April 19, 2017
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Reality Check

Todd International Intrinsic Value Review

	1Q 2017	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
International Intrinsic Value (Gross)	8.6%	9.4%	0.3%	5.1%	5.1%	2.8%
(Net)	8.3%	8.5%	-0.5%	4.2%	4.2%	1.9%
MSCI ACWI ex-US	8.0%	13.7%	1.0%	4.8%	4.3%	1.8%

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

Most Global markets performed well during the first quarter as the concept of synchronized global economic growth gained some traction. US markets returned over 6%, while the ACWI ex-US returned 8%. Emerging markets outperformed developed markets, and international markets outperformed US markets. The market feels like it needs a reality check, as overall market direction acts as though it believes in the synchronized growth story but internal measurements do not fully reinforce that belief. The amount of negative yielding securities declined a bit, but still represents a large portion of the sovereign market. Sector leadership was a mixed bag with some economically sensitive and some safety sectors performing best, and investors rewarded fewer of the factors we study (see page two) than in the prior quarter. Let's do that check and see what we think reality will be later this year:

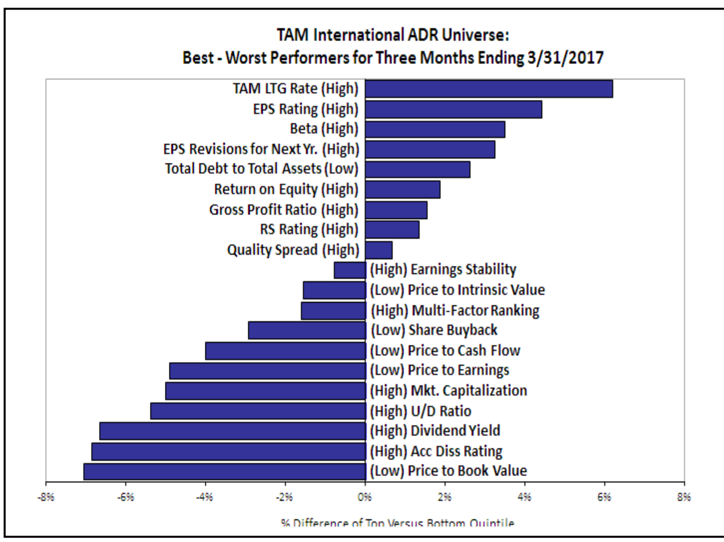
- **International Economies**- International growth rates are accelerating, and leading economic indicators continue to improve. The recovery from depressed energy prices, competitive devaluations and depressed capital spending continues. It provides a constructive backdrop for the first time in some years.
- **US Economy**- Economists expect US GDP growth to be over 2% for Q1, better than most recent first quarters. The Atlanta Fed suggests 0.5%. This disparity may be confusing investors. Analyst's estimates indicate growth is expected to strengthen through the year.
- **Rates-** US, Chinese, and Japanese Central Bankers have pursued higher rates. As deflation fears have cooled and pro-growth policies have gained traction, they are raising rates for the best of reasons; better anticipated growth. While rates are rising, they are nowhere near tight for any developed economies we track. The ECB is tapering the pace of bond purchases from 80 B Euros per month through March to 60B Euros from April through the end of 2017.
- **Earnings**- Both the US and International markets are seeing earnings recover after the earnings recessions of 2015-2016. Revisions have been widespread and positive, and we expect this trend to continue as Q1 earnings are reported in coming weeks.
- **International Politics-** Concerns about France voting to pull a "Brexit" have decreased after the recent Netherlands election repudiated populism. They still need to hold that vote, and Italian and German elections are scheduled for later this year, in what some observers are calling the "neverendum."
- **US Politics**- President Trump and the "Trump Trade" of US reflation are starting to be questioned. With few high profile wins and a couple of false starts in the first hundred

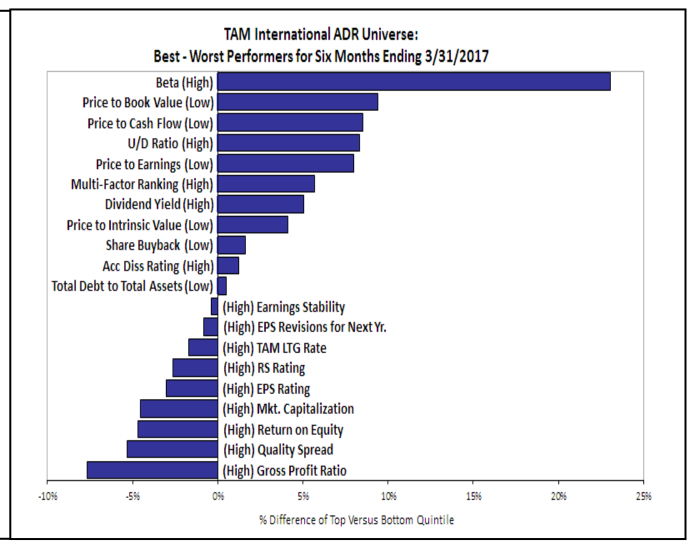
days, investors are questioning whether the administration's expected stimulative fiscal policies are likely.

- **Geopolitics-** Tensions are heightened as the new US administration is putting their "fingerprints" on US policy abroad.

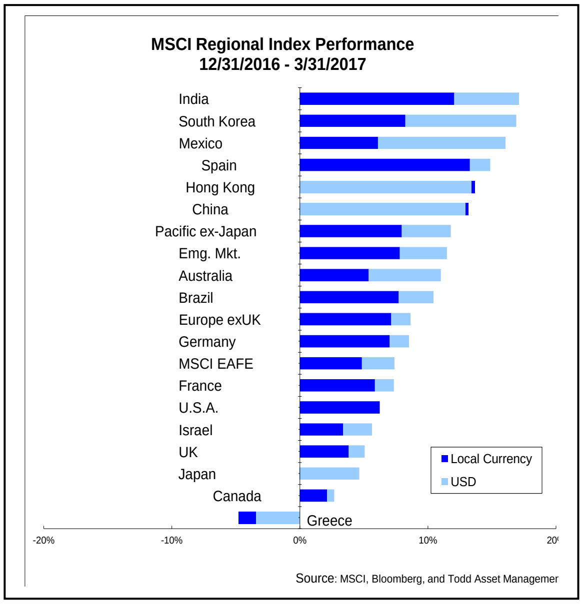
Markets are consolidating as we enter the second quarter. While economic and earnings trends look good, investors want to have some of their fears about politics alleviated. We believe this is likely as the year progresses. The French elections start later in April and will likely be decided the first week of May. German elections are slated for September. Italy is electing the leadership for their Democrat party in May, after which a snap election could be held for national elections. The UK just called a snap election and still looks forward to the drama resulting from invoking article 50 to begin the process of leaving the EU. All of these may weigh on investors' minds. On balance though, we believe probabilities favor a strengthening economic expansion and higher prices towards year end. Seasonally, the May through October period is usually volatile for markets. As stronger economic indicators fall into place, a better market outlook is probable at year end.

Our customary charts that illustrate the factors being rewarded within the marketplace during the first quarter of 2017 and the trailing six months period are presented below. Over the past six months (right chart below), attractive valuation, good technical credentials and high beta were rewarded. Our Multi-factor ranking also performed well. The first quarter saw a significant rotation as Beta was the only factor that worked in the quarter and for the six month period. Factors the market sought in the first quarter highlighted high and visible earnings growth as well as good quality ratings.



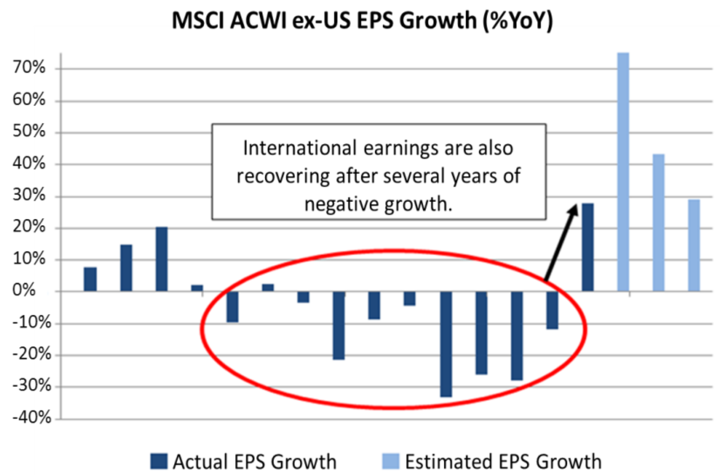


Source: Bloomberg, TAM estimates



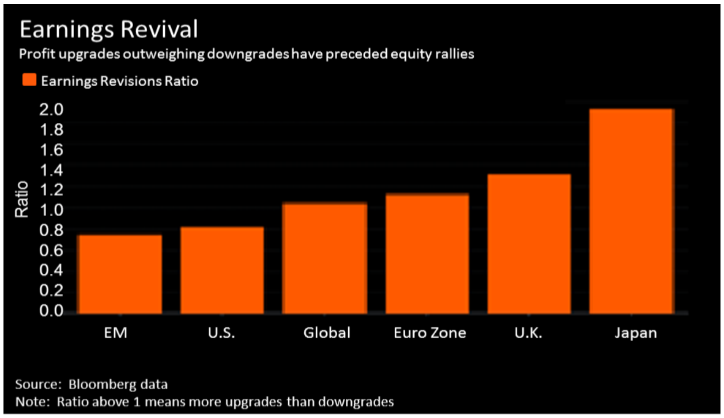
Emerging markets dominated the leaderboard during the quarter. A weaker dollar made most of them look better as the EM currencies rebounded from depressed positions. Currency was a tailwind for most international markets. Even taking that into consideration, the laggards had a disproportionate representation from the larger developed markets.

Interesting Charts we saw this quarter

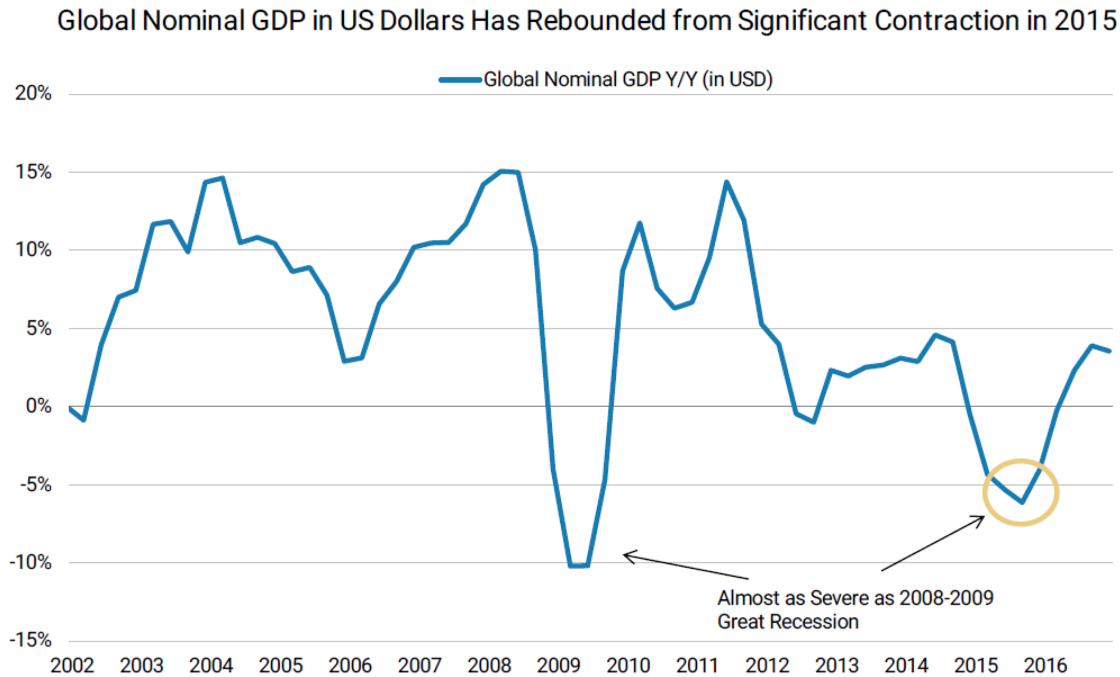


Earnings recoveries are unfolding in both the International and US markets. Some of the comparisons should be very strong from the depressed base of last year.

Source: Bloomberg, MSCI and TAM



Europe, the UK and Japan are seeing the highest ratio of upgrades to downgrades among earnings estimates globally. We believe there is a stronger recovery unfolding in international markets, and think they should outperform the US in coming quarters.



Source: Haver Analytics, Morgan Stanley Research as of 4Q 2016.

Most economists never called the global slowdown of 2015 and 2016 a recession, but we think the chart above highlights how challenging this time period was. While US growth remained moderately positive, the specter of deflation hurt most other developed markets and most emerging markets were contracting in 2015. When you consider how heavily commodities influence many emerging markets, the reason for weakness becomes clear. *The recovery from this depressed base is what probably allows international markets to post better earnings and performance comparisons in upcoming quarters.* Pent up demand exists in those markets and they are earlier in their recovery than the US is.

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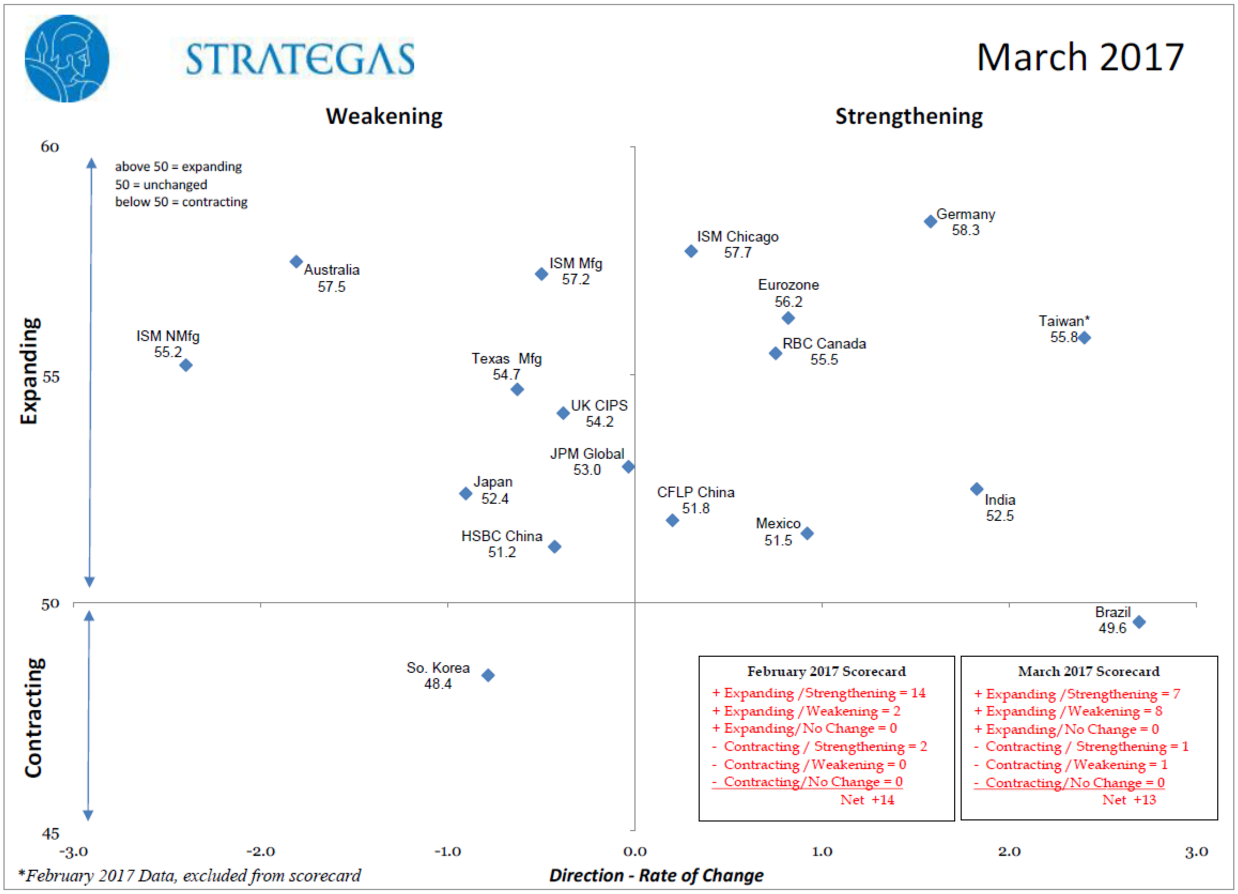
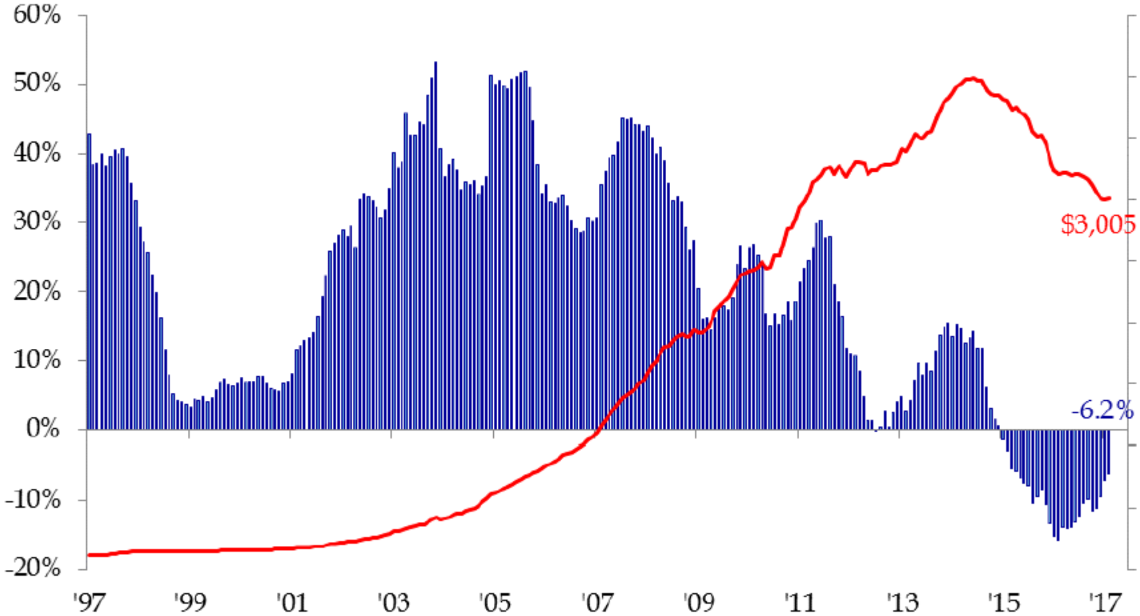
Global Economic Activity Is Expanding

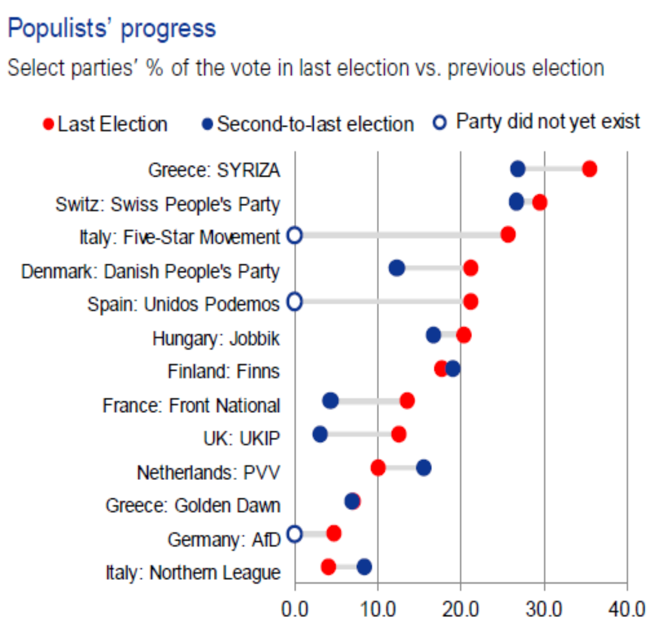


The Purchasing Managers Indexes are an indicator of the economic health of manufacturing and non-manufacturing sectors. If you examine them worldwide, most of them are above 50 (above 50 indicates expansion, below 50 indicates contraction) and many are strengthening. This is a constructive environment for growth.

China Foreign Exchange Reserves:
Y/Y% (LHS) vs. $Bn (RHS)

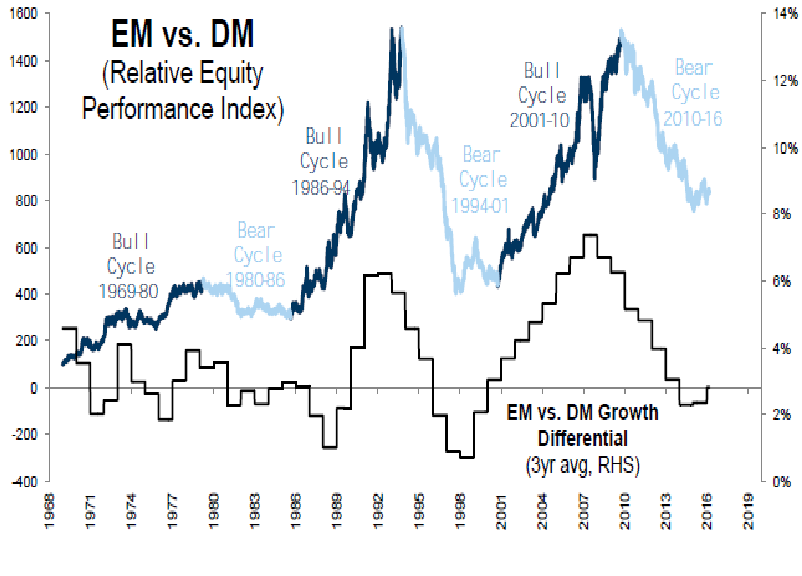


Source: Strategas



Source: Goldman Sachs

Two concerns investors worry about are the flight of capital from China (chart above), and the rise in populism (chart left). We would note that the Chinese government manages their reserves and the recent decline would not occur without their approval. Additionally, we will find out more about populism with the upcoming French Election, but we do not expect it to result in a threat to the European Union. If anything, it may prompt governments to become more pro-growth.



Source: FactSet, Haver Analytics, Datastream, Goldman Sachs Global Investment Research

When Emerging Market growth is increasing compared to developed markets, EM stocks tend to outperform DM stocks, and vice versa. When this occurs, broader index managers, like those following the ACWI ex-US, tend to outperform those focused on developed markets. Emerging Market growth is starting to increase compared to the Developed Markets, as a result of the resurgence in the commodity trade. If history is a guide, this may bode well for managers like us and should last for some years to come.

<u>Performance Review</u>

The International IV strategy gained +8.6% (gross) during the quarter, slightly outperforming the MSCI ACWI ex-US return of +8.0%. Going into the quarter, we thought that as investors became more comfortable that political concerns of the Brexit and economic uncertainties were decreasing, that the factors we focus on would probably be rewarded. This started to occur as we have seen British growth rates actually strengthen, and other economic indicators illustrate that a global recovery is underway. As the European Central Bank tiptoes towards tapering their bond purchases, we think our performance should get a boost. We have noted that when the amount of sovereign debt with negative yields ballooned last year, our performance suffered as investors ignored the fundamental measures we manage to. We expect to hear more about this as the ECB is slated to begin tapering their purchases in April.

Stock selection and our sector positioning both helped to drive performance during the quarter. Consumer Discretionary and Financials were our two best performing sectors, driven by stock selection within these sectors. Our worst performing sectors were Industrials and Materials. Our regional positioning detracted from performance mainly due to our overweight position in Canada and slight underweight of Emerging markets and Pacific ex-Japan. This was more than offset by good stock selection overall.

We remain overweight Technology, Industrials and Financials. We are also remaining underweight Consumer Staples, Materials and Utilities. We continued to add to Materials and Energy throughout the quarter to take advantage of a recovery in operating results as commodity prices have firmed up from the lows in early 2016. Among regions, we are overweight Canada and the UK. We are market weighted in the Eurozone. We are underweight Emerging Markets, Asia Pacific and Japan.

Our top five contributors to performance during the quarter were New Oriental Education, Broadcom, Netease, HDFC Bank and British American Tobacco. New Oriental Education continues to experience strong enrollment growth for their K-12 programs. Broadcom is benefiting from content gains in smartphones and the rollout of new datacenter products. Netease is seeing revenue growth over +50% due to successful new releases, particularly mobile games. HDFC Bank recovered from demonetization concerns and posted improving deposit growth and balance sheet strength during the quarter. British American Tobacco announced a well-received agreement to buy Reynolds for $49B, creating the world's largest tobacco company.

Our worst five detractors from performance during the quarter were Volaris, Vermillion, Rio Tinto, Orix and Sun Life Financial. Volaris continued to struggle with Mexican Peso weakness, which weighed on revenues and profits. Vermillion shares sold off as oil prices weakened in the latter half of the quarter. Similarly, Rio Tinto gave up gains as commodity prices (particularly iron ore) weakened in March. Orix is buying in shares at a much slower rate than expected after announcing their current authorization. Sun Life reported weak results as its main investment business saw outflows on $10B during the quarter.

As always, we are here to assist you. If you need any additional information, please feel free to contact any of us.

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Todd Asset Management LLC

04-19-2017
MSCI ACWI ex-US – 261

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
INTERNATIONAL 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.

Specific stocks discussed in this presentation are included to help demonstrate the investment process or as a review of the Composite's quarterly results and are not and were not recommendations for purchase or sale by investors. 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. A complete listing of the holdings as of the period end is available upon request.

Todd Asset Management LLC ("TAM") is a registered investment adviser. The performance presented represents a composite of fully discretionary accounts invested primarily in large cap internationally domiciled, US traded equity securities, with the objective to seek capital appreciation. This goal is pursued by investing in a diversified portfolio of these equities which 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 International Intrinsic Value Composite contains fully discretionary, taxable, and tax-exempt accounts that use either the MSCI ACWI ex-US (Gross) or the MSCI EAFE Index (Gross) as the benchmark. Prior to April 1, 2010, this composite was known as the International 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 verified for the period January 1, 2008 through December 31, 2016 by Ashland Partners & Company LLP and 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 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the International Intrinsic Value Composite for the period January 1, 2011 through December 31, 2016. To receive a complete list and description of TAM composites and/or a full disclosure presentation which complies with the GIPS® standards, please contact TAM at 1-888-544-8633, or write Todd Asset Management LLC, 101 South Fifth Street, Suite 3100, Louisville, Kentucky 40202, or contact us through our Web site at www.toddasset.com.

The performance information is presented on a trade date basis, gross and net of management fees, and net of transaction costs and foreign withholding taxes, and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of .80% applied monthly. Prior to January 2007, 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. As of 6/30/2013, the primary benchmark was changed to the MSCI ACWI ex-US from the MSCI EAFE. The ACWI better reflects the strategy guidelines with emerging market and Canadian exposure. Both indexes have been presented in the past. As of the aforementioned date the EAFE has been removed.

The composite performance has been compared to the following benchmark. The index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs.

MSCI ACWI ex-U.S. (Gross) Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the United States. The ACWI ex-U.S. includes both developed and emerging markets. For investors who benchmark their U.S. and international stocks separately, this index provides a way to monitor international exposure apart from U.S. investments.