Todd Q3 2022 Large Cap Intrinsic Value Review

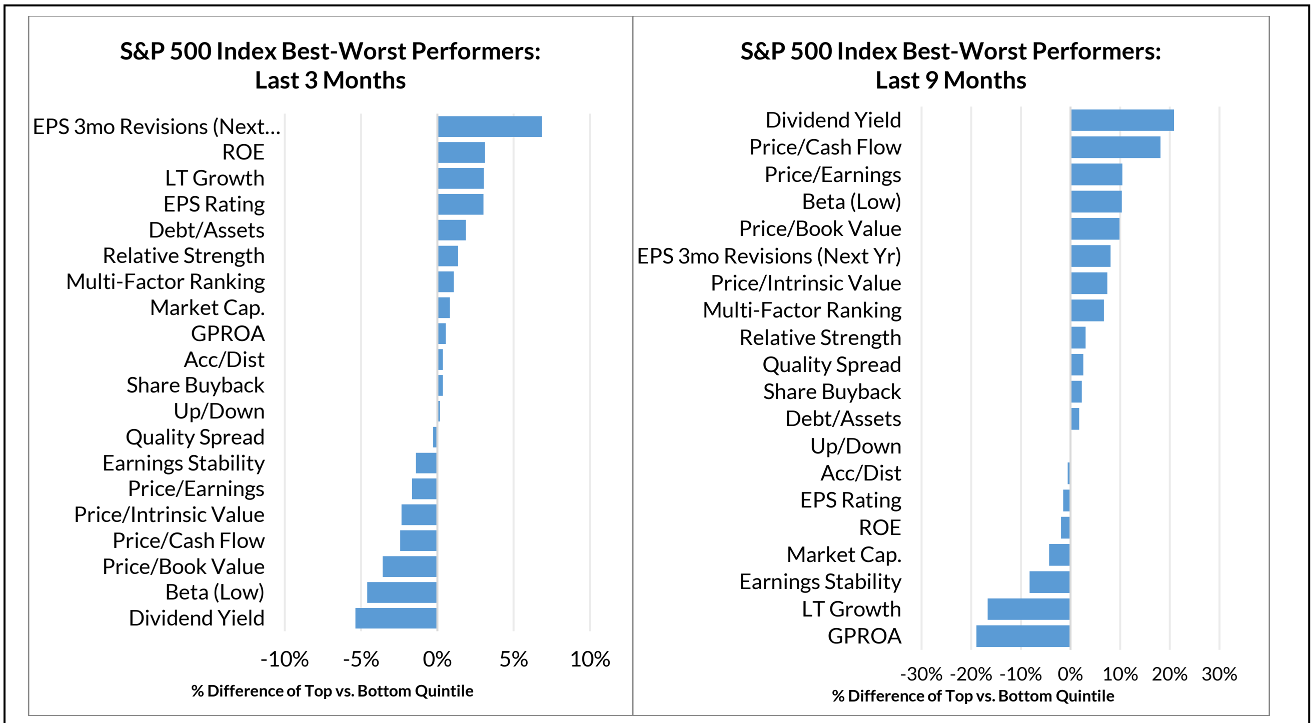
	3Q 2022	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	-4.5%	-19.1%	-10.1%	9.5%	7.3%	9.9%	10.6%
Large Cap Intrinsic Value (Net)	-4.7%	-19.5%	-10.6%	8.8%	6.7%	9.3%	9.9%
S&P 500	-4.9%	-23.9%	-15.5%	8.2%	9.2%	11.4%	11.7%
Russell 1000 Value	-5.6%	-17.8%	-11.4%	4.4%	5.3%	8.2%	9.2%

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

Markets logged their third consecutive negative quarterly return as growth concerns intensified and peak inflation remained elusive. The LCIV strategy beat both the S&P 500 and Russell 1000 Value in the quarter. Sector performance continues to have a different flavor in this bear market vs. years past as Discretionary, Energy and Financials outperformed this quarter.

Last quarter we spoke to the various headwinds that were weighing on markets, including tightening central bank policy, war and China's 'Zero-Covid' policy. It felt as though investors were searching for potential off-ramps from each of these policy stances. Well… the search continues. Inflation readings continue to run hot forcing central banks to double down on their rapid tightening campaign. The Russia/Ukraine War has escalated in recent weeks with phony referendums in Russian controlled territories and the destruction of critical infrastructure (i.e. the bridge to Crimea and the Nord Stream pipeline). Despite some easing of restrictions, Xi Jinping continues to defend China's 'Zero-Covid' policy as the 20th Party Congress solidified his third term. As if those weren't enough, we also saw tensions flare in Taiwan after a visit from the highest ranking US official (Speaker Pelosi) in 25 years, OPEC cut oil production in an act of defiance to the US and the UK bond market rioted following newly elected PM Liz Truss's fiscal package causing interest rates to explode higher. This all kept a bid under the US dollar, which is at multi-decade highs against several major currencies. Fortunately, markets are discounting mechanisms and are already pricing in a recession. We think the potential for things to get less chaotic remains as the Fed is rapidly approaching a peak (at least intermediately) in their policy rate, the UK is in the process of a policy U-turn to calm debt markets and stimulus/reopening in China remain underappreciated. Seasonally, markets typically act much better once we get through October. Forward returns have also been strong historically when markets are already off more than -25% and sentiment is extremely depressed. Additionally, the S&P has never posted a negative 12mo return following a mid-term election. A flawless track record dating back to the 1940's. Ebbing tail risks would certainly help bring these historical analogs into play. It may be difficult to find reasons to be constructive and uncertainty is very high, however much of this is the result of a new regime we've entered that is being defined by higher rates and inflation. Two years into this new regime has seen Value emerge as leadership at the expense of Growth. We've found it to be more useful at the portfolio level to focus on this trend which continues to become entrenched.

Factor performance



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

Our factor attribution showed a shift back to Growth with all of the Value metrics ranking at the bottom of the list. This was likely the result of the short rally the market saw through the middle of the quarter, which was led by higher Beta Growth names. Year-to-date the opposite is true as the factor work continues to show the leadership profile of Value and the underperformance of Growth metrics. As we mentioned in last quarter's commentary, the Lower Beta names have rotated and now complement all of the Value metrics we track while Growth names make up most of the High Beta subset. Volatility seems to be a function of market preference for the cycle and this cycle looks to clearly have shifted to favor Value. We are also happy to see our Multi-Factor Ranking working this year.

Performance Attribution

Attribution for the quarter showed that our outperformance was broadly driven by sector allocation which more than offset the drag from stock selection, most notably in Health Care and Consumer Discretionary where disappointing earnings releases or economic weakness weighed on shares. Our top performing sectors were Financials, Communication Services and Energy which generically benefitted from higher interest rates and energy prices.

Our top five performers for the quarter were ON Semiconductor, ConocoPhillips, United Rentals, Ameriprise Financial and Morgan Stanley. It was interesting to see economically sensitive names rank among the top performers in a quarter that saw heightened fears of recession and credit stress in the global sovereign bond market. There is a new profile that the market prefers in this environment and encompasses groups that we have more exposure to. ON Semiconductor continues to see strong end market demand (particularly in auto and industrial) support pricing power. Inventories are lean and the company has a nice pipeline of design wins in autos. ConocoPhillips is benefitting from higher price realizations in oil and gas which has allowed them to increase shareholder returns in 2022 from $10B to $15B. Results at United Rentals have been better than expected due to growth in their Specialty fleet helping to drive margins higher. Tight equipment supplies and solid demand from non-residential construction activity is also driving pricing and revenues. Despite lower equity markets and heightened volatility, asset flows at Ameriprise have been relatively steady and the company's Wealth Management division is benefiting from higher interest rates. Morgan Stanley's Wealth division also benefitted from higher interest rates and saw net inflows in the quarter. Strong trading revenue in fixed income and currency also helped to offset broad equity market weakness.

Our bottom five performers were Dell Technologies, Horizon Therapeutics, Jacobs Solutions, AbbVie and Iqvia. Increased macro uncertainty has been weighing on technology hardware demand. The consumer (i.e. personal computers) segment had been the first see some softening as inventories began to grow. Larger Enterprise consumers (i.e. datacenters, servers, etc.) are also restraining spending in this environment. This led management at Dell to talk down guidance for the next few quarters as revenues are expected to be weaker as a result of these headwinds. Horizon Therapeutics also saw shares drop following a disappointing announcement of their top drug, Tepezza, which fell well short of expectations and led to a material cut to sales guidance for the drug over the next year. We eliminated Horizon from the portfolio in September. Jacobs, while seeing solid growth in their project backlog, issued disappointing guidance for next quarter that sees margin pressure (particularly from negative currency impacts on several European projects) driving profits below consensus estimates. AbbVie also issued guidance that fell short of expectations mainly due to weakness in Imbruvica, a drug that treats certain forms of leukemia and lymphoma. Their largest drug franchise, Humira (arthritis), is going off patent next year so any underperformance from their other leading drugs will not be well received by investors. Iqvia, which handles outsources clinical drug trials, saw weakness as investors have increasingly become concerned with higher interest rates hampering funding for many small/emerging biotech companies. Iqvia primarily deals with larger biotech/pharmaceutical companies where funding is less of an issue. Despite their overall operating results remaining strong, this broad concern weighed on shares late in the quarter as interest rates rose to multi-year highs.

Summary

The profile of what works when the market sells off and investor anxiety gets priced in continues to be very different from the prior cycle. We've highlighted this in prior letters, but we think the market is sending a message that we're in a different regime that favors a different profile. That profile is one that is defined by less multiple risk, better pricing power and higher quality that benefits from higher rates and inflation. Said differently, the profile that is working is consistent with Value and is coming at the expense of higher multiple Growth names. At a time when uncertainty is running high we find it productive to listen to the messages being sent by the market and to focus on what is working. The more Value oriented profile we just walked through has been in favor for roughly 2 years and we think the environment is likely to continue to do so as inflationary pressures remain. This has benefitted our discipline and we welcome the changing leadership regime.

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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10/18/2022
S&P 500 – 3720
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
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.

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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, 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.