TODD Asset Management

April 19, 2022
Intrinsic Value Team
Todd Asset Management

Todd Q1 2022 Large Cap Intrinsic Value Review

	1Q 2022	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-1.6%	14.2%	18.2%	13.7%	11.5%	12.8%
(Net)	-1.7%	13.5%	17.5%	13.1%	10.8%	12.1%
S&P 500	-4.6%	15.7%	18.9%	16.0%	14.0%	14.6%
Russell 1000 Value	-0.7%	11.7%	13.0%	10.3%	9.7%	11.7%

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

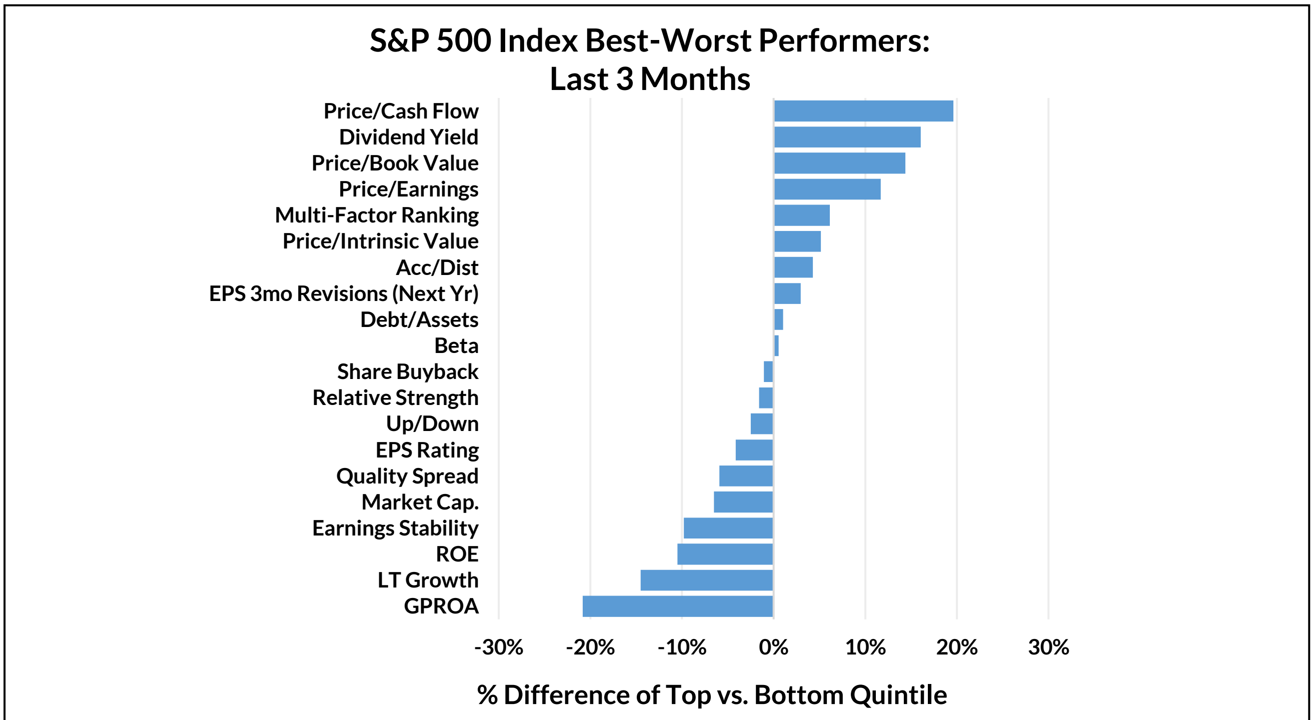
Performance Review

The LCIV strategy finished a volatile quarter +3% ahead (gross) of the S&P 500 and around -0.8% behind the Russell 1000 Value. Higher interest rates weighed heavily on Growth indices leading Value to outpace Growth by more than +8% in the quarter. This was the first time we've seen meaningful outperformance from Value in a down quarter since the last Value cycle. Value has been outperforming Growth in international markets for over a year now, while performance has been more mixed domestically. We continue to think the tide is turning toward Value as evidenced by recent leadership through a market decline and the pressure higher rates are putting on multiples in the Growth camp.

We just finished quite a quarter with a number of market concerns piling up. Inflation readings continued to run hot forcing the Fed to embark on an aggressive tightening cycle that sees policy rates running above neutral for a time and shrinking the balance sheet within coming months. Russia's invasion of Ukraine and the ensuing war/sanctions further ignited commodity prices, particularly for food and energy. Concerns over supply chains and shipping costs persisted as China's "zero-Covid" policy led to numerous lockdowns that stymied several ports on their east coast. The end result was a mark down of growth expectations, renewed supply chain concerns and rising recession risks. The inversion of our yield curve seemed to be the icing on the cake for the bear camp. Adding insult to injury, this was actually one of the worst quarters for bond returns in nearly 50 years with the Bloomberg US Agg down -6%. Seemingly investors hated everything. When this is the case, we find it useful to ask what could go right. While the inversion of the yield curve garnered much attention, as it should have, the 2-10 only inverted for a few days and other curves (3mo-10yr, Fed Funds-10yr, etc.) continued to steadily steepen. This is hardly sending a clear recessionary message. Nominal growth remains quite strong. This looks to be translating into better company sales and profits as earnings estimates for the S&P 500 for 2022 and 2023 continue to march higher. Investor and consumer sentiment measures are pretty downbeat, which usually indicate things aren't as bad a feared. Inflation could very well be peaking. Services activity is expected to continue rebounding as pandemic restrictions fade. Resolving several supply chain/logistics issues would also help alleviate inflationary pressure on the consumer and let inventory channels replenish more fully.

Markets may remain choppy as we deal with various headwinds. This would fit well with the historically higher volatility seen in midterm election years. However, history would also suggest that returns are above average following the midterms and we continue to see a number of signals that keep us constructive on the economic expansion.

Factor performance



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

Value metrics topped the list, which was consistent with the outperformance from Value indices. Dividend yield was again one of the best performing factors and has been for the past year. Our Multi-Factor ranking was also one of the most positive factors for the quarter. Several quality and growth metrics lagged.

Sector positioning continues to favor a more economically sensitive stance as we've continued to add to Energy and Materials, both of which were drivers of our outperformance vs. the S&P 500 for the quarter. Healthcare is an area of recent emphasis for the discipline as well and we have added to opportunities in this sector in recent months. We remain overweight Financials, though less so than in recent quarters as we have trimmed several names this year.

Oil, gas and commodity prices all soared in the first quarter. Strong demand and tight supply had already pushed prices to multi-year highs in 2021. Russia's invasion of Ukraine in February exacerbated these imbalances and prices spiked. Four of our top five performing names this quarter were beneficiaries of rising commodity prices. Our top five names were ConocoPhilips, Equinor, Chevron, Vale and AbbVie. ConocoPhillips shares tracked closely with the price of oil, which is driving record cash flow well in excess of their capex needs. Additional cash is being used to pay down debt and being directed back to shareholders in the form of dividends and share buybacks.

Equinor is the second largest supplier of natural gas to Europe and thus greatly benefitted from extremely tight supplies that sent prices to historic highs on the continent. Chevron was another energy company that rounds out our third top performer benefiting from higher oil and gas prices. This has improved the prospects for better shareholder returns and is helping to fund their energy transition plans as well. Momentum continued for iron ore prices due to supply issues from Russia/Ukraine (which are meaningful sources of production) with Chinese stimulus providing further support. A majority of Vale's revenue exposure is tied to iron ore and shares move higher with prices for the metal. AbbVie continued its strong run since October of last year as investors got more comfortable with successful drug pipeline readouts and approvals that will help make up for the coming patent cliff for Humira in 2023.

Interest rates moved materially higher in the first quarter as inflation ran persistently hot and the Fed pivoted into a rate hiking cycle that is expected to see policy rates above 2% by year end. While many underlying indicators remain supportive of the housing cycle longer-term (i.e. deleveraged consumer balance sheets, full employment and low housing supply vs. household formation) higher rates and commodity inflation (e.g. lumber) have certainly created headwinds for the industry this year. Four of our five largest detractors for the quarter are housing plays that sold off with these concerns. Our bottom five names were NVR, Pultegroup, Masco, Home Depot and Qualcomm. NVR and Pultegroup are both homebuilders that sold off with the rise in rates. Each company recently called out strong demand and pricing as they were able to pass through much of the higher costs of raw materials and labor. However the rapid rise in mortgage rates, with 30yr fixed rates increasing from 3.25% to 4.75% in the quarter, led to a derating. Masco is another housing play as a maker of home furnishings like faucets, cabinets, paint, etc. The rise in mortgage rates and rising materials and logistics costs have also weighed on the company's margins in recent quarters. Home Depot is also dealing with lower expectations for consumer spending on housing and home improvement due to inflation and rates. Additionally, as the pandemic recedes spending on categories that benefitted from "work-from-home" are expected slow. Semiconductors were another area that underperformed in the quarter as concerns over an economic slowdown got priced into the market. We remain constructive on Qualcomm, where market share gains and content wins should continue to support a ramp in profitability going forward. However investors lowered their expectations for smartphone shipments due to economic headwinds in China and the US which weighed on the stock.

In summary, market participants are worried about the headlines we are seeing regarding war, inflation, potential recession and Fed tightening. We believe the lasting message investors should take from the recent market action is that there's a new regime in place. Rates have backed up, and likely need to go higher, just to get to normal levels. If we can see this occur without the economy sliding into a recession, we believe this sets the stage for Value to continue the recovery it has seen. We are watching first quarter earnings closely to get a sense for what company managements think, and thus far we do not hear that a recession is imminent. If investors embrace that thought, we expect another leg up in the Value versus Growth trade.

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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04/19/2022
S&P 500 – 4462
Russell 1000 Value – 1647

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. Registration of an investment adviser does not imply any level of skill or training.

Specific stocks discussed in this presentation 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. A complete listing of the holdings as of the period end is available upon request. 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.

Todd Asset Management LLC ("TAM") is a registered investment adviser. 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.

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, 2021. 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, 2021. 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. Prior to September 2001, the management fee schedule applied to the composite was 0.50%. 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.