TODD Asset Management

January 19, 2024
Intrinsic Value Team
Todd Asset Management

Todd Q4 2023 Global Intrinsic Value Equity Income Review

	4Q2023	YTD	1 Year	3 Years*	5 Years*	7 Years*	10 Years*
GIVEI (Gross)	7.18%	6.01%	6.01%	9.95%	8.48%	6.95%	5.95%
(Net)	7.03%	5.40%	5.40%	9.31%	7.84%	6.31%	5.32%
MSCI ACWI (Net)	11.03%	22.20%	22.20%	5.75%	11.72%	10.04%	7.92%
MSCI ACWI Value (Net)	9.17%	11.81%	11.81%	7.33%	8.25%	6.64%	5.47%

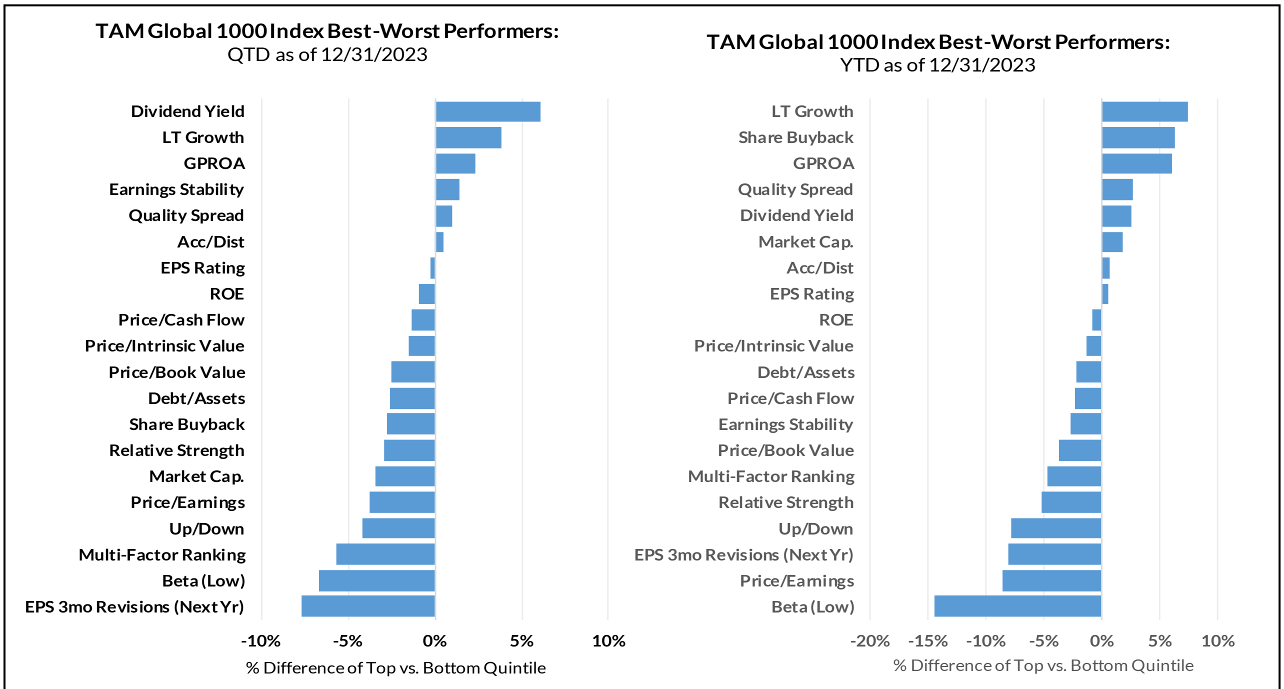
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information.*

Our GIVEI strategy underperformed both indexes in the quarter and the full year. The strong growth orientation and the narrow market in the US made for difficult comparisons versus the global indexes. The current yield at the end of the quarter was 5.5% versus the ACWI yield of 2.5%.

In the past few quarterly letters we have highlighted the fact that the economy continued to outperform consensus expectations, thus forcing investors and economists to push out their recessionary forecasts all year long. This finally came to a head in the fourth quarter as the market spent November and December getting more optimistic about the prospects for growth in 2024. The bears seem to have gone quiet at the moment as expectations for policy rate cuts and downward trending inflation readings dramatically lifted investors' spirits to end the year. Central banks seemed to fully embrace pivoting policy rates lower which drove several major indices to all time or multi-decade highs into year end (e.g. German DAX, Japan's Nikkei, France's CAC).

The move away from recessionary calls didn't benefit the Energy space. Despite the fact that there is a war in the Middle East, blockages in the Red Sea and continued sanctions imposed on Russia (the #3 oil producing country in the world), energy prices still fell sharply in the last few months of the year with prices of Brent crude trading around the same levels as they did earlier in 2023 when recession fears peaked. This seems to have been driven more by supply side dynamics and probably further fueled the soft/no landing narrative. OPEC's production cuts have been met with skepticism, especially after Angola (+1 million barrels/day of production) left the bloc to start the year. Sanctions on both Russia and Iran have largely been evaded. Russian oil production is back above pre-invasion levels and Iran quietly ramped production by more than +500k barrels/day last year. US oil production also made a new all-time high to end the year (13.2 million barrels/day), rising by more +1 million since July 2023. The move in rates was unquestionably the story of the fourth quarter as it brought back a level of optimism we haven't seen in a few years. To the extent that this suggests a better environment for growth in 2024, we would expect demand expectations to ratchet higher and balance out the narrative on the oil & gas front and support some of our Energy names that have underperformed recently. We also remain optimistic on the secular tailwinds in capital spending that should reinforce the turnaround in manufacturing activity we're seeing across the world.

Factor Performance[1]



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

Our factor work showed a pretty sizable rotation out of Value in the quarter. Broadly speaking, what worked well in the third quarter lagged in fourth quarter and visa-versa. One of the main narratives from the quarter was the changing stance of central banks that pushed longer-term interest rates lower. Most developed markets saw 10 year yields fall by more than -100bps in the quarter. This drove most of the underperformance we saw in Value metrics internationally. This also led to a rally in higher Beta names and companies with the sharpest declines in Earnings Revisions, a dynamic that didn't benefit our strategy. Earnings Growth, Yield and Quality metrics led in the quarter and for the full year. Our Multi-Factor Ranking struggled as most of the seven inputs to the ranking underperformed.

Performance Attribution

The underperformance in the fourth quarter was driven by sector selection. This was primarily due to our overweight in Energy. Our stock selection in Financials and Consumer Discretionary were additive to performance. From a regional perspective, our stock selection in Europe and the US accounted for all the underperformance during the quarter.

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, the US 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 Lenovo, Citizens Financial, Manulife, Huntington Bancorp and IBM Corp. Lenovo and IBM both benefited from good Q3 results as well as the ongoing AI hype in technology. Citizens Financial, Manulife and Huntington Bancorp all benefited from interest rates falling from 5% at the beginning of the quarter to under 4% in December. This took some pressure off financials as the rapid rise of interest rates had been causing concerns about an increase in non-performing assets.

Our worst five detractors from performance during the quarter were Exxon Mobile, Pfizer, Chevron, Repsol and Omega Healthcare. Exxon Mobile, Chevron and Repsol all suffered from oil prices declining from $85 at the beginning of the quarter to under $70 in December. Pfizer continues to suffer from the covid vaccine overhang and cut guidance again in the fourth quarter. Omega Healthcare suffered from increased concerns over labor costs increases in the quarter.

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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01/18/2024
MSCI ACWI (Net) – 380
MSCI ACWI Value (Net) –314

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.