TODD
Asset Management

January 18, 2023
Intrinsic Value Team
Todd Asset Management

Todd Q4 2022 Large Cap Intrinsic Value Review

	4Q 2022	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	12.1%	-9.3%	9.5%	8.0%	10.9%	11.8%
Large Cap Intrinsic Value (Net)	11.9%	-9.9%	8.9%	7.4%	10.3%	11.1%
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

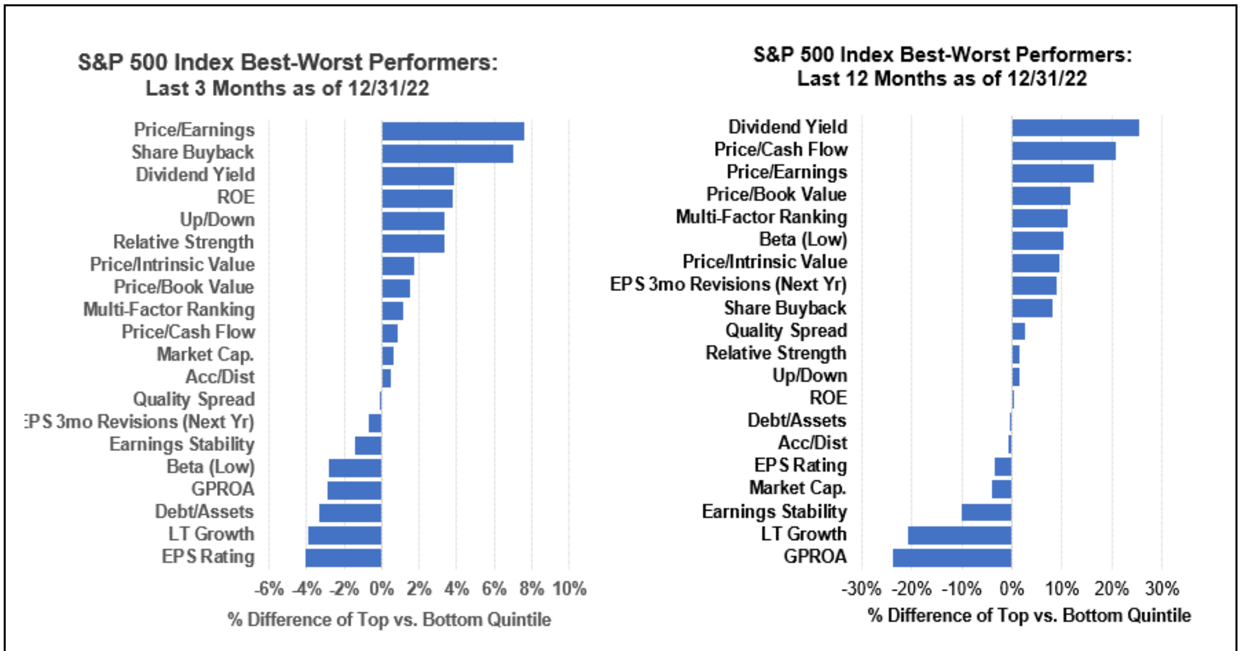
Markets bounced in the 4th quarter to finish off a year that was historic for all the wrong reasons. There were few places to hide as both stocks AND bonds posted deeply negative returns, which is unprecedented. Interest rates exploded higher as policy makers began their fight against inflation. This 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 Multi-Factor Ranking was additive for the quarter and one of the top performing factors for the full year.

Our outperformance for the quarter was fairly balanced between stock selection and our sector level over-/under-weight decisions. 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 and Materials were the other sectors that contributed most to our outperformance as higher commodity prices have led to a boon in cash flow and profits for these groups. On the flip side, Health Care, Financials and Staples were our worst performing sectors. Our underweight in Staples and Regional Bank exposure in Financials were the main detractors in those two sectors. Within Health Care we had a few company specific drivers of the underperformance in this group.

Energy continued to showcase its leadership in the quarter (despite oil prices moving lower) and is well represented in our top 5 performers. Our other names in the top 5 are interestingly in deeper cyclical industries, which have been resilient in recent months despite accumulating recessionary signals. The best performing names were TotalEnergies, United Rentals, ConocoPhillips, Broadcom and Chevron. TotalEnergies posted a better than expected quarter with strong cash flow generation driven by strong gas and refining profits, which was used to boost the dividend and pay down debt. Despite the negative impact that higher interest rates have had on residential housing, spending on non-residential construction and infrastructure projects have been robust and driven profits for United Rentals. ConocoPhillips, like Total, posted solid results highlighted by strong cash flow and higher shareholder returns. Oil and gas production from their sites in the Permian basin also came in ahead of estimates. Broadcom's optimistic 2023 outlook has bucked the trend from most semiconductors who have talked down numbers due to weakening consumer and enterprise spending expectations. Mgmt. is confident that all of their backlog of orders for next year are fully covered which has helped to support earnings estimates for the company for the next few years. Rounding out the top 5 was Chevron, our third Energy company at the top of the performance list. Better production numbers and strong cash flow enabled the company to continue paying down debt (leverage has been cut in half over past few years) and boost share buybacks by more than $3 billion.

Our biggest detractors were Lumentum, SQM, Davita, Alphabet and CVS Health. Supply chain issues continued to weigh on Lumentum's ability to source components and weighed on their 2023 outlook. Management also noted weakening demand from their consumer and enterprise facing end markets as well. SQM is a miner of lithium and fertilizer products in Chile and a new name in the portfolio. While global supplies of lithium for electric vehicles is likely to remain tight for some time, labor strikes and inventory levels raised questions about production and realized pricing guidance. Davita continued to experience headwinds from higher labor costs and Covid related mortality rates on their patient base which caused a downgrade to their earnings outlook for 2022 and 2023. Margins have rolled over for Alphabet. Ad spending is expected to move lower next year and with headcount remaining elevated, earnings estimates have been downgraded for the next few years. Finally, shares of CVS Health sold off after getting lower than expected grades for its Medicare Advantage plans that may weigh on enrollment and make LT earnings growth targets more difficult to achieve.

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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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
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, 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 .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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