July 18, 2023
Intrinsic Value Team
Todd Asset Management

Todd Q2 2023 Large Cap Intrinsic Value Review

	2Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	3.49%	3.07%	10.32%	15.63%	8.89%	12.24%	10.62%
Large Cap Intrinsic Value (Net)	3.34%	2.76%	9.66%	14.95%	8.24%	11.58%	9.96%
S&P 500	8.74%	16.89%	19.59%	14.60%	12.30%	13.38%	12.86%
Russell 1000 Value	4.07%	5.12%	11.55%	14.30%	8.10%	8.94%	9.22%

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

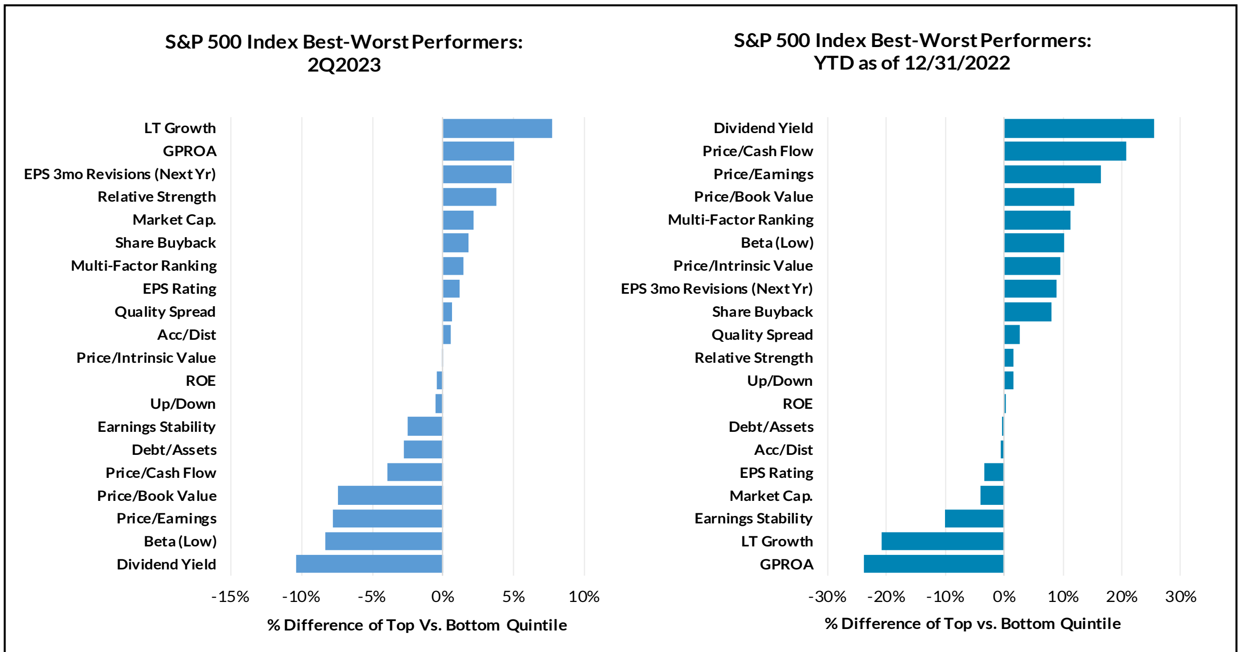
Performance Review

Looking back at the first half, March and April saw a tremendous amount of pessimism get priced in as banking sector stress pulled recessionary fears forward. Sentiment is actually coming off some of the most historically negative levels looking at the AAII survey. Bears outnumber Bulls in the survey by more than 40% last October, having registered 2 of the 5 worst readings in the survey's 30+ year history. Expectations that the Fed would pause rate hikes and resilient labor market data eased these concerns in the back half of the 2nd quarter. We have been vocal about the unhealthy level of concentration in the S&P 500 over the past few years and the headwind that has caused for our strategy's relative performance. That dynamic had improved last year as positioning in the top 7 names unwound and sentiment in mega-caps deteriorated. This reversed course with some assistance from the AI craze that took markets by storm in May and we now see the weight of the top 7 names in the S&P 500 approaching 30%, matching the highs we saw in 2021. This has actually led the Nasdaq to take the unprecedented move to undertake a "Special Rebalance" later in July "to address overconcentration in the index" and will reduce the weight of the seven largest companies in the index from 55% currently to 38.5%. The market seems to have overdone it in a number of ways. If June was any indication, the repricing of lower immediate recessionary risks should continue to benefit our strategy in the second half of the year.

The transmission mechanism for Fed policy looks like it is impaired again. In the period following the Great Financial Crisis (GFC), financial repression was a result of the inability for historically easy monetary policy to spur growth and inflation. The banking system was shelled during the crisis and as corporate and consumer balance sheets repaired, there was little appetite or capacity left to productively utilize nearly free money. The common metaphor used to describe this phenomenon was "pushing on a string". We seem to be experiencing the complete opposite dynamic today. Policy has been ratcheted tighter at a historic pace (e.g. Fed Funds increased over +500bps in a little over a year, Money Supply is shrinking year-over-year, yield curve is deeply inverted, etc.) yet aggregate measures of the economy remain resilient with very tight labor markets and better than expected growth. Once again the economy isn't cooperating with conventional wisdom but for very different reasons from the GFC. Housing is a major channel through which monetary policy is transmitted to the consumer, and unlike 2008-09 this sector is a source of strength in the economy.

While mortgage rates have exploded above 7% currently, the vast majority of homeowners still hold mortgages with rates below 4-5% or own their home outright. This has dried up existing home supply and spurred new home construction, supporting employment in this traditionally cyclical industry. Consumers are also still sitting on several trillion dollars of excess savings that were passed out during the pandemic and money supply, while having declined over the past year, still remains about $2 trillion above trend as well. There have certainly been casualties that suffered from the Fed's tightening campaign (e.g. several west coast banks, commercial real estate, crypto exchanges, etc.), but analysts that estimated an imminent recession have been forced to push those projections out into next year and beyond in some cases. If policy was "pushing on a string" after the GFC, I suppose an appropriate metaphor to today would be like "pulling on a Kleenex" as there is considerably more in the box than you think. We will eventually run out of tissues, but there seems to be a surprising amount of capacity in the economy to withstand tighter policy.

Factor performance



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

Value metrics ranked toward the bottom of the list for the second consecutive quarter. Growth, large cap and other earnings-related measures continued to outperform. This is a complete reversal from what we saw in 2022 where Valuation metrics led and Growth dramatically lagged. We started to see some rotation in the month of June as economic anxieties eased. If recession risks need to be repriced lower through the second half, we would expect our factor work to broaden out more and favor more of the components of our Multi-Factor Ranking.

Our underperformance in the quarter was mostly driven by stock selection in the Discretionary, Financials and Health Care sectors. Discretionary weakness was driven by several luxury retailers and some competitive pricing concerns in the auto parts industry. Concerns within the banking industry continued to weight on Financials and within Health Care, investors are awaiting more clarity on earnings growth for several of our large pharmaceutical companies. Consumer Staples, Utilities, Real Estate and Industrials were our top performing sectors. Several capital goods names drove performance in Industrials while our underweight position in Staples, Utilities and REITs helped in these defensive areas.

Technology dominated our top 5 performing names for the quarter. The Artificial Intelligence (AI) craze gained footing during the quarter and while disproportionately driving the mega-cap cloud players and Nvidia, many of our tech hardware names also saw a tremendous benefit as chip demand is expected to ramp further. Our top performers for the quarter were Broadcom, Dell, Onsemi, KLA Corp. and Jabil. Broadcom posted nice results in early June but the quarter was dominated by commentary around AI as they expect revenue from chips that serve this market to double by year end and could represent 25% of semiconductor sales by next year (up from 10% last year). Shares of Dell outperformed in the quarter as investors seem to warm up to the idea that the personal computer market has bottomed and became more focused on shareholder return potential and AI servers as a longer-term opportunity. ON Semiconductor posted strong results during the quarter on sustained strength in auto end market demand for image sensing components. Management also increased guidance on the call and see margins continuing to move materially higher over the next few years. KLA Corporation continues to benefit from demand for process control equipment (inspection, measurement, quality control, etc.) that is being driven by consistent R&D investments into new/emerging technologies. Shares of Jabil rallied after posting very strong results during the quarter as the company should continue to benefit from several secular trends in cloud/AI, electric vehicles and industrial markets.

Our bottom 5 performers were East West Bancorp, AbbVie, Capri, Citizens Financial and Vale. East West Bancorp is a west coast regional bank that lagged during the banking turmoil that hit markets in March. As risks intensified, we eliminated the bank from the portfolio due to concerns around their commercial real estate exposure. AbbVie is a pharmaceutical company whose largest drug, Humira (treat forms of arthritis), is going off patent this year. Shares sagged after reporting disappointing results from two other drugs that are supposed to make up for lower sales from Humira going forward. After posting a large miss and lowering guidance in February, Capri lowered guidance again during the 2nd quarter on softer consumer spending patterns across their brands (mainly Michael Kors). We eliminated Capri from the portfolio in early June. Citizens Financial Group was another regional bank that sold off this year with the broader sector. Net interest income estimates have come down as a result of the cost of deposits rising. Loan growth is also set to slow as management minimizes risks in their auto and commercial businesses. Iron ore sales at Vale missed expectations during the quarter due to inventory restocking and weaker prices which led earnings estimates to come down for 2023.

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.

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07/18/2023
S&P 500 – 4,555
Russell 1000 Value – 1,578

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 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 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, 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 Large Cap intrinsic Value 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 .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.