TODD
Asset Management

October 19, 2023
Intrinsic Value Team
Todd Asset Management

Todd Q3 2023 Large Cap Intrinsic Value Review

	3Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	0.17%	3.24%	15.74%	13.33%	7.98%	11.31%	10.22%
Large Cap Intrinsic Value (Net)	0.02%	2.78%	15.05%	12.66%	7.33%	10.65%	9.57%
S&P 500	-3.27%	13.06%	21.61%	10.15%	9.91%	12.24%	11.91%
Russell 1000 Value	-3.16%	1.79%	14.45%	11.05%	6.23%	7.91%	8.45%

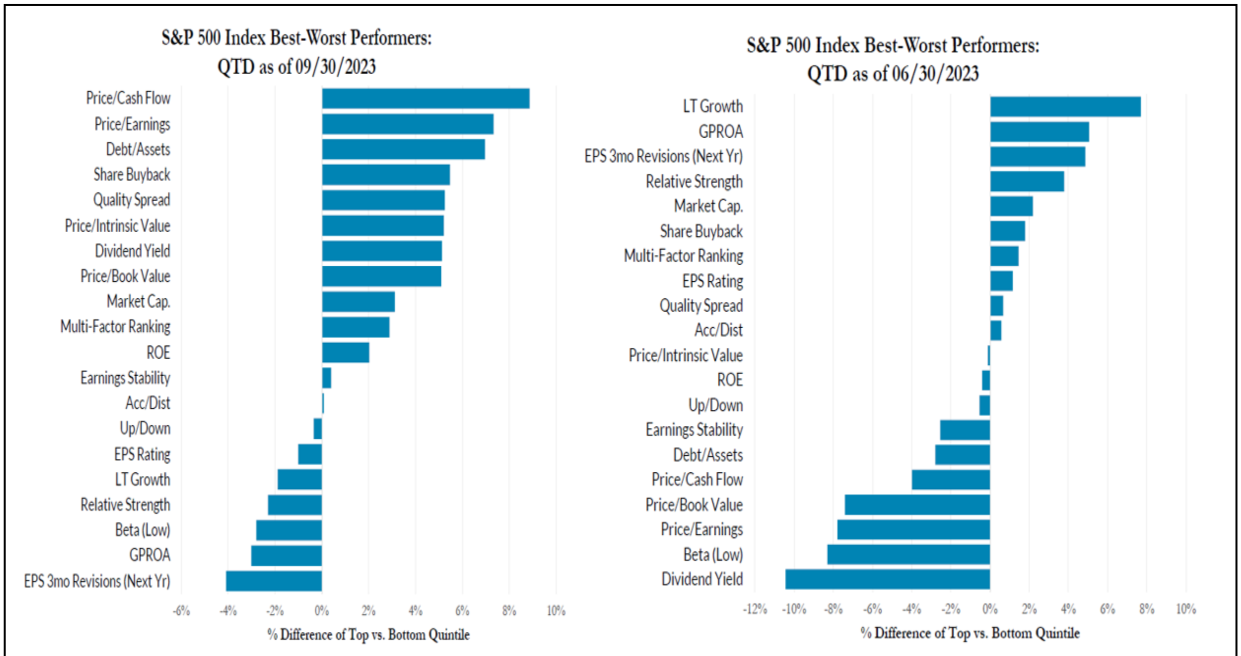
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information.*

Performance Review

The strategy had a nice quarter against both the S&P 500 and Russell 1000 Value, building on some of the momentum we saw in the month of June. Despite the market posting a negative return, we saw some of the more cyclical industries lead the way as recessionary concerns continued to get pushed off and rates moved sharply higher. As we mentioned last quarter, the consumer has been able to withstand policy tightening due to employment remaining full and the prevalence of fixed rate mortgages that have insulated households from higher lending rates (the 30yr fixed mortgage rate is nearly 8% at the time of this writing!). This has driven the resurgence from some of these cyclical groups where we are positioned. The market remains frustratingly concentrated, which is the main challenge we've had against the S&P this year. We've talked about this ad nauseum. While returns are comfortably ahead of the Russell 1000 Value across all time frames, we remain well behind the S&P over the past 12 months due to the run in the Magnificent 7.

We now enter the 4th quarter with interest rates breaking out to new multi-year highs. Trying to distill the signal from this move seems to be a Catch-22. On one hand, given that inflation readings continue to move lower and more resilient economic activity has provided more cushion for central bankers to keep rates higher for longer, the signal is a positive one more driven by higher growth expectations. On the other hand, higher rates weigh on market multiples and raise the risk of something breaking in the economy. You also can't rule out the return of bond market vigilantes given fiscal policy uncertainty. Washington has been dysfunctional for as long as I can remember. However rising interest costs that are consuming a substantial portion of our budget, the unprecedented ousting of Speaker McCarthy (first in our country's nearly 250 year history) and the suspension of the debt ceiling for two years may have understandably drawn enough skepticism from Treasury market participants to demand higher rates. The true driver of the surge in interest rates will eventually reveal itself. Until then, we'll play the ball as it lies. The leadership we saw this quarter felt more like a normalization of market sentiment toward groups that suffered in the initial panic driven months after the collapse of Silicon Valley Bank. The ISM Manufacturing PMI, which has been in recessionary territory since last year, looks like it may have bottomed back in June. Historically, stocks have done very well over the next 12 months when Manufacturing PMI's bottom. This will be worth watching as it would also feed the narrative around economic growth continuing to outperform expectations. Our focus in recent quarters has been on several secular trends that all revolve around a new capital spending cycle in infrastructure, defense, energy, commodities, etc. The market has been very receptive to these areas, and we are hopeful that continues through year end absent some major exogenous event.

Factor performance



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

Value metrics made their way back toward the top of the list this quarter (left chart), another sharp reversal from the prior quarter (right chart). The move higher in interest rates seems to have reoriented the investor community back to paying attention to valuation. Shareholder returns (share buyback and dividend yield) as well as other Quality metrics and our Multi-Factor Ranking also performed well over the past 3 months. Growth related factors and several Technical measures, which led last quarter, reversed course and ranked among the worst performing metrics in the third quarter.

Our outperformance in the quarter was fairly evenly distributed between sector allocation and stock selection. Strength was also broad based with only three sectors detracting from performance (Discretionary, Communication Services and Financials). Our biggest sources of outperformance came from Technology, Energy and Health Care. Within Technology, several of our hardware names performed very well due to strong end market demand for some of their higher margin offerings. Our Energy names largely benefitted from the +30% rise in oil prices in the quarter and the cash flow generation resulting from better profitability. Several of our Health Care names had some positive company specific developments that boosted confidence around their drug portfolios.

We had a few repeats in the top performing names this quarter. Our top five contributors for the quarter were Dell Technologies, Phillips 66, Amgen, Jabil and Jacobs Solutions. Dell posted an impressive quarter with broad based strength from their various end markets that are being driven by demand for AI servers/capabilities and stabilizing trends in more traditional IT hardware. Share were up sharply as AI related tailwinds were underappreciated going into the release. Shares of Phillips 66 rose in the quarter on an improved outlook for refining margins in the back half of this year that is being driven by better demand trends. Cash flow generation is expected to remain robust through 2025 which is funding very attractive shareholder returns. Amgen reached a settlement with the Federal Trade Commission (FTC) regarding its acquisition of Horizon Therapeutics, which is now expected to close this quarter. The deal will provide much needed revenue growth and help alleviate some runoff from their legacy drug lineup. Jabil posted a blowout quarter with margins coming in well ahead of expectations. The company is selling their less profitable Mobility unit. Commentary from this report reset expectations for the remaining company that dramatically exceeded consensus driven by higher margin segments that are benefiting from secular growth trends. Management announced a $2.5 billion share buyback program, which represents ~15% of shares outstanding. Jacobs is an engineering consultant that is benefiting from the revival of onshore manufacturing plans we are seeing in the US, particularly semiconductor plants.

Our bottom five performers for the quarter were Tapestry, Raytheon Technologies, American Express, HCA Healthcare and Merck. Tapestry, the luxury retailer that houses brands like Coach and Kate Spade, announced the acquisition of Capri Holdings, which owns the Michael Kors, Versace and Jimmy Choo brands in mid-August for a hefty premium. Raytheon announced the need to urgently inspect a large number of aircraft engines sold by their Pratt & Whitney division on their 2Q23 earnings call that caught investors off guard. Management updates late in the quarter also revealed that the number of engines that would need to be inspected was much higher than initially estimated leading to a larger hit to cash flow. We recently eliminated the company from the portfolio given the uncertainty clouding this name. Investors remain anxious about the health of the US consumer despite record levels of employment. Rising interest rates, record credit card balances and higher delinquencies have all weighed on the consumer finance space, which includes American Express. HCA Healthcare, which runs hospitals primarily in the South, gave investors an update in mid-September that somewhat lowered expectations for the second half of the year. Labor costs are still broadly normalizing, particularly on the nursing front, however physician costs are now expected to take more time which will cause profit estimates to recalibrate some. Finally, Merck and other large pharma names all saw weakness as Medicare drug pricing caps start to kick in next year. Keytruda is Merck’s blockbuster cancer therapy that loses exclusivity later this decade. Negotiated prices from Medicare will likely raise the bar for the company’s pipeline to come through with successful drug trials once that time comes.

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.

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

10/18/2023
S&P 500 – 4,315
Russell 1000 Value – 1,482

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.

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