October 21, 2024
Intrinsic Value Team
Todd Asset Management

Todd Q3 2024 Intrinsic Value Opportunity Review

	3Q 2024	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
IV Opportunity (Gross)	10.11%	22.91%	33.00%	15.33%	15.62%	12.70%	9.57%
IV Opportunity (Net)	9.89%	22.16%	31.92%	14.38%	14.66%	11.76%	8.66%
S&P 500	5.89%	22.08%	36.35%	11.91%	15.98%	14.49%	13.37%
Russell 1000 Value	9.43%	16.68%	27.76%	9.03%	10.69%	9.53%	9.23%

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

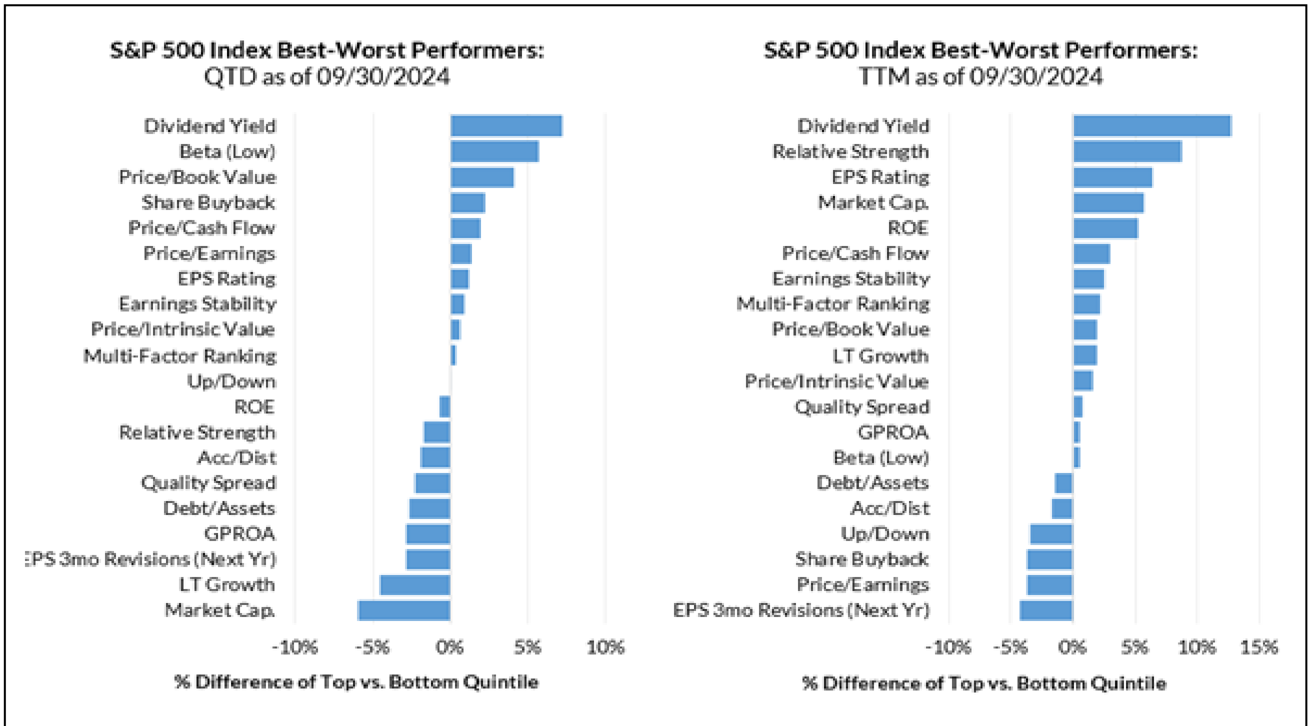
Performance Review

The IV Opportunity strategy ended the third quarter ahead of both the S&P 500 and Russell 1000 Value for both the quarter and year-to-date time frames. The market continued to march to new all-time highs after the Fed began their rate cutting cycle in mid-September. Economic growth prospects have taken on a more optimistic tone and we are encouraged by the broadening out we've seen in the market over the past few months.

We are officially in a global easing cycle. Central banks are normalizing policy rates from extraordinary levels as inflationary pressures have eased. This is an important environmental change as policy makers pivot (to steal a buzz word from last year) to become more supportive of economic activity. While concerns around labor market weakness underpinned a consensus call for recession in the next few quarters, the most recent employment report in the US seems to have driven a much larger contingent that now embrace a soft landing. There have certainly been areas of weakness like autos, manufacturing, durable goods, etc. However these are also inherently more interest rate sensitive businesses which should benefit from easing financial conditions. The path of earnings estimates, which continue to improve after contracting through the first part of 2023, also suggests that economic momentum is on much more stable footing. This is important because the historical analog for markets after Central Banks start to cut rates is quite strong in non-recessionary times (e.g. 1988, 1995, 1998 in the US) with the market up around +20% over the next 12 months. The past year has been nothing to sneeze at with the S&P up +30%, which itself is more indicative of an early cycle market. In fact, when you look back over time for instances when the S&P 500 was up more than 30% over a 12 month period, you find that nearly every time this was coming OUT of a recession, not heading INTO one.

We have been in the soft-landing camp for some time and are happy to see the market come around to our line of thinking. However if a recession is being taken out of the forecast next year, long-term interest rates could continue to move higher and the expectation for the number of rate cuts through the end of 2025 probably needs to continue coming down. The economy can likely tolerate this, however markets may need a little time to digest a higher terminal policy rate at some point. This plus the election season that is upon us could cause some volatility, however history continues to point to an encouraging setup going into next year. We are hopeful that the broadening out we've seen in the market over the past few months is a precursor for the environment going forward, which would support our strategy and discipline.

<u>Factor Performance</u>



Source: Bloomberg, William O'Neill + Co. and Todd Asset Management

Dividend Yield and Low Beta ranked as the best performing factors along with several other Value measures this quarter. Market Cap ranks as the worst performing factor for both the domestic and international universes this quarter. We've spoken in the past about the market broadening out from mega-cap names, which has been a global phenomenon but much more pronounced in the US. In this same vein, LT Growth was the second worst performing metric over the past 3 months. For the past 12 months Relative Strength and Dividend Yield were the two best factors. It's interesting to note how broad the factor-work is this past year with only a few metrics showing any meaningful underperformance. This is a sharp contrast to prior periods where most of the factors were upside down and feels like another dynamic that argues for a soft-landing.

<u>Performance Attribution</u>

Our outperformance in the quarter vs. the Russell 1000 Value was primarily related to stock selection in the Industrials, and Communication Services sectors, partially offset by stock selection headwinds in the Consumer Discretionary and Energy sectors. From an allocation perspective, the IVO benefited from its large overweight position in Consumer Discretionary and its underweight allocation in the Information Technology sector, which was partially offset by our underweight (no position) in Real Estate.

This quarter, the top contributors to IVO's outperformance were Masco, United Rentals, Fox Corp, Lowe's, and Best Buy. Demonstrating strong cost discipline, Masco achieved higher margins and exceeded earnings expectations despite softer sales. United Rentals gained from management's optimistic outlook, which highlighted robust demand for large-scale projects despite macroeconomic uncertainties. Fox outperformed with better-than-expected EBITDA and earnings, benefiting from anticipated strong ad spending for elections and the NFL, coupled with lower projected costs. Despite a challenging market environment that resulted in lower sales, Lowe's showed resilience through margin improvements. At Best Buy, surpassing sales expectations and maintaining a focus on cost controls led to earnings significantly above analysts' projections.

Diamondback Energy, Qualcomm, Wells Fargo, Phillips 66, and General Motors rounded out the bottom five performers this quarter. Despite reporting strong quarterly results, Diamondback saw a sharp decline following the closing of its sizable acquisition of Endeavor. Qualcomm beat both revenue and earnings estimates but fell short of investor expectations by not raising its outlook, issuing weak initial projections for its fiscal first quarter due to concerns over potentially weak handset demand. Wells Fargo shares slipped after the announcement of litigation tied to allegations of underpaying clients in cash sweep accounts. Shares of Phillips 66 dropped as lower refinery margins dampened deleveraging expectations. Meanwhile, General Motors posted strong results, but concerns over a potential slowdown in its China-related business weighed on the stock.

We are always available via email or phone and welcome your calls. If you have any questions, please feel free to contact any of us for further information.

Curt Scott, CFA Jack White, CFA Jack Holden CFA Shaun Siers, CFA

10/21/2024
S&P 500 – 5,854
Russell 1000 Value – 1,889

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

INTRINSIC VALUE OPPORTUNITY 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.

Specific stocks discussed are included to help demonstrate the investment process or, as a review of the Composite's 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. The compilation of information contained herein reflects the views and opinions of TAM financial professionals at the time of creation which may change at any time without prior notification. There is no guarantee that any forward-looking opinions will occur.

Todd Asset Management LLC ("TAM") is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The performance presented represents a Composite of fully discretionary accounts invested in equity securities within the S&P 500 Index with the objective to seek capital appreciation. This goal is pursued by investing in a portfolio of securities that are in the least expensive third of the S&P 500 Index using a rules-based process based on financial strength, profitability strength and market acceptance.

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 Intrinsic Value Opportunity Composite contains fully discretionary, taxable and tax-exempt accounts that use either the S&P 500 Index or the Russell 1000 Value Index as the benchmark. 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, 2023. 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 Intrinsic Value Opportunity Composite has been examined for the periods January 1, 2011 through December 31, 2023. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To receive additional information regarding TAM, including a GIPS Composite Report for the strategy presented, contact Monica Slyter at 1-888-544-8633, or write Todd Asset Management LLC, 101 South Fifth Street, Suite 3100, Louisville, Kentucky 40202, or mslyter@toddasset.com.

The performance information is presented on a trade date basis, both gross and net of management fees, net of transactions costs, and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .80% applied monthly. From October 2009 to March 2014 the management fee schedule applied to the Composite was 0.70%. Prior to October 2009, the management fee schedule applied to the Composite was .60%. 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. The volatility of the index and a client account will not be the same.

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.

Risks – Investments involve varying degrees of risk, and there can be no assurance that this product is suitable for your investment portfolio. The Opportunity product is designed for long-term investors who are willing to accept short-term price fluctuations. Stock market and business risks are general risks. This product generally holds 30 securities and is rebalanced every 3 months, thus it is more concentrated and may generate more investment turnover than other products. It is not required to be diversified by sector, and should be considered a more sector concentrated, aggressive application of the price to intrinsic value investment philosophy. There are times the overall market may not favor value-style investing, and it is possible the intrinsic value of the underlying stocks may never be realized.

At acceptance, TAM will provide all clients with a copy of our current Form ADV, Part 2A ("Disclosure Brochure"), Form ADV Part 2Bs, which are the Brochure Supplements for each advisory person supporting a particular client, and, if an individual investor, the Form ADV Part 3 (client Relationship Summary or Form CRS). You may also obtain a copy of these disclosures on the SEC website at http://adviserinfo.sec.gov.