TODD Asset Management

July 18,2023
Intrinsic Value Team
Todd Asset Management

# Todd Q2 2023 Global Intrinsic Value Equity Income Review

| | 2Q2023 | YTD | 1 Year | 3 Years* | 5 Years* | 7 Years* | 10 Years* |
|---|---|---|---|---|---|---|---|
| GIVEI (Gross) | 0.64% | -0.95% | 6.88% | 14.39% | 4.88% | 6.69% | 6.65% |
| (Net) | 0.49% | -1.25% | 6.25% | 13.72% | 4.26% | 6.06% | 6.02% |
| MSCI ACWI (Net) | 6.18% | 13.93% | 16.52% | 10.99% | 8.10% | 9.94% | 8.76% |
| MSCI ACWI Value (Net) | 2.98% | 4.25% | 9.96% | 11.82% | 5.16% | 7.07% | 6.19% |

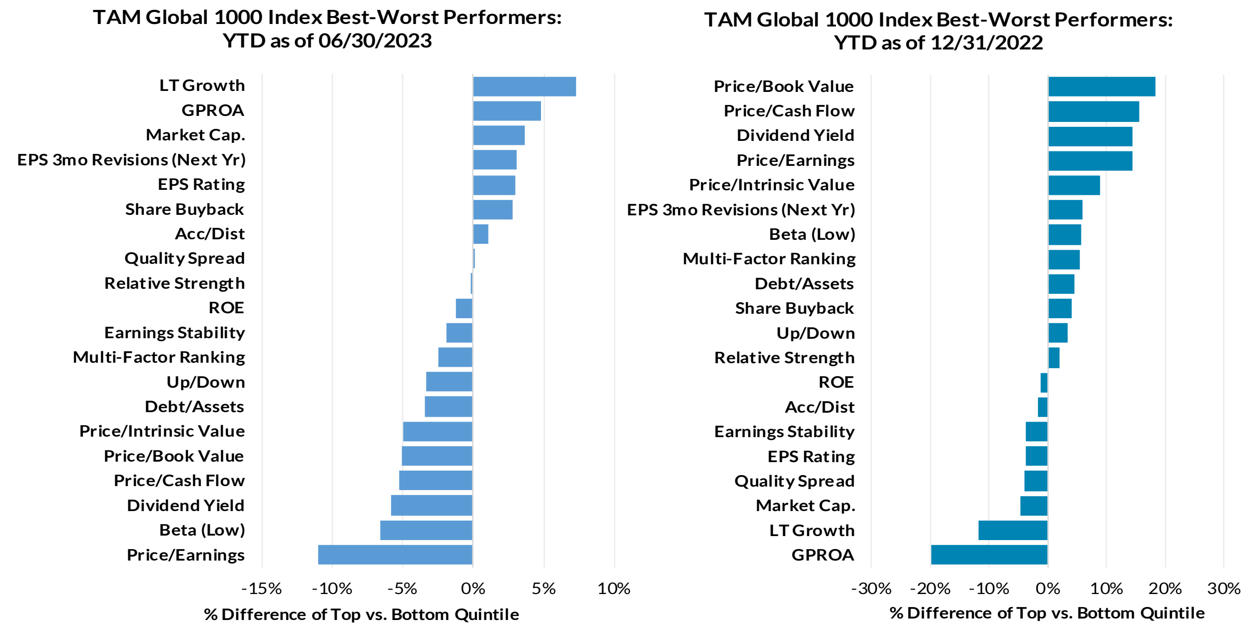
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information.*

## Performance Review

Our GIVEI strategy underperformed both indexes in the quarter and on a one-year basis. The primary reason for this is the underperformance of Higher Yielding Stocks (see the factor analysis below) versus Lower Yielding stocks for both time periods. This compares in stark contrast to 2022, when Higher Yielding Stocks outperformed Lower Yielding Stocks by over 10% and the strategy outperformed both indexes for the year. The nature of this strategy is to invest in higher yielding securities, so the markets acceptance of this factor is a major component of its relative performance to the indexes. The current yield at the end of the quarter was 5.3% versus the ACWI yield of 2.2%.

Overwhelming consensus is rarely rewarded in this business and that is proving true again this year. While we pulled forward recessionary forecasts in the first half of 2023, analysts are now pushing out that forecast into 2024 and beyond. The market, in its infinite wisdom, seems to be confirming lower immediate recession risks as well. Interest rates have increased and are approaching highs for the year in most developed markets. The Dollar just traded to 52-week lows following a better US CPI print. We can also see a number of foreign country indices at or near all time highs (e.g. Japan's Nikkei, German DAX, French CAC 40, etc.). This is likely reflective of both higher policy rates and better near term growth prospects. Economic data continues to send conflicting signals. The manufacturing sector globally is weak with most PMI readings in contractionary territory while services sectors are largely ok. Economic activity really hasn't been synchronous since the pandemic and that may simply be what we're seeing. Goods and manufacturing ran hot into last year as supply chain issues remained prevalent. Now that those pressures are abating, we are seeing more destocking and inventory adjustments which have led to the current soft patch. Services industries took longer to get up to speed through the pandemic. The other dynamic that challenged the recession call was an underappreciation for the amount of stimulus and liquidity that remains in the system from growth boosting initiatives announced during the heart of the pandemic. Yes, policy tightening has been significant over the past year. However most economies are still sitting on excess savings and liquidity, likely offsetting the impact of higher rates more than economists expected. This isn't to say we've sidestepped a recession, however the markets seem to have over played the recession card this year. Earnings season again will be telling to see if we continue to reprice a lower immediate risk of recession as we move through the second half of the year.

## Factor Performance[1]




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

The underperformance in the second quarter was equally driven by our stock and sector selection. Stock selection in Health Care, Industrials and Energy were big drivers of our underperformance in the quarter. Our underweight in Information Technology and overweight in Energy and Consumer Staples hurt performance as well. From a regional perspective, our stock selection in the US, Europe and the United Kingdom accounted for all of the underperformance while our sector selection in Canada and underweight Emerging Markets helped offset the underperformance.

We remain overweight Energy, Consumer Staples and Financials. We also remain underweight Consumer Discretionary, Technology. Among regions, we are overweight Europe, Canada and the United Kingdom. We are underweight Emerging Markets and Japan. Given the global focus of this strategy, we are able to find income outside of traditional high yielding US sectors (i.e. Consumer Staples, Utilities, REITs, etc.).

Our top five contributors to performance during the quarter were Broadcom, Lincoln National, Omega Healthcare, Sun Life and Best Buy. Broadcom expanded their relationships with Meta and Google for AI chips. Omega Healthcare provided an update of improving capacity trends while long term demographics remain a positive. Lincoln National and Sun Life both rebounded from their stock weakness from the financial stress around the banking crisis. Best Buy reported a better than expected second quarter with a raise in guidance for the full year.

Our worst five detractors from performance during the quarter were Abbvie, Walgreens Boots, Pfizer, Citizens Financial, and BAE Systems. Abbvie (weaker Immunotherapy) and Pfizer (weaker covid comps and lowered 2023 forecast) both saw lower first quarter profits. Walgreens Boots continues to suffer from a changing business model and uncertain environment. Citizens Financial's weakness centered on increasing deposit beta and declining net interest income forecast. Lastly, BAE Systems saw some profit taking from a very strong first quarter return.

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

07/18/2023
MSCI ACWI (Net) – 370
MSCI ACWI Value (Net) – 305

***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.***



1. The TAM Global 1000 index is a combination of the 500 largest US listed international companies by market cap and the S&P 500. This list is used for factor analysis where the index is ranked/sorted by a certain factor then divided into quintiles. Returns are then calculated on a monthly basis for each quintile.

# TODD ASSET MANAGEMENT LLC

## GLOBAL INTRINSIC VALUE EQUITY INCOME 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 may reflect 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 a diversified portfolio of attractively valued domestic and international equity securities with a goal to seek dividend income along with growth of that income and capital appreciation. The international securities are internationally domiciled, US traded equity securities.

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 Global Intrinsic Value Equity Income Composite contains fully discretionary, taxable, and tax-exempt accounts that use the MSCI ACWI Index as the benchmark. The Composite does not include accounts with social restrictions. 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, 2022. 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 Global Intrinsic Value Equity Income Composite has been examined for the periods January 1, 2011 through December 31, 2022. 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 0.60% applied monthly. 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 benchmark. The index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs. The volatility of the index and a client account will not be the same.

**MSCI ACWI (net) Index** is a float-adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets. The net index considers the impact of tax withholdings on dividend income.

**MSCI ACWI Value (net) Index** is a float-adjusted index of securities exhibiting overall value style characteristics across both developed and emerging markets. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. The net index considers the impact of tax withholdings on dividend income.

**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 GIVEI product is designed for long-term investors looking for dividend yield who are willing to accept short-term market price fluctuations. There are general and market risks involved in this product. There is no guarantee that the companies invested in will declare dividends in the future, or that the dividends declared will remain at current levels or increase over time. As a global product, risks of ownership in a foreign security (ADR, or similar securities) include political instability, confiscation of property, reduced legal protection, market liquidity, and adverse changes in currency exchange rates. Investing in emerging market securities can magnify these risks due to their smaller economies. This strategy may result in a portfolio with concentration in economic sectors, as sector diversification is not part of the strategy guidelines. There are times the overall market may not favor value-style investing, and/or stocks with higher dividends, and it is possible the intrinsic value of the underlying stocks may never be realized.