Todd Q3 2021 Large Cap Intrinsic Value Review

	3Q 2021	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-0.8%	18.0%	39.9%	12.1%	15.3%	11.0%	14.4%
(Net)	-0.9%	17.5%	39.1%	11.5%	14.6%	10.4%	13.8%
S&P 500	0.6%	15.9%	30.0%	16.0%	16.9%	14.0%	16.6%
Russell 1000 Value	-0.8%	16.1%	35.0%	10.1%	10.9%	9.3%	13.5%

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

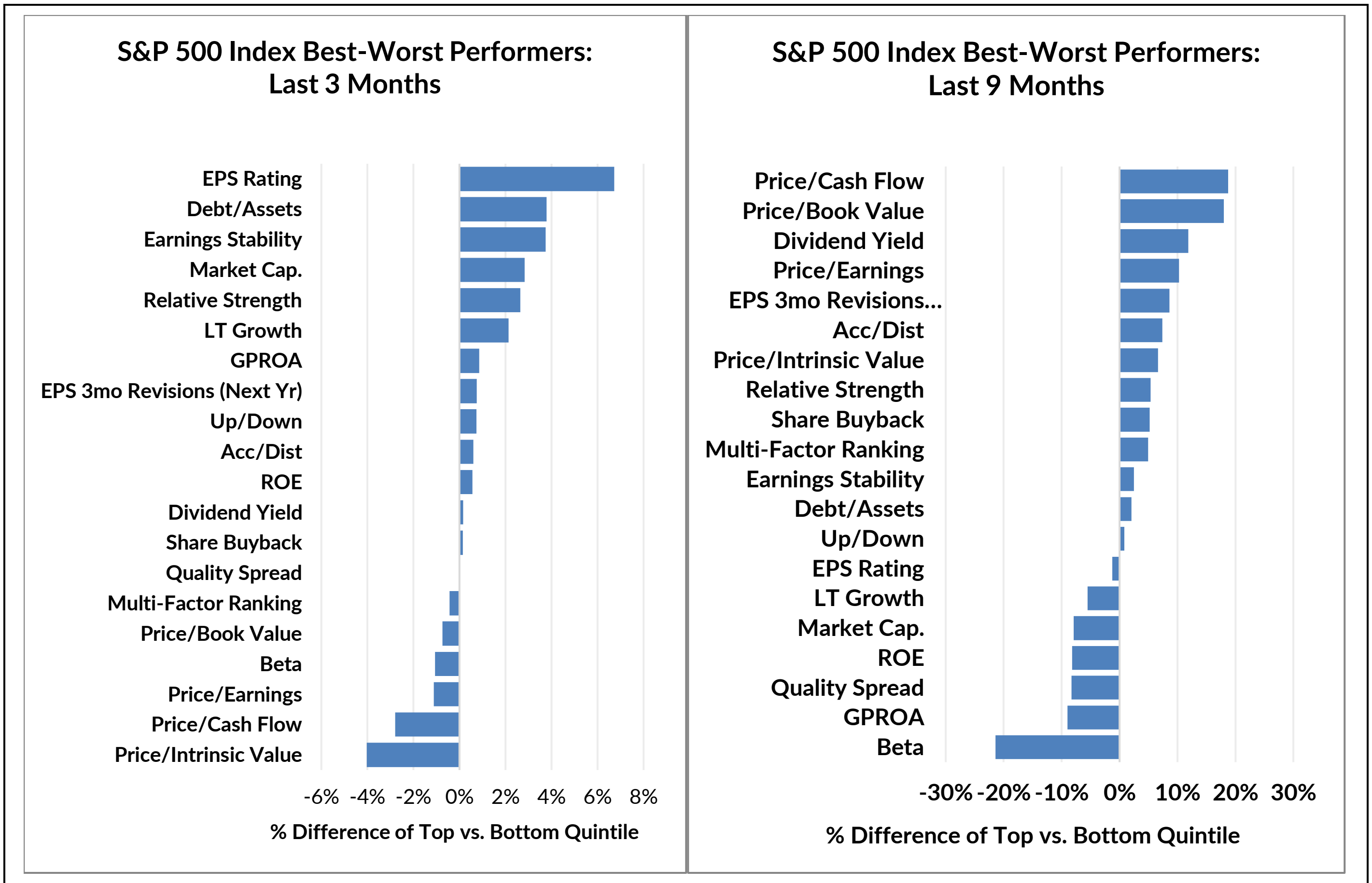
Performance Review

The move back to perceived safety and growth names we referenced in the last quarterly letter persisted until mid-September before reversing. The quarter finished with interest rates breaking out to the upside and are currently north of 1.60% on US 10yr treasuries. This has been a fairly recent development as we spent most of the quarter digesting numerous negative headlines around the US debt ceiling, the most recent Covid Delta wave and supply chain issues, amongst others. These issues led to a more defensive posture from investors and drove the strategy to underperform the S&P 500 in the quarter and perform in-line with the Russell 1000 Value. We remain ahead of both indices on a YTD and 1 year basis while lagging the S&P 500 and leading the Russell 1000 Value over longer time frames.

September has a reputation for bringing increased uncertainty and this past month certainly had enough negative headlines to deliver. In addition to the concerns referenced above, plans by central banks to taper asset purchases as well as property market and regulatory headwinds in China led to a reduction in growth expectations for the third quarter. These downgrades have largely been specific to the third quarter as most economists expect a reacceleration in the fourth quarter and beyond. Markets seem to have warmed up to this transitory slowdown narrative as rates and cyclicals both rose materially in late September. Supply constraints are still the main culprit for restrained activity. Pent-up demand already exists and the continuation of stimulus (with two sizable spending packages in the queue) should further support demand for some time. This dynamic (constrained supply chains and robust demand) could very well lengthen the recovery as pent-up demand takes more time to get unleashed and inventories more time to rebuild.

Stock selection drove most of our underperformance against the S&P 500 for the quarter. Materials, Healthcare and Technology were our largest detractors. The headwinds in Materials and Technology largely stemmed from softer growth prospects out of China for the quarter that weakened industrial metal prices and exacerbated supply chain concerns. Financials, Energy and Communication Services were the most additive to performance as interest rates and oil and gas prices all moved higher.

Factor performance



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

The pause in Value leadership and resurgence of Growth that we highlighted last quarter continued through the middle of September before reversing. This can be seen in the 3rd quarter factor returns on the left chart above as Value metrics were among the worst performers. The preference toward Growth, Quality and Large cap is consistent with the leadership we saw for most of the quarter from some of the largest Tech names in the S&P 500. Year-to-date (right chart) we still observe Value factors at the top of the list and our Multi-Factor Ranking performing positively.

Our top five contributors to performance during the quarter were ON Semiconductor, Alphabet, Equinor, United Rentals and Autozone. ON Semiconductor posted very strong results during the quarter due to strong chip demand from Auto and Industrial end markets. This continued momentum has raised expectations for operating margins longer term and driven share prices higher. Ad revenues continue to recover for Alphabet as reopening plays out, particularly for YouTube. Sales in their Cloud business have also been much stronger than expected as enterprise spending picks up. Equinor is a Norwegian oil & gas company that is benefiting from tight natural gas markets in Europe which has driven prices materially higher in recent months. Earnings estimates for Equinor haven't reflected persistently higher gas prices so investors started to price in a meaningful upgrade to estimates. United Rentals continues to see strong demand from end markets as sentiment has improved and driven higher utilization of their rental fleet and better pricing. Autozone reported results late in the quarter highlighted by market share gains with same store sales growth well ahead of the industry average.

Our worst five detractors from performance during the quarter were Vale, Qorvo, Oshkosh, PulteGroup and Rio Tinto. Broad weakness in the Chinese real estate sector has weighed on industrial metal prices. Iron ore prices were further pressured by efforts from the Chinese government to curb steel demand due to environmental concerns, which translated into a selloff in shares of Vale and Rio Tinto (both large iron ore miners). While Qorvo continues to benefit from content gains in new 5G devices which are driving margins and revenue higher, shares sold off late in the quarter on softer smartphone shipment data out of China. Oshkosh, which makes access equipment and vehicles, has been pressured by supply chain constraints that has negatively impacted sales and margins. Increased uncertainty around the passing of a large infrastructure package also broadly weighed on shares over the past few months. PulteGroup, a homebuilder, lowered guidance in early September as supply chain disruptions have slowed the pace of closings. While demand remains strong, slowing deliveries will weigh on earnings and margins.

In summary, the economic recovery is continuing and should benefit from a Grand Re-opening v.2.0. Consumer demand remains firm, capital spending is starting to recover, and manufacturing is catching up. There are some issues slowing the recovery, notably a lack of workers, inflation concerns and supply chain breakdowns. The good news is that most of these issues are addressable and should contribute to a longer economic recovery as demand has been deferred not destroyed. There are likely to be bumps along the way as the market shifts from the aggressive growth-oriented leadership of the past five years to a more value-oriented leadership. We still believe we are in the second half of a secular bull market that has years to run. The rotation and better economic visibility are probably what powers the second half of that secular bull.

Curt Scott, CFA
Jack White, CFA
Jack Holden CFA
Shaun Siers, CFA

10/19/21
S&P 500 – 4520
Russell 1000 Value – 1611

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.

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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, 2020. 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, 2020. 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.

Russell 1000® Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.