# Todd Q2 2022 Intrinsic Value Opportunity Review

| | 2Q 2022 | YTD | 1 Year | 3 Year* | 5 Year* | 7 Year* | 10 Year* |
|---|---|---|---|---|---|---|---|
| IV Opportunity (Gross) | -15.9% | -14.3% | -3.0% | 11.1% | 8.5% | 6.2% | 10.2% |
| (Net) | -16.1% | -14.7% | -3.8% | 10.2% | 7.6% | 5.3% | 9.3% |
| S&P 500 | -16.1% | -20.0% | -10.6% | 10.6% | 11.3% | 11.1% | 13.0% |
| Russell 1000 Value | -12.2% | -12.9% | -6.8% | 6.9% | 7.2% | 7.7% | 10.5% |

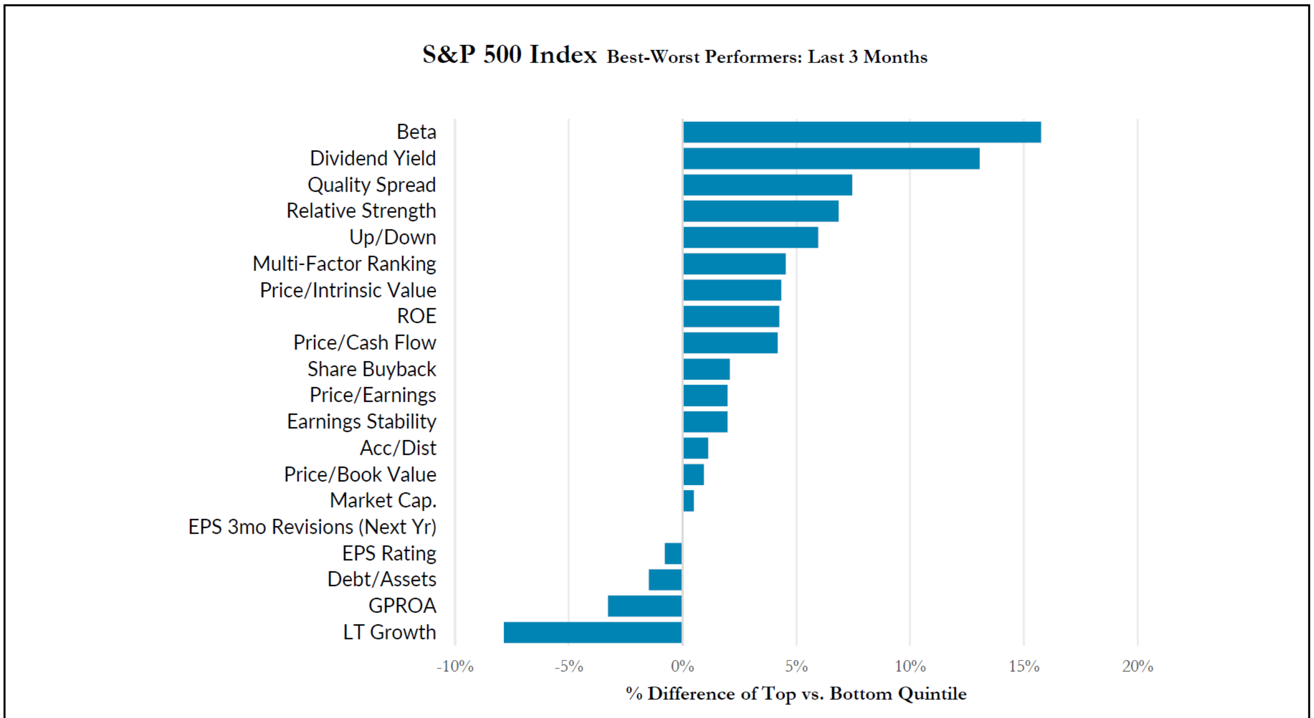
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information*

**Performance Review**

Markets continued to retreat in June to close out one of the worst starts to a calendar year for the S&P 500 on record. Growth indices bore most of the brunt due to higher rates and inflation. Our IV Opportunity strategy was basically in-line with the S&P 500 for the quarter while lagging the Value index. Over the past 1 and 3 year time frames the strategy has outperformed both indices. The rotation to Value has been a tailwind for the discipline.

Policy oriented headwinds are clouding the economic outlook and perpetuating many of the concerns facing investors. Recessionary risks have clearly risen and seem to be well priced into markets given the bear market we witnessed in the first half. Markets may have further downside, but it seems that much of the damage has been done. As mentioned earlier, we are off to one of the worst 5 starts to a year on record. When looking at the four other years that began with a bear market, the second half saw a relief rally in each instance. Clearly investors aren't focused on many positive outcomes, however off-ramps from current policy stances could do wonders to improve sentiment from historically low levels. The Fed has placed policy rates on a steep path higher to combat persistently high inflation. Prices for food, energy, commodities, housing and autos have all run well ahead of target for far longer than they expected. While a rollover in headline inflation readings seems elusive, a number of important components of the inflation basket have materially weakened in recent months (most notably commodity prices) which give us the sense that inflation may indeed be in the process of peaking. Slower economic growth prospects are certainly playing a role here, but tighter financial conditions and a bear market in stocks do seem to be having a notable impact on inflation and could give the Fed an off-ramp from ever-tighter policy. The Russia/Ukraine war is another source of uncertainty. Territorial gains in recent weeks have left most of the Donbas region under Russian military control. Putin likely miscalculated the magnitude of sanctions and large troop losses that followed the invasion. We aren't military strategists, but the ability to redraw the Russian border around the Donbas region could provide an off-ramp and opportunity to deescalate the war. Painfully high energy and food prices also seem to have forced the West into looking for some agreement to bring an end to the war as well. Lastly, China's "Zero-Covid" policy is a final major hurdle for global growth and easing supply chain pressures. Lockdowns have been costly and disruptive. Policy has become much more stimulative in recent months and the government is trying to ease Covid related restrictions to spur growth. If the market gets comfortable with any of these off-ramps materializing, we think a better policy environment would clear up visibility and pave the way for a stronger second half of the year. Time will tell. Midterm election years are historically choppy, but markets tend to exit the election on much more firm footing.

**Factor performance**




Source: Bloomberg, William O'Neill + Co. and Todd Asset Management as of 6/30/22

Our customary factor attribution for Q2 2022 is presented above. This chart measures the performance of the best 100 stocks versus the least attractive 100 stocks within the S&P 500 stock index, ranked by factor over the past quarter. The market decline prompted a flight to low beta, yield, quality, and performance visibility during the quarter. Dividend yield was especially good to see near the top of the list, as it had suffered during the large cap growth boom we saw in recent years. Seeing low beta (volatility) as the best contributor made us realize how dramatically beta has shifted in the market. About a year ago the lowest beta names in the index tended to be the Large Capitalization Growth stocks. They have gotten decimated with higher rates this year. Growth factors were at the bottom of the rankings this quarter, and it appears that a value cycle is underway.

Sector positioning has begun to lean more into Energy and Healthcare over the past few quarters. Our Discretionary weighting continues come down with each rebalance. Retail is still well represented within this sector, but we are seeing fewer names with top tier profitability thus leading to a lower weighting. Most of the increase in the Healthcare sectors is concentrated in services industries (like Insurance and hospitals) vs. pharmaceuticals. Semiconductors and Tech hardware are the two other areas the discipline continues to emphasize.

Our top 5 performers for the second quarter were Cigna, Vertex Pharmaceuticals, McKesson, AutoZone, and Quest Diagnostics. Cigna, Vertex, McKesson, and Quest Diagnostics were all benefactors of a shift in investor sentiment to favor more defensive areas of the market. The S&P 500 Healthcare sector fared better than the broader index during the second quarter, this helped drive the strong performance from the 4 Healthcare names mentioned above. More specifically, Cigna had a positive analyst day during the quarter where they reaffirmed their 2022 outlook and aggressive capital deployment plans, despite the angst around rising rates and a weakening economy. Vertex had two constructive readouts during the quarter; a Crispr-partnered gene therapy and a kidney disease program (drug candidate inaxaplin used for the treatment of patients with chronic kidney disease). These positive developments have set the stage for possible approvals in 2023 and 2024. McKesson had positive comments during the quarter that acted as a vote of confidence for its specialty drug distribution business. Furthermore, opioid issues are largely in the rearview mirror, removing a major headwind for the company. AutoZone reported results well ahead of consensus in late-May as commercial sales and service were incredibly strong. Quest Diagnostics saw COVID-19 test demand remain stronger than expected while the growth in base testing volumes excluding COVID-19 has been constructive as well.

Our bottom 5 performers were HCA Healthcare, Ford Motor, DaVita, Nucor, and AMD. HCA Healthcare had a disappointing Q1 earnings report which included a cut to 2022 profit and revenue guidance driven by higher labor costs, lower revenue from COVID patients and elevated inflationary cost pressures. Ford Motor was a victim of the continued chip crunch and escalating commodity costs during the quarter, leading management to temporarily suspend operations at some of its factories. This was coupled with high expenditures to advance their EV business. DaVita underperformed during the quarter due to a Supreme Court ruling over dialysis coverage that did not go in their favor and is expected to negatively impact profits. Nucor was negatively affected by softer steel demand during the quarter, largely driven by multiple lockdowns in China due to increasing Covid cases in major cities and rising fears of a slowdown in economic growth in the United States. The auto industry accounts for ~25% of U.S. steel demand and is currently operating below capacity due to chip shortages. AMD has suffered alongside the rest of the semiconductor industry as tighter monetary policy, supply chain woes and consumer weakness has pressured chip demand.

Bear markets are difficult in ordinary times, like when economies need to work off an excess that is clearly visible. This bear market is more difficult than most as investors are anticipating a stagflation environment where a recession is accompanied by significantly tighter policies. Inflation is running hot, which has most Developed Market central banks on edge and seeking to normalize rates. We believe inflation may be peaking and could decline in the second half, which would lessen the urgency of those rate moves and could lead to some better sentiment for the markets. For now, investors seem to be waiting to see if a recession develops or inflation remains high. Bond markets have already done a lot of the heavy lifting for the central banks though and if off-ramps develop for the war-related inflation, Central Bank anxiety, or zero-Covid shutdowns, markets could be in for a better second half. Until then, the pressure remains on stocks to prove they can work through the current issues. We believe investors should make sure they are positioned in the new market leadership, which is the value stocks. Macro trends favor rates remaining higher post Covid, which has pressured the more expensive growth stocks and caused a cycle change. When markets eventually recover, we believe the Value style should be the leadership for the next several years.

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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7/15/2022
S&P 500 – 3790
Russell 1000 Value – 1407

***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
## INTRINSIC VALUE OPPORTUNITY 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 fully discretionary accounts invested in equity securities within the S&P 500 Index with the objective to seek capital appreciation. This goal is pursued by investing in a portfolio of securities that are in the least expensive third of the S&P 500 Index using a rules-based process based on financial strength, profitability strength and market acceptance.

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 Intrinsic Value Opportunity Composite contains fully discretionary, taxable and tax-exempt accounts that use either the S&P 500 Index or the Russell 1000 Value Index as the benchmark. 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 Intrinsic Value Opportunity 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 transactions costs, and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .80% applied monthly. From October 2009 to March 2014 the management fee schedule applied to the composite was 0.70%. Prior to October 2009, the management fee schedule applied to the composite was 0.60%. 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.