TODD
Asset Management

January 19, 2024
Intrinsic Value Team
Todd Asset Management

Todd Q4 2023 Large Cap Intrinsic Value Review

	4Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	10.54%	14.12%	14.12%	10.72%	14.19%	11.36%	10.13%
Large Cap Intrinsic Value (Net)	10.38%	13.45%	13.45%	10.06%	13.52%	10.71%	9.48%
S&P 500	11.69%	26.28%	26.28%	10.00%	15.68%	13.41%	12.03%
Russell 1000 Value	9.50%	11.47%	11.47%	8.86%	10.91%	8.32%	8.40%

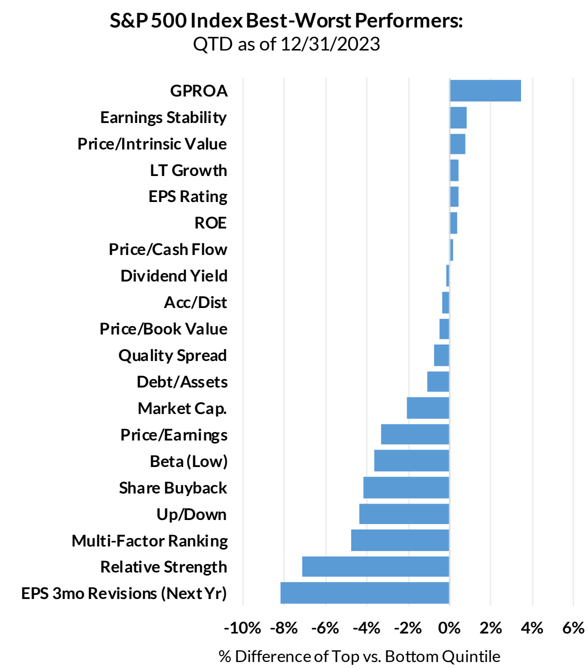
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information.*

<u>Performance Review</u>

Our LCIV strategy's returns finished the quarter and year ahead of the Russell 1000 Value while lagging the S&P 500, which was led (disproportionately) by the Magnificent 7[1]. We were encouraged to see the year end with broader participation outside of the largest names in the market as investors spent November and December getting more optimistic about the prospects for growth in 2024. Market breadth, as measured by the percent of companies trading above longer-term moving averages, is as good as it's been in a few years. We would (perhaps selfishly) expect that to continue if this newfound optimism persists as Mega-cap Tech names shouldn't be seen as the only game in town. This would also have repercussions on the Value/Growth cycle which continues to reconcile. We continue to think the stage is set for Value to outperform through the coming cycle (e.g. it's already happening internationally and in small caps).

Sentiment improved into year end from some of the most historically bearish levels we've seen in the first half of the year. Obviously the growing expectation that the Fed will recalibrate policy rates lower in 2024 had the big effect on pushing long rates lower and equity markets higher into year end. The market is pricing in the first cut in March with a total of 5 cuts being priced in for all of 2024. This, along with tight labor market data, seems to have silenced the bears for the time being. Not to downplay monetary policy, however the underlying strength in the economy continues to be greater than consensus gives it credit for. Stimulus flowing into the economy, employment trends, rebounding manufacturing activity from depressed levels and slowing inflation readings are all important drivers that are working to offset the lagged effects of higher rates. While the market may have gotten overzealous in it's expectations for Fed rate cuts, the table is still set for financial conditions to ease. This along with the tailwinds just mentioned point to a scenario where economic growth continues to outperform expectations this year. We should also not lose sight that this is a presidential election year. The market historically does quite well in an election year with an incumbent on the ticket, regardless of the political party. As we mentioned at the top of the letter if both the market and the economy are set up to perform well into 2024, broader participation should be a feature that would benefit active, fundamentally oriented strategies.

Factor Performance



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

Our factor work narrowed considerably in the fourth quarter as a single profitability metric (Gross Profit/Return on Assets) was the only notable outperformer. Most other metrics were either a wash or performed poorly to finish the year. This is interesting given the market itself broadened out with more participation outside of the Magnificent 7. Sentiment improved dramatically into year end. The narrow factor analysis implies that the sharp rally in November and December included a fair share of bounces in names that were both fundamentally or technically weak. This led Earnings Revisions and several technical metrics to rank as the worst performing factors for the quarter. Our Multi-Factor Ranking was one of the bottom performers as well as 5 of the 7 inputs in the ranking underperformed. When looking at the full year, the dramatic spread between Growth and Value is very prominent. Most Value metrics rank toward to bottom of the list for the year while Large Cap and Growth are among the top performing factors.

Performance Attribution

Despite the mixed performance in the quarter (underperforming the S&P 500 and outperforming the Russell 1000 Value) stock selection was additive against both benchmarks, largely due to our Energy and Financial names. Materials and Industrials rounded out our best performing areas for the quarter. Our sector allocation more than offset this against the S&P 500 as our overweight position in Energy, the worst performing group in the quarter, weighed on results. The other main detractor of returns was Technology as several hardware names posted disappointing results or guidance to end the year.

Most of our top performers for the quarter have a secular tailwind that is driving spending in their respective markets. Our five best performers for the quarter were Broadcom, United Rentals, KLA Corp, Qualcomm and Fifth Third Bancorp. Broadcom posted solid results and guidance in early December as strong demand for AI chips and lean channel inventories should continue to drive earnings over the next few years. United Rentals is at the epicenter of a boom in non-residential construction spending and large infrastructure projects that should have years to play out. Massive stimulus announcements from the pandemic are set to ramp over the next few years and should support utilization and pricing of rental equipment. A wave of global onshoring of semiconductor manufacturing and increasingly complex/advance chips are driving demand for testing equipment that is benefiting KLA Corp. Qualcomm is benefitting from many of the same secular drivers as the other semiconductor names we've already highlighted. They are also seeing a notable recovery out of China, which should continue to improve as the broader handset market looks to be mostly through the inventory drawdown phase. Content gains continue with the potential for AI enable devices to ramp this even higher. Rounding out our top five is Fifth Third Bank, which generically benefitted from the pullback in rates. Sharply higher rates caused a problem in the banking system earlier last year and the most recent move lower likely helps to shore up some of the losses in their securities portfolio. Expectations for rate cuts this year should also remove concerns on the high cost of deposits that weighed on the regional banks.

Our bottom five holdings were ON Semi, Bristol-Myers Squibb, SLB, Chevron and Borgwarner. While three semiconductors were among our top five performers in the quarter the auto/industrial-related chip names, like ON Semi, had a different experience. The company issued disappointing guidance in late October due to softening demand from several auto manufacturers. Bristol-Myers lowered several longer term targets for newly launched products and margins during their quarterly release. The company faces a fairly large patent cliff through 2030, so the downgrade was not well received by the investor community who wants to see success outside of the largest products. Prices of crude oil (WTI) fell over -25% in the 4th quarter, leading most Energy names lower. Both SLB (Schlumberger) and Chevron underperformed with this broader oil price weakness. While the multi-year outlook remains robust for SLB, growth has slowed in the US which has seen lower drilling activity. Chevron posted disappointing quarterly results where both earnings and cash flow missed consensus estimates on weaker Upstream pricing. Finally, Borgwarner saw shares move lower following their quarterly earnings release in early November as the company lowered revenue guidance in their electric vehicle (EV) facing segment. This confirmed concerns that have been mounting in the EV space as demand and production expectations are lowered from the auto manufacturers.

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
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01/18/2024
S&P 500 – 4,781
Russell 1000 Value –1,600

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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1. Magnificent 7 refers to seven of the largest companies in the S&P 500: Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta and Tesla.

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.

Risks - Investments involve varying degrees of risk, and there can be no assurance that this product is suitable or profitable for your investment portfolio. The LCIV product is designed for long-term investors, who are willing to accept short-term market price fluctuations. Stock market and business risks are general risks associated with the product. 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.