October 21, 2024
Intrinsic Value Team
Todd Asset Management

Todd Q3 2024 Large Cap Intrinsic Value Review

	3Q 2024	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	8.40%	21.50%	34.30%	11.80%	15.31%	12.00%	11.24%
Large Cap Intrinsic Value (Net)	8.25%	20.98%	33.54%	11.14%	14.63%	11.34%	10.59%
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.*

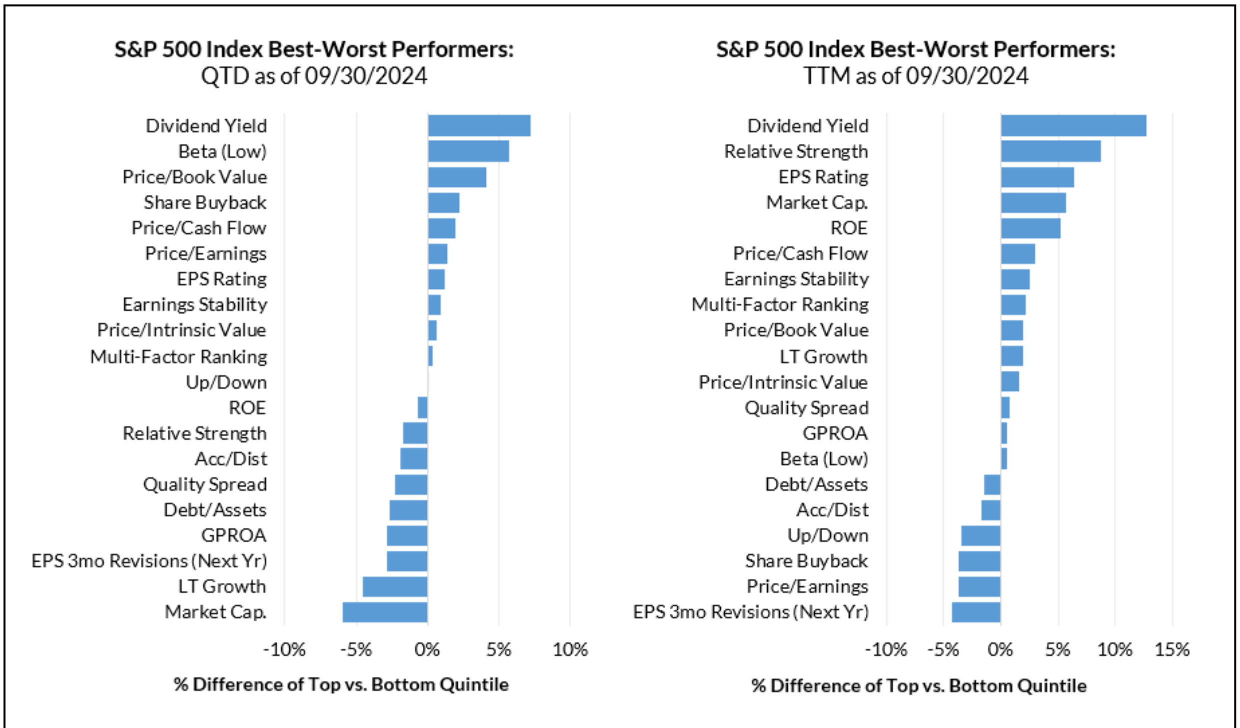
Performance Review

The LCIV strategy ended the third quarter ahead of the S&P 500 and behind the Russell 1000 Value. Year-to-date we are nicely ahead of the Russell 1000 Value and lag the S&P 500. 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.

Factor Performance



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 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. Our Multi-Factor Ranking has been in the middle of the pack for the past year, modestly outperforming.

Performance Attribution

Our strategy's outperformance over the S&P 500 this quarter was mostly driven by stock selection, though our sector allocation also helped. Industrials, Financials and Health Care were our best performing areas. Improving macro sentiment certainly helped many of the companies in Industrials and Financials, led by several Infrastructure, Payment, Banking and Insurance names. Our largest areas of detraction were the defensive sectors (Utilities, Real Estate and Consumer Staples) which we are underweight. These are all higher yielding sectors that saw a bid when the Fed started to cut policy rates.

Our top five performing companies for the quarter were United Rentals, HCA Healthcare, IBM, NVR and Parker Hannifin. Shares of United Rentals led the way as investors started to embrace better economic growth prospects. There had been some cyclical concerns around the name, however management's guidance remained firm and the company continues to benefit from longer-term tailwinds from infrastructure spending. HCA Healthcare reported results that came in ahead of estimates driven by stronger than expected admissions and patient revenue. Management raised guidance on the call and earnings growth is set to accelerate over the next few years. IBM is experiencing strong momentum in their Software division, driven by AI and Automation deals, which are more than offsetting some headwinds in their consulting business. Housing related names, which ranked toward the bottom of the list last quarter, recovered over the past few months on the back of rate cut expectations from the Fed. As a result, NVR went on to make new all-time highs. They also reported solid earnings in July which were highlighted by order growth of +25% and constructive commentary on broader demand and pricing. Parker Hannifin is another name that traded to new all-time highs in the quarter after reporting solid results as order growth improved, margins are set to expand and larger macro concerns eased.

Qualcomm, Dell Technologies, NXP Semiconductor, Shell and Merck were our five largest detractors in the quarter. Both Qualcomm and Dell were among our best performers last quarter, but the AI trade saw some wind come out of its sails. Qualcomm consolidated after an impressive run back toward it's 200 day moving average after forward estimates were revised down following their quarterly release. Results were strong, however expectations were high for future quarters and they are set to see some deceleration in growth as demand cools at several smartphone customers. Dell also continued its consolidation as elevated costs (stemming from investments being made to accommodate tremendous AI/server related demand) are pressuring margins. The auto market has seen a slew of negative headlines over the past few months and this is the largest end market for NXP Semiconductor. Forward guidance has declined as higher lending rates are impacting consumer demand for autos and electric vehicles. Shares of Shell (along with most of the other Energy names) sold off through the quarter along with brent crude oil prices. The expectation for incremental oil production/supply to come online over the next few months (particularly from Saudi Arabia) has been a headwind for oil prices. Liquid natural gas supplies are also set to ramp over the next few years which has additional pressure on Shell's earnings estimates. Finally shares of Merck sold off following their earnings report in July due to questions around demand for Gardasil, their HPV vaccine. They reported a sharp stepdown in shipments to China due to elevated inventory levels, which weighed on earnings estimates for the next few quarters.

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

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. 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 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. The minimum account size for this Composite is $1 million.

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 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 Large Cap intrinsic Value 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 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. 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 or profitable for your investment portfolio. The LCIV product is designed for long-term investors, who are willing to accept short-term market price fluctuations. Stock market and business risks are general risks associated with the product. 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.