TODD
Asset Management

April 17, 2023
Intrinsic Value Team
Todd Asset Management

Todd Q1 2023 Large Cap Intrinsic Value Review

	1Q 2023	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-0.4%	-8.3%	22.8%	8.0%	11.3%	10.7%
Large Cap Intrinsic Value (Net)	-0.6%	-8.8%	22.1%	7.4%	10.6%	10.0%
S&P 500	7.5%	-7.7%	18.6%	11.2%	12.4%	12.2%
Russell 1000 Value	1.0%	-5.9%	17.9%	7.5%	9.0%	9.1%

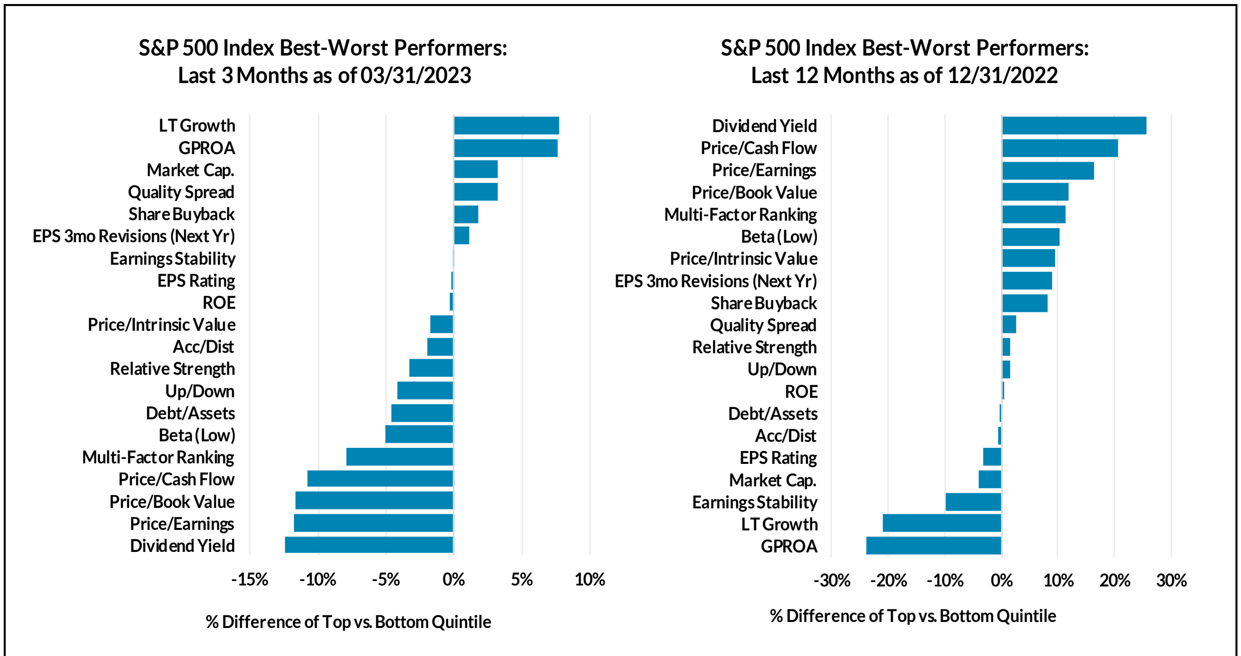
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information.*

Performance Review

Old habits die hard. The return of Tech leadership, market concentration and Growth > Value in the first quarter felt like a typical "bull trap" often seen as market leadership rotates. These large, violent and ultimately short lived countertrend rallies often occur as the leadership from the last cycle exerts their last few bursts of energy in the larger unwinding process. Our work shows that these rallies typically only last a few months, but on average amount to +13% of outperformance for the fading style. Within the quarter Growth outperformed Value by +17% from 1/5/23-3/23/23, which is one of the biggest countertrend rallies we've seen in the past 25 years. This was largely driven by the FANG and Friends (Apple, Microsoft, NVIDIA, Tesla, Meta, Amazon and Alphabet), which collectively account for nearly a quarter of the weight of the S&P 500. When the market narrows to this degree, it is difficult for active managers like ourselves as can be seen by the magnitude of underperformance this past quarter vs. the S&P 500. We are still confident that the leadership groups have changed, but as we implied earlier these rotations don't move in a straight line. We would expect investors to refocus on fundamentals as we move through the year. Ultimately, tighter policy should reveal areas of excess as it often does. The areas that led in the quarter or those that were the ultimate source of stress garnered a disproportionate amount of allocations over the past cycle. That stands to reason that those are the excessive areas that likely have headwinds moving forward.

To start the quarter the market had been anticipating that the Fed would soon finish their rate hiking campaign. Bank runs in early March and the ensuing liquidity injections from the Fed and Treasury all contributed to the market narrowing, Growth outperforming and Technology names leading. The new facility from the Fed (Bank Term Funding Program - BTFP) allows banks to post much of their securities portfolio as collateral at the Fed in exchange for funds that can be used to meet deposit outflows, eliminating the need for banks to sell these underwater securities and realize large losses. This seems to have stabilized liquidity stress fairly quickly, however all eyes are on credit to see if these pressures are more systemic. To our eye, most of the recent stress seems to be fairly concentrated to those with large exposure to private equity, venture capital and commercial real estate. Stay tuned but the upcoming earnings season will give us all a good, timely glimpse at how sturdy the outlooks are for various parts of the market.

Factor performance



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

Our customary factor work picked up on the sharp outperformance of Growth over Value in the quarter. This is a complete reversal from 2022, which you can see in the chart on the right. Large Cap Growth was the best performing area for the quarter along with a few Quality measures while Value and Dividend Yield ranked at the bottom. Value underperformed most of the quarter, but this accelerated in March as Financial and Energy stocks got hit the hardest when banking stress became elevated. Only 6 of the 20 factors we follow were additive for the quarter, which also reflects the narrowing we mentioned earlier. Several Technical measures and our Multi-Factor Ranking also lagged during the quarter.

Attribution showed that stock selection was the main drag on performance. Frankly, not much helped for the quarter outside of our underweight positions in Staples and Utilities. When the detractors are this widespread it is usually a sign that performance was dictated by more macro and style drivers. This is consistent with the concentration and Growth rebound we mentioned at the top of the letter. Our largest detractors for the quarter were Technology, Energy and Financials. It was the consumer and enterprise facing names in Technology and the fact that we don't own the Megacaps that hurt us in this sector. Energy and Financials were the two sectors hit the hardest in March as banking stress developed.

Our top five performers for the quarter were ON Semiconductor, Broadcom, NVR, Jabil and United Rentals. Semiconductors underperformed through most of 2022 but turned higher in October and have been a source of leadership since the broader market bottomed late last year. ON Semi continues to see strong demand from Auto end markets where revenues were up +54%. Broadcom is also seeing strong revenue growth from it's end markets as customers in the Network channel upgrade their infrastructure and Cloud clients ramp spending on artificial intelligence. NVR is a homebuilder that has seen order growth come down as a result of higher mortgage rates. However, lower lumber prices and higher average selling prices of new homes have both helped to stabilize earnings and margins. Management at Jabil raised operating margin guidance in the quarter and their underlying business shifts toward areas with more secular tailwinds (e.g. EVs, Healthcare, Cloud, etc.) and away from consumer end markets that was been soft recently. Despite selling off at the end of the quarter following banking stress, results and margins have been strong at United Rentals due to demand from nonresidential construction and tight supply chain dynamics in the heavy equipment market.

Out bottom five performers for the quarter were Zions Bancorp, Citizens Financial, Equinor, Conocophillips and Fifth Third Bank. The first quarter finished with heightened levels of bank stress, so it is no surprise that three of our regional banks were among the bottom 5. While none of the banks we own took the speculative risks that Silicon Valley Bank took, the entire regional bank industry was shelled in the quarter as deposit flight and losses in their securities books came into the spotlight. Zion had a relatively larger amount of uninsured deposits (i.e. greater than $250k) vs. it's peers which likely weighed heavier on the name. We eliminated ZION in March from the portfolio. Citizens Financial and Fifth Third were two of our other regional banks that sold off sharply in March. As we mentioned earlier the intervention from the Fed seems to have stemmed much of the stress. Upcoming earnings from the group should shed a lot more light on the status of their deposits and credit quality. Equinor is a European oil and gas company with a high level of exposure to spot pricing. As a result the plunge in EU natural gas prices has weighed on 2023 EPS estimates. Conocophillips was another energy name that sold off in the quarter as oil prices slipped below $70 in mid-March. 2023 production guidance was also light at their 4Q22 release, though management did just target to generate $115B in free cash flow over the next 10yrs.

We believe the recent reprieve that growth stocks have seen is a rally within a secular bear market. Earnings season will probably give us a good read on fundamental trends within the market. Europe is expected to have better earnings trend than the US and Asia, something that should increase investor interest in those markets. Many strategists are very bearish on economic prospects globally. We believe economic growth in international markets is probably poised to improve as China reopens their economy. Until the US and European recession questions are resolved, markets probably track sideways in a range. Higher rates have led to higher recession risk (and bank risk), but if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that. Until then, a trading range with rotation back towards value is our base case.

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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04/17/2023
S&P 500 – 4,151
Russell 1000 Value –1,529

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.