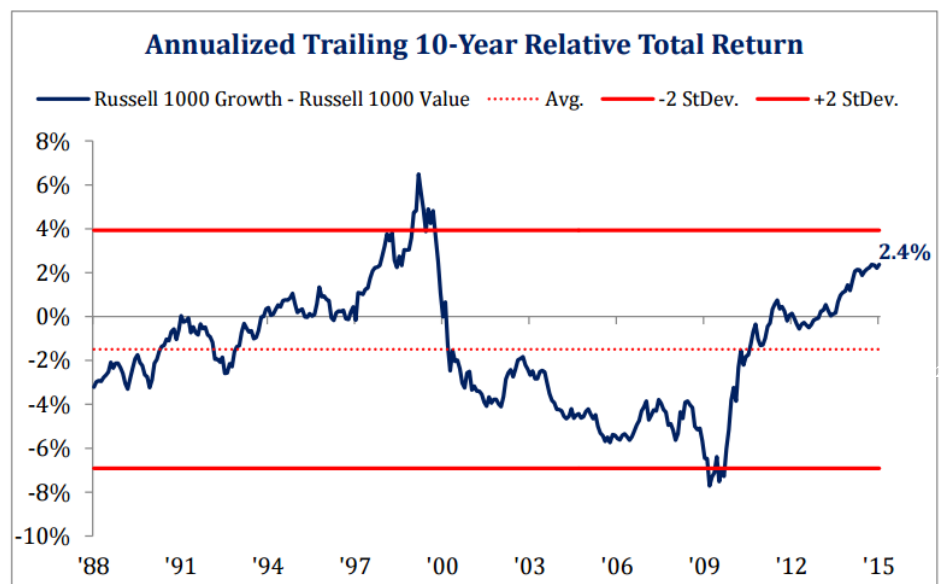
Global GDP growth estimates have been consistently downgraded as the year unfolded. Much of the pressure came from China, the US and Latin America. Europe, the UK and Japan have seen stable estimates, albeit at low levels of growth.

China's economic reset and the currency resets we noted earlier have led to a general slowdown in world trade. This translates into lower economic activity. Stimulative actions should help over the coming year, as Europe spends for the refugee crisis, China promotes consumption and the US anniversaries the currency and oil resets.

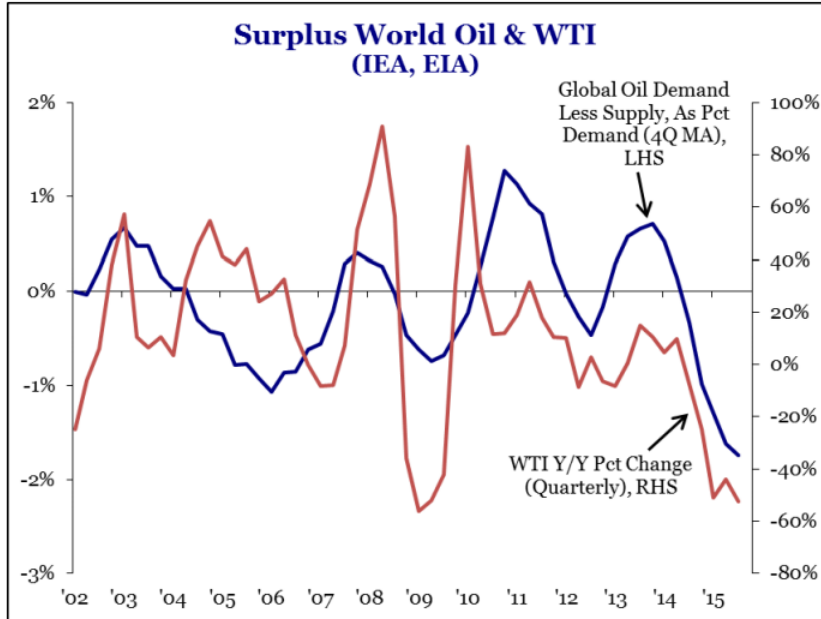
The “Flight to Large Cap” environment sucked the air out of the room for most other stocks last year. Investors wanted high profile visible earnings growth and liquidity, and would pay almost any price for it. The average stock (S&P 500 equal weighted index) declined over 4% last year.



Investing styles are cyclical, as illustrated in the chart to the right. When the line is rising, growth stocks are outperforming value stocks, and vice versa. Growth stocks are extended versus value at this point, and could be primed for a change in trend. The “FANG” (Facebook, Amazon, Netflix, and Google) stocks led performance last year... by a lot! Watch what these popular technology stocks do in the New Year, compared with the performance of financials to get a sense if this is changing.



Oil Oversupply Drove Prices Down

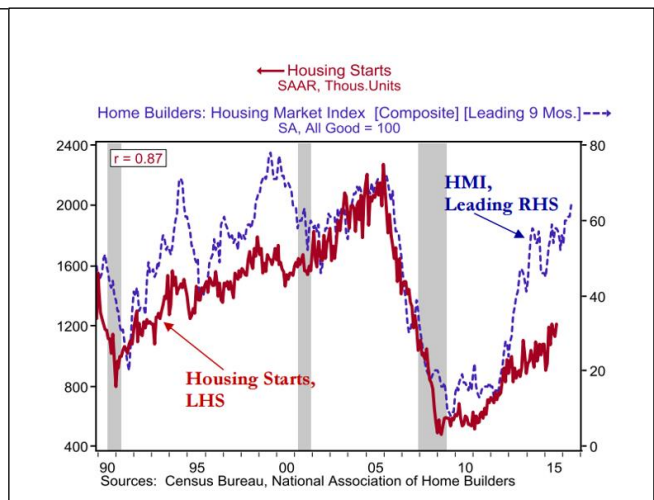
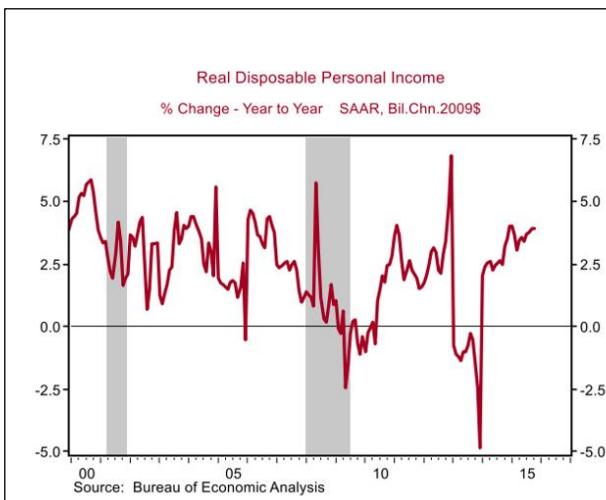


Source: Strategas

OPEC has either dissolved or is at least ineffective at curtailing production currently with the Saudi's and Iran increasing exports. The result is the oversupply indicated by the blue line in the chart to the left. Oil demand less supply indicates some significant over-production. Weaker worldwide economic growth also contributed to this.

Oil prices have reset down as indicated by the red line to the left. Most investors expect production to be curtailed from the US shale shut-ins or from deep water projects being deferred.

Lower oil prices, coupled with a stronger job market and rising hourly earnings have led to a rise in real disposable personal income, noted in the chart below to the left. The US economy should have this growth driver working for it, which should lead to a continued recovery in Housing Starts, presented in the chart below to the right. US Auto sales should remain robust as well.





Performance Review

The LCIV underperformed both the Russell 1000 Value and the S&P 500 during the quarter. For YTD, we are in line with the Russell 1000 Value and still lagging the S&P 500 gross of fees. Stock selection is the culprit this quarter, as it has been for the second half of the year. We continue to have a value bias in our disciplines despite the recent market tilt towards growth stocks. In the quarter, these value biases cost significant performance as the market worried about economic growth and moved to a concentrated group of more expensive growth stocks as noted in our preceding charts. Investors wanted growth at any cost.

We believe there are several reasons investors should continue to favor a valuation bias. First, it reduces what we would call “cult stock valuation” risk. In our experience, the worst beatings investors take is when they own cult stocks with high valuations. If the psychology behind them breaks, valuations are adjusted downward, sometimes with breathtaking speed. The second reason we continue to like valuation as a measure is it allows us to focus efforts on stocks where market expectations are too low and upside potential exists. It is not often we hear investors brag about how they buy expensive stocks. The market may not have rewarded a value bias with quantitative easing in place, but with the end of that cycle at hand in the US (the Fed has only begun raising rates) Value should enjoy a recovery. I heard a journalist comment that “Value is Dead” the other week, and that sentiment is usually what we need to get the cycle to turn. Fortunately, our strategy combines our proprietary Price to Intrinsic Value (private market value) with other elements showing strong fundamentals and evidence that the market is rewarding those. When you pair those factors in your security selection, an attractive picture emerges where the weight of the evidence should lead investors to reward it.

The best performing S&P 500 and Russell 1000 Value sectors and our portfolio positioning during the quarter were Materials, Healthcare, Technology and Industrials. Compared to the S&P 500 and Russell 1000 Value we were underweight Materials, overweight Healthcare, marketweight Technology (underweight tech vs R1000V) and overweight Industrials. The worst performing groups were Energy, Discretionary and Utilities. We were underweight Energy and Utilities, but overweight Discretionary versus both indexes.

The best five contributors to portfolio performance during the quarter were Nvidia, Home Depot, United Rentals, Delphi Automotive and Delta Airlines. Nvidia reported strong results across all their divisions, and investors are very excited about their products for automated driving markets. Home Depot continues to benefit from firm demand for construction and remodeling supplies. United Rentals reported equipment rental results ahead of estimates, and suggested the headwind due to reduced oil prices should abate in the first half of 2016. Delphi’s stock recovered from weakness after posting solid Q3 results. Delta Airlines continued its’ uptrend with declining oil prices and better consumer demand supporting them. The five stocks that detracted most from the portfolio were Macys, F5 Networks, Ryder Systems, Penske Automotive Group and Union Pacific. All of these companies guided estimates lower during the quarter, and several missed their quarters. We have removed Macys from the portfolio and trimmed most of the others.

We have not made any dramatic changes to our sector weights over the past quarter. Our disciplines still point to having an overweighting in the Discretionary, Industrial, Financial and Health Care sectors. We are constructive on Technology as well, but are selective within the sector based on EPS multiples. These disciplines also guided us to be below market weightings in Staples, Utilities and Telecoms. They are all rather expensive on Price to Intrinsic Value, and most are not showing significant earnings momentum.



Review and Outlook

At this writing, the US markets are off to the worst start for a New Year ever, declining 6% in the first week alone and now in a correction (i.e. 10% below the prior market peak). Concerns are growing over the potential for more resets, especially in the Chinese Yuan and the oil markets. The trade weighted dollar is still in the range it has been, but that puts it up almost 10% year over year. If the dollar stays in this range, the year to year comparisons should look better in early March, a year past the first spike of 2015. Oil prices continue to decline, suggesting further capital spending weakness and sparking credit concerns for the financial services firms. Add in a touch of geopolitics, with the Saudis “poking the bear” of Iran and you have a formula in place for investors to feel like heading for the exits.

Things are never as bleak as they seem though. When you ask yourself what can go right, you must note several positive trends that remain in place. First, employment is increasing and unemployment is decreasing both in the US and Europe. In the US, Auto sales are proceeding at a record pace, and auto registrations are also increasing in Europe and China as well. Rates remain low globally, and inflation is scarce. Deflation is a concern, but with extraordinary actions being taken by most central banks, price declines should not get out of hand. Analyst estimates for the S&P earnings call for an improvement in 2016, something we will need to watch closely. If that is maintained, some better sentiment may await us later in the year. Lastly, most investors are scared out of their wits. This generally isn't the backdrop that makes for a secular top.

We think we are in the midst of an old fashioned correction within a secular bull market. Much of the world is in recession, or stagnant as far as economic growth. Government policies worldwide are being altered to become more stimulative. The net of this is, we are not sure where the market wants to bottom out... but it will bottom out at some point. Who knows, we may see an official bear market (down 20% from the peak) if investors get worried enough about the items we mentioned in the first paragraph. Realize though, after it does bottom out, there are lots of policies in place in the global economy that are designed to bolster economic growth. If this stimulus gets traction while rates remain low, the secular bull is back on. We think there is a likelihood of this later on this year, but first we need to get through the current bout of weakness.

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

1-19-2016
S&P 500 – 1881.33
Russell 1000 Value –883.31

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 September 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 September 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%. 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.