Todd Q4 2021 Intrinsic Value Opportunity Review

	4Q 2022	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
IV Opportunity (Gross)	13.3%	-4.2%	10.5%	9.1%	9.1%	10.9%
IV Opportunity (Net)	13.1%	-5.0%	9.5%	8.2%	8.2%	10.0%
S&P 500	7.6%	-18.1%	7.7%	9.4%	11.5%	12.6%
Russell 1000 Value	12.4%	-7.5%	6.0%	6.7%	9.1%	10.3%

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

Performance Review

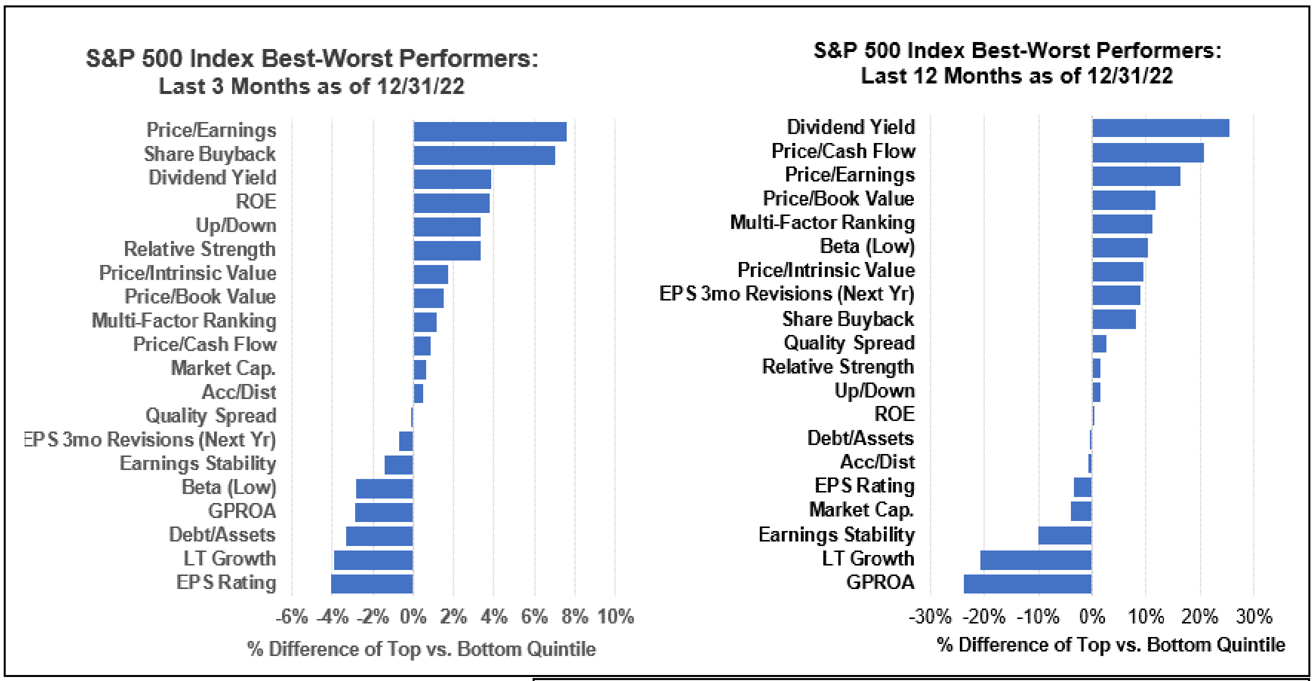
Markets bounced in the 4th quarter to finish off a year that was historic for all the wrong reasons. There were few places to hide as both stocks AND bonds posted deeply negative returns, which is unprecedented. Interest rates exploded higher as policy makers began their fight against inflation. This weighed on equity multiples all year long and most expect earnings to be the next shoe to drop in 2023 as slowing activity meets higher labor and input costs to pressure margins downward. 4th quarter earnings season is upon us and should be very telling on this front.

"Feel vs. real" is a saying in golf that explains the difference between what you think your swing looks like (the feel), and what your actual motion is (the real). You obviously didn't come here for swing tips (if you did you're in the wrong spot!), but this does seem to be a fitting analogy with what we're seeing in the markets given depressed levels of sentiment. Things feel bad. Inflation, while retreating, has been stubbornly high. This has led to an aggressive tightening cycle by the Fed, who in their words have more to do. The yield curve is deeply inverted as a result, which would historically imply a recession in late 2023. Forward earnings estimates have rolled over for the S&P 500 and other leading economic indicators (e.g. PMI's, LEI, etc.) are all flashing warning signs. What's a bit confounding is the fact that unemployment rates are at historic lows and a number of economically sensitive industry groups have begun to act well, exhibit leadership or even break out in recent months (construction, housing, industrial metals, equipment rentals, etc.). Interestingly these are all groups that are likely benefiting from the larger regime change and rotation the market has been processing this past year.

We've written about Value outperforming Growth in a down market for the first time since the last Value cycle as a sign that the leadership profile has changed. We got another anecdote this quarter as headline inflation readings continued to retreat from highs earlier this year and US interest rates moved lower. One would have guessed this would be a recipe for Growth to stage a comeback (like we saw in June and July). However, the opposite occurred and Growth took another leg down against Value. US 10yr rates peaked out around 4.25% in late-October and pulled back below 3.50% through early December, yet Value outperformed Growth by +10% in the quarter. Probably the biggest driver of Growth's underperformance has been the decline we've seen in the biggest weights of the index (Apple, Microsoft, Amazon, Google, Tesla, Meta and Nvidia). These 7 names accounted for roughly 27% of the S&P 500 (and nearly 45% of the Growth index) and declined by an average of -45% last year. That unwinding probably has many years left to play out as concentration is still quite high.

The ultimate path forward for the market is unclear as tighter policy and slowing growth need to reconcile. A lot will determine how hard or soft the landing is, but rather than get too caught up in placing probabilities on recession scenarios we find it more useful to listen to the message coming from the market. To borrow another golf analogy, you've got to "play the ball as it lies." Things may not feel great, but there are meaningful changes afoot that should offer opportunities longer term. Leadership looks to have structurally changed and is favoring Energy, Materials, Industrials and other groups that are better equipped to handle higher interest rates and inflation or that benefit from increased capital spending plans.

Factor performance



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

We saw preference shift back to shareholder returns (Dividend Yield and Share Buyback) and other Value metrics this quarter after underperforming in the 3rd quarter. Dividend Yield and several Value metrics were the top performing factors for the full year by a wide margin as higher interest rates and inflation have shifted leadership back to shorter duration names that don't carry multiple risk. The worst performing factors for the quarter, and year, were Growth and several Quality factors. This again is indicative of the unwinding of Growth's leadership.

Our outperformance for the quarter was driven heavily by stock selection. Discretionary was far and away our best performing sector and a function of both owning the right names in the quarter that are reading through economic uncertainty and not owning the biggest weights (Amazon and Tesla) which dramatically underperformed. Energy was the other sector that contributed most to our outperformance as higher commodity prices have led to a boon in cash flow and profits for these groups. Our material overweight in this sector drove returns here. On the flip side, Industrials, Financials and Staples were our worst performing sectors. Our underweight in Staples (the strategy owns no Staples companies) was the main detractor in that sector. Within Industrials and Financials we had a few company specific drivers of the underperformance in these groups.

The top five contributors towards performance during the quarter were Tapestry, Hess, HCA Healthcare, Chevron, and Nucor. Tapestry saw robust demand strength with its Kate Spade and Coach brands that aided its sharp fiscal 1Q earnings beat. OPEC production cuts caused crude prices to rise and led to robust 3Q sales beats that supported positive earnings surprises for Hess and Chevron. At HCA Healthcare, labor costs were well managed, which caused shares to rise sharply following its 3Q earnings announcement. In addition, Nucor shares experienced strength following a recovery in metal prices.

Our five worst detractors from performance during the quarter were DaVita, Robert Half, Qualcomm, NetApp, and Capital One. DaVita shares slumped after reporting 3Q results that highlighted a sharp earnings miss attributed to rising labor costs, which combined with lower revenue from covid related mortality, caused management to lower its outlooks for 2022 and 2023. Robert Half lowered its 4Q guidance below street expectations with its 3Q release after it reported headwinds related to slowing revenue growth amid clients taking longer to make hiring decisions. Qualcomm sharply lowered its 5G handset outlook as demand weakness related to covid related shutdowns in China and lowered margin expectations gave investors concern. NetApp shares lost steam despite reporting a sharp fiscal 2Q earnings beat as it significantly lowered its 2023 sales and earnings outlook amid lower IT spending expectations. Capital One shares saw headwinds after reporting 3Q results when earnings sharply missed on higher provisions.

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

01/17/23
S&P 500 – 3,991
Russell 1000 Value – 1,556

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.

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 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 .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.

Risks – Investments involve varying degrees of risk, and there can be no assurance that this product is suitable for your investment portfolio. The Opportunity product is designed for long-term investors who are willing to accept short-term price fluctuations. Stock market and business risks are general risks. This product generally holds 30 securities and is rebalanced every 3 months, thus it is more concentrated and may generate more investment turnover than other products. It is not required to be diversified by sector, and should be considered a more sector concentrated, aggressive application of the price to intrinsic value investment philosophy. 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.