TODD Asset Management

July 17, 2024
Intrinsic Value Team
Todd Asset Management

Todd Q2 2024 Large Cap Intrinsic Value Review

	2Q 2024	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-1.09%	12.08%	24.10%	8.57%	13.60%	11.66%	10.47%
Large Cap Intrinsic Value (Net)	-1.23%	11.76%	23.38%	7.92%	12.93%	11.00%	9.81%
S&P 500	4.28%	15.29%	24.56%	10.01%	15.04%	14.27%	12.85%
Russell 1000 Value	-2.17%	6.62%	13.06%	5.53%	9.01%	8.61%	8.23%

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

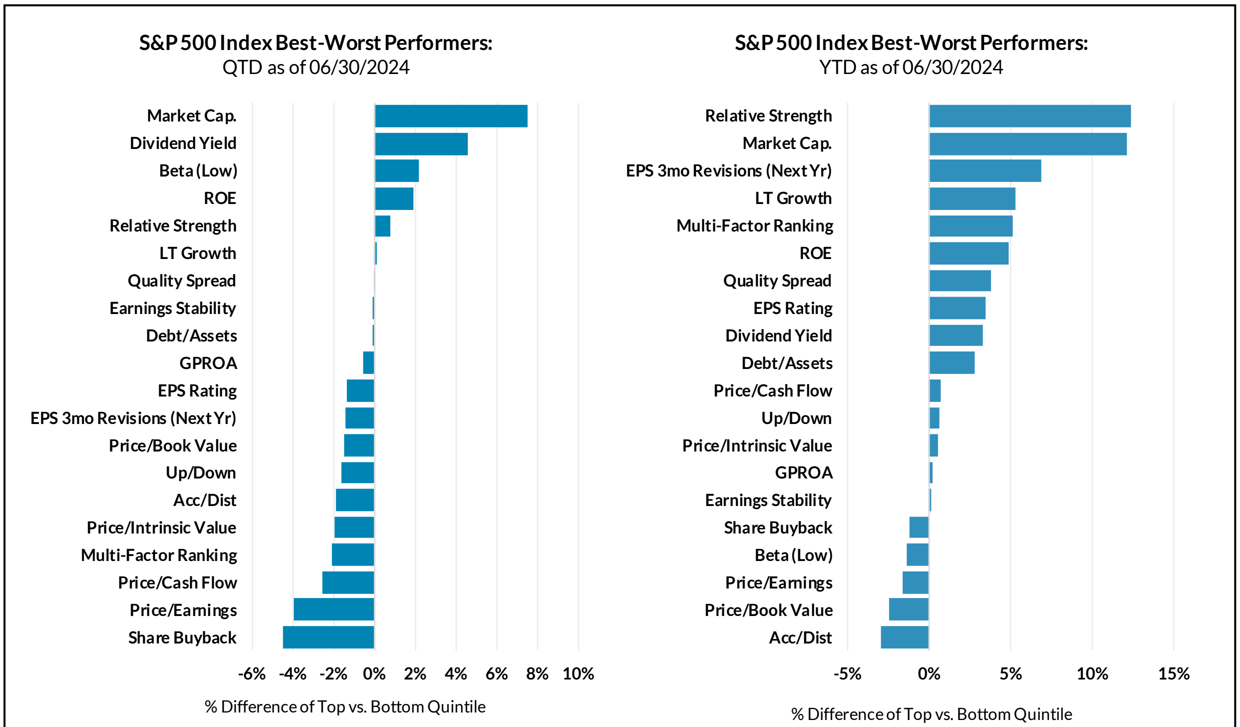
Performance Review

Our LCIV strategy extended its year-to-date lead against the Russell 1000 Value in the quarter but saw our lead against the S&P deteriorate in May and June which we now lag. The 'Magnificent 7'[1] and higher multiple AI beneficiaries caught a bid as rates moved lower. Breadth in the market has really deteriorated recently. This is a reversal from first 4 months of the year which saw the market broaden out as we spoke to in our last quarterly letter. Less than 25% of the stocks in the S&P 500 are outperforming the broader index this year. This is the lowest reading in over 40 years and highlights the challenge that active managers have in this current environment where breadth is so narrow.

Interest rates peaked for the quarter in late April and their steady decline over the past few months has coincided with a resurgence from the mega-cap Tech names, which continue to propel the S&P 500 to new highs. Cooling inflation readings along with a string of softer economic data have pushed rates lower. Following the CPI print last week that came in below expectations (lowest monthly reading since the pandemic), it seems increasingly likely that the Fed will begin their rate cutting cycle in September. While this has historically been positive for stock returns over the following year, questions have cropped up regarding the US labor market with unemployment trending higher. The level of unemployment remains very low by historical standards, but the upward trend has caused some uncertainty. The irony of highlighting labor market uncertainty while new all-time highs for the S&P 500 are almost a daily occurrence isn't lost on us. However, market breadth has unquestionably deteriorated in recent months as the 'Magnificent 7'[1] outperformed the rest of the market by a wide margin in May and June. As we highlighted earlier, fewer names in the S&P 500 are outperforming the overall index than any other time in the past 40 years. The AI trade is also driving these divergences wider with the Nasdaq dramatically outperforming the rest of the market this year as growth expectations increased for many of the early beneficiaries of AI. Most of the names in this subset have very elevated multiples so while we have our fair share of companies that are benefiting from this trend, we are underweight Tech more broadly in the strategy which has been a headwind.

Narrow breadth can reconcile in a few ways. Either the rest of the market catches up or the mega-caps falter/consolidate (or some combination of the two). We remain constructive on the prospects for growth and thus continue to think participation in this bull market should be more widespread. Our exposure to other secular trends (new capital spending cycle, reshoring, infrastructure, defense, etc.) continues to support many of our Industrial, Financial and Energy holdings. These groups should also benefit from the cyclical recovery occurring as earnings and manufacturing activity rebound and policy rates normalize.

Factor Performance



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

Our factor work narrowed again in the second quarter and was led by Market Cap. This is no surprise as the largest Tech/AI related names have dramatically outperformed this year. This is yet another area where the narrow breadth and heightened selectivity we're seeing the marketplace can be observed. Dividend yield, Low Beta, ROE and Relative Strength round out the factors that worked this quarter. At the bottom of the list was Share Buybacks, Value metrics and our Multi-Factor Ranking (as only 1 of the 7 metrics in that rating were additive in the quarter).

Performance Attribution

Our underperformance against the S&P 500 was fairly balanced between our sector allocation and stock selection. Looking across the sectors underperformance was broad based, which tends to happen when the spread between Growth and Value is wide (the Russell 1000 Growth outperformed the Russell 1000 value by +10.5% in the quarter). Most of our lag (roughly 80%) came from the Information Technology, Industrials and Discretionary sectors. Within Information Technology, it was a mix of names that we owned but also what we didn't that led to the underperformance. Not owning Apple, Nvidia and other higher multiple AI-beneficiaries was a headwind. Our lagging Tech names also largely saw some softness in demand as discretionary capex not geared toward AI applications was reigned in. Within Industrials and Discretionary, most of the headwinds were a result of some macro uncertainty following several softer datapoints released in the quarter. Staples and REITs were our best sectors while stock selection was also positive within Financials and Materials.

Our top five performing companies for the quarter were Broadcom, Dell Technologies, KLA Corp. Qualcomm and Oracle. These all fall under the umbrella of Artificial Intelligence (AI) and each has enjoyed robust gains this year on the back of strong demand from the capital spending required to build out these various systems. Broadcom shares moved higher as AI semiconductor revenues continue to surge. Guidance was raised again as management anticipates semiconductor revenues of $30B and AI related semi revenue to be around $11B this year. Despite a sharp pullback in late May on margin compression related to the elevated costs associated with the strong growth Dell is enjoying, product mix should become much more favorable to margins in the next few quarters from AI server end market demand. KLA Corp continues to benefit from increased demand for advanced testing technologies as next-generation chips are smaller with more layers and complexity, thus requiring more sophisticated process control equipment. Similar to Broadcom, Qualcomm is benefiting from a robust outlook as AI is adopted across their smartphone, PC and Auto end-markets. Their leadership in compute power is especially important as it enables AI capabilities for users of PCs/laptops by Microsoft, Dell, etc. Rounding out our top five is another AI beneficiary in Oracle. The company raised guidance in the quarter for next year as strong cloud bookings are expected to accelerate, as evidenced by their newly announced partnership with Google Cloud. This is in addition to partnership they have with Microsoft Azure and OpenAI.

Our bottom five performing companies were Jabil, Philips 66, United Rentals, CVS Healthcare and Masco. Jabil has had a few setbacks in recent months. Soft demand from some of their energy and 5G/telecom channels led to a downgrade in forward guidance. They also had a management shakeup as their CEO stepped down and was replaced by the sitting CFO. This increased some uncertainty from the investor community and shares pulled back after a strong run. Philips 66 posted disappointing results mainly due to weaker refining margins. Mgmt. called out headwinds on lower-income consumers being responsible for lower gasoline demand during what is typically peak driving season. Shares of United Rentals consolidated in the quarter along with some softer macro/construction data. Longer-term the company is still supported by mega-projects and infrastructure spending; however cyclical concerns seem to be weighing on shares currently. CVS Healthcare lowered guidance for this year aggressively as increased utilization of Medicare Advantage patients led to a large cost headwind. Finally, shares of Masco corrected in the quarter as home repair/remodeling has slowed as much activity was pulled forward into 2021-2022. Declines have moderated, however soft housing data likely led to the consolidation of some nice gains we've seen in the name.

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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07/17/2024
S&P 500 – 5,588
Russell 1000 Value – 1,797

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.

This publication has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. Past performance does not provide any guarantee of future performance, and one should not rely on performance as an indication of future performance. There is no guarantee that the investment strategy will work under all market conditions. Investments involve varying degrees of risk, and there can be no assurance that this product is suitable for everyone's investment portfolio. Commentary contains subjective judgements, management opinions and assumptions subject to change without notice. Commentary is based on information as of the period covered by this publication. There can be no assurance that developments will transpire as forecast. Information contained herein has been obtained from sources believed to be reliable but not guaranteed.

1. Magnificent 7 includes: Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta and Tesla.

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 reflects 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, 2023. 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, 2023. 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.