TODD ASSET MANAGEMENT LLC

April 19, 2017
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Reality Check

Todd Intrinsic Value Opportunity Review

	1Q 2017	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Intrinsic Value Opportunity (Gross)	3.9%	8.5%	3.8%	11.0%	11.3%	7.6%
(Net)	3.7%	7.6%	2.9%	10.1%	10.4%	6.8%
S&P 500	6.1%	17.2%	10.4%	13.3%	12.9%	7.5%
Russell 1000 Value	3.3%	19.2%	8.7%	13.1%	12.2%	5.9%

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

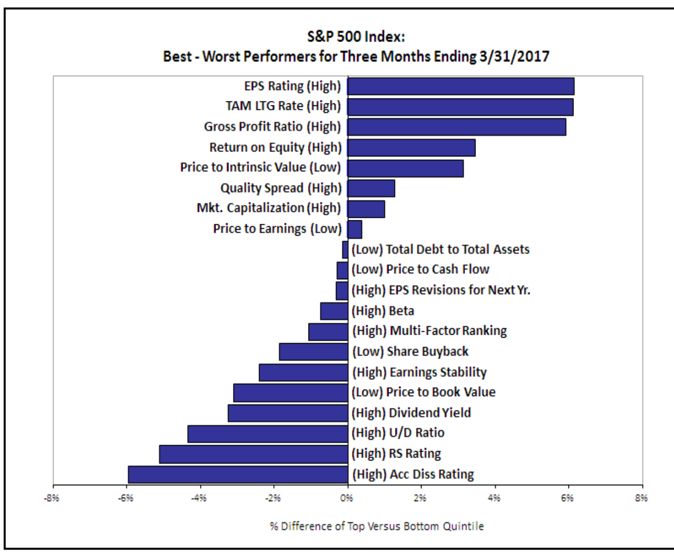
Most Global markets performed well during the first quarter as the concept of synchronized global economic growth gained some traction. US markets returned over 6%, while the ACWI ex-US returned 8%. Emerging markets outperformed developed markets, and international markets outperformed US markets. US ten year yields dropped marginally, after a dramatic spike following the US election last November. US Small- Caps underperformed Mid-Caps, which underperformed Large-Caps. 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 leading sectors felt somewhat risk off, favoring the old assured growth FANG (Facebook, Amazon, Netflix and Google) stocks as well as the “safe” sectors of Health Care and Utilities. If you dig into the factors and sectors underneath the surface, it still feels a little wary. Let’s do that check and see what we think reality will be later this year:

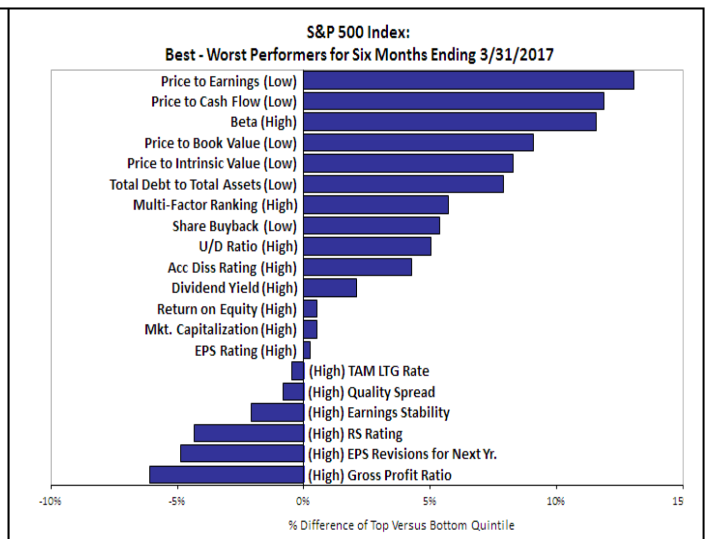
- **US Economy**- Economists expect US GDP growth to be over 2% for Q1, better than most recent first quarters. The Atlanta Fed suggests 0.5%. This disparity may be confusing investors. Analyst’s estimates indicate growth is expected to strengthen through the year.
- **International Economies**- International 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.
- **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.
- **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.

- **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."
- **Geopolitics-** Tensions are heightened as the new 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. US tax reform is probable. Updating the Affordable Care Act is less certain, but still possible. Regulations are being rolled back. All of these are improving US confidence, and should spur additional capital expenditures. Our primary concerns would be the potential for a US Border Adjustment Tax and/or protectionism. Another would be the geopolitics of the Middle East and North Korea. 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 in markets. As stronger economic indicators fall into place, a better market outlook is probable at year end.

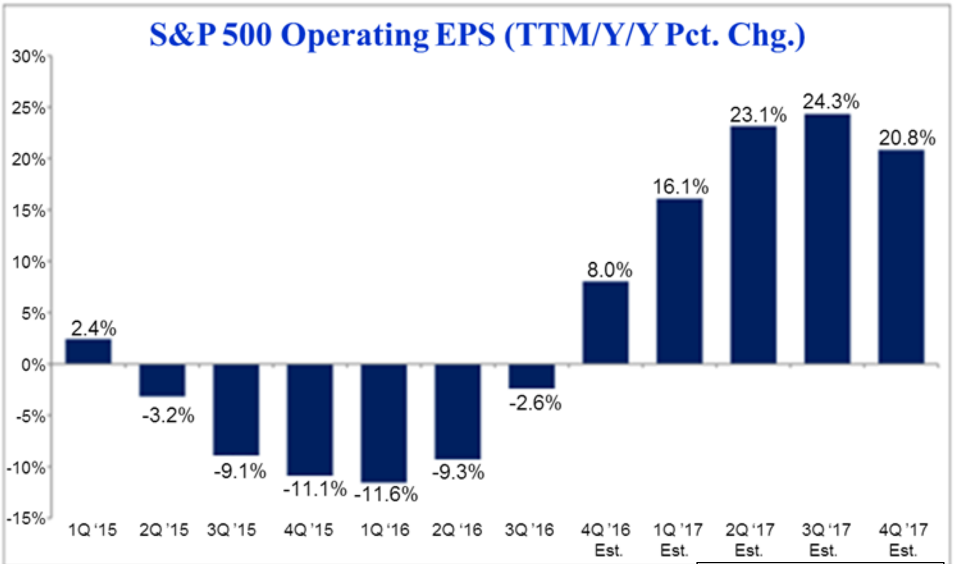
Our customary charts that illustrate the factors being rewarded within the marketplace during the first quarter of 2017 and the trailing six months period are presented below. Over the past six months (right chart below), investors rewarded more factors than in the recent quarter (left chart below), with an emphasis on valuation, financial strength and relative strength. The list of factors favored in the first quarter narrowed to emphasize some measures of attractive valuation, high quality and good earnings growth. Characterizing the shift, we would say investors seem to have gotten a little more cautious in the past three months compared to the past six months. It feels odd saying that with the S&P turning in the best quarter we've seen in a few years though.





Source: Bloomberg, TAM estimates

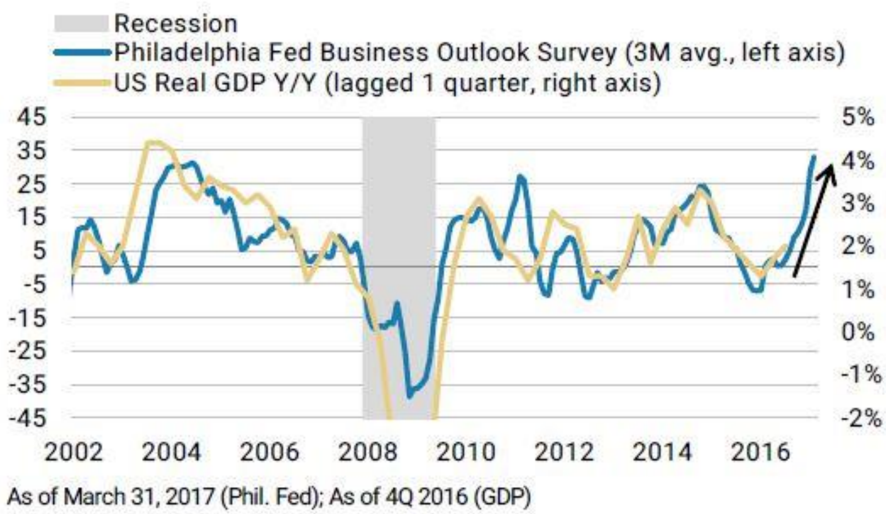
__Interesting charts we saw this quarter__



Source: Strategas

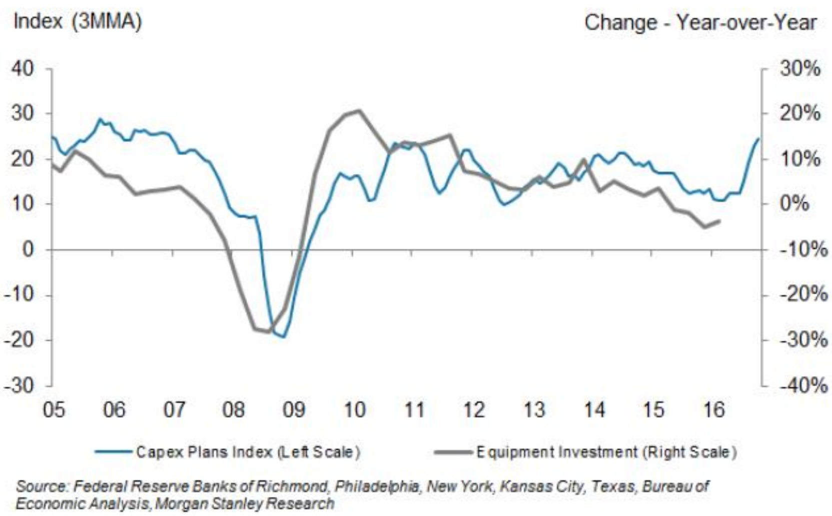
The US earnings recession is over, as shown by the chart above from Strategas. For the rest of this year, easy comparisons should make for strong results. We believe investors are not expecting to see EPS comparisons of over 20% from the second quarter on.

__Reliable Indicators Point to Renewed Growth__



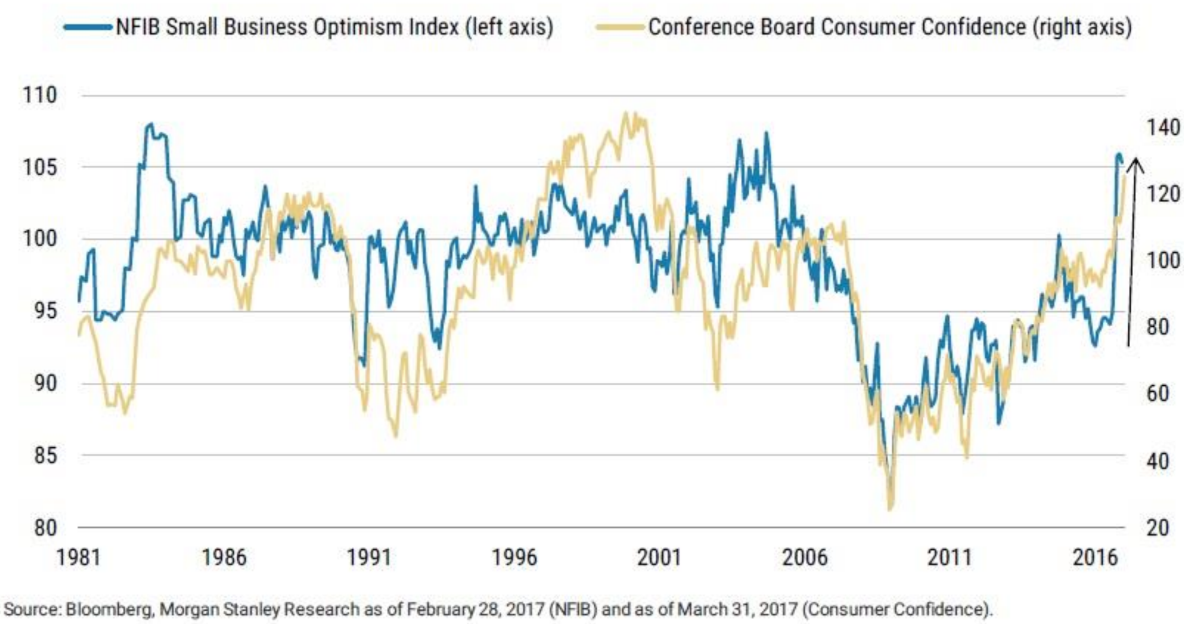
Source: Morgan Stanley

Capital Expenditures Should Rise



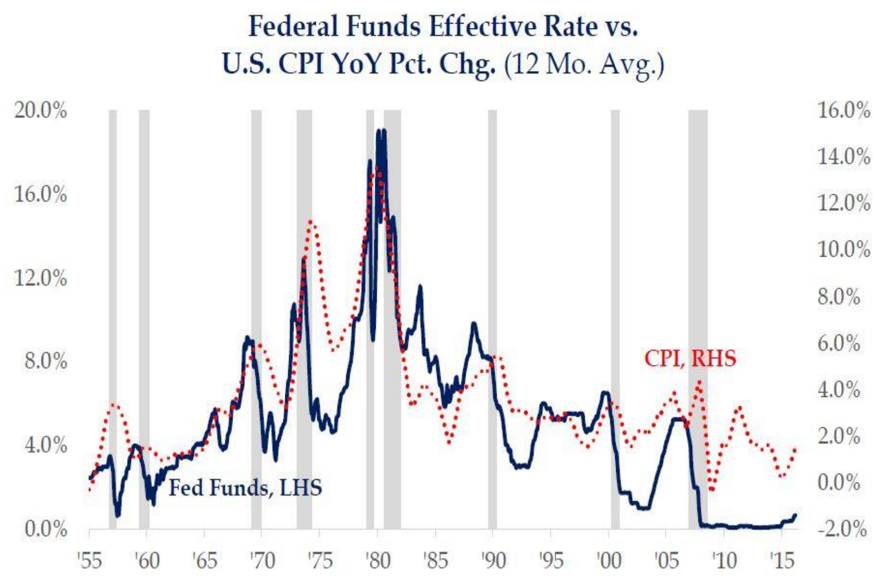
Equipment investment follows capital expenditures plans. By this measure, equipment sales should turn sharply positive in upcoming quarters. Capital spending has been one of the missing ingredients in US economic growth over the past few years. If businesses anticipate easier conditions in the US, expect more investment to follow.

There Has Been a Dramatic Surge in "Animal Spirits"



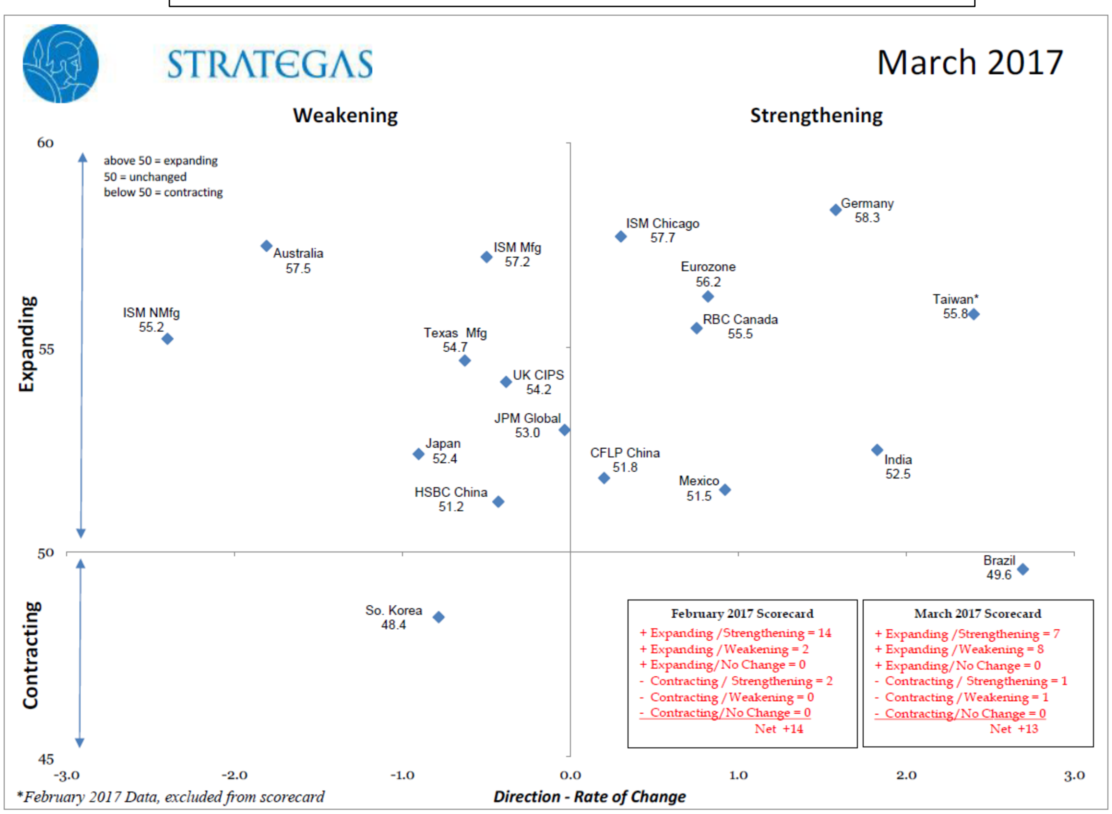
Note the increase in business and consumer optimism after the early 2016 Brexit bottom in those measures. This is a necessary element to get companies to invest in long lived assets and consumers to make longer term commitments. This should bode well for capital expenditures and housing. Watch Washington to determine if this is sustainable, as much of this has occurred after improved prospects for tax reform and infrastructure spending.

Federal Reserve officials have made no secret about their intent to raise short term interest rates. As the chart above illustrates, the Fed Funds rate (left scale) have generally tracked CPI inflation (right scale). Right now, expectations are for inflation to increase as commodities recover and a tighter employment market leads to wage gains. Rates probably continue to rise. This is not necessarily bad for stocks as equities usually do not peak before there is an inverted yield curve.



Source: Strategas

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 (> 50 = expansion, < 50 = contraction) and many are strengthening. This is a constructive environment for growth.

TODD
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<u>Performance Review</u>

The IV Opportunity strategy increased **+3.9%** (gross) during the quarter, underperforming the S&P 500 (**+6.0%**) and slightly outperforming the Russell 1000 Value (**+3.3%**). The opportunity fund has had cyclical performance, and unfortunately we are at the period where our recent results have lagged the market over longer time periods. Historically, this is when the performance usually bottoms. We have found that our performance tends to roughly move in sync with the earnings cycle, bottoming during EPS recessions and peaking at cyclical peaks. We have just finished an earnings recession as noted in the chart on page 3 of this report. We believe that as earnings recover, our performance should also. This strategy has a history of dramatic recoveries from periods of underperformance, usually recovering to be near the top of performance ranks after periods of underperformance. We have no reason to think this time should be any different.

The Opportunity Strategy is an unconstrained discipline within the S&P 500 that invests in stocks possessing excellent value characteristics, and then pairing those with exceptional measures of profitability, balance sheet strength or market acceptance. We employ a stop loss methodology to limit risk from any one stock. Our sector exposure was weighed heavily in Consumer Discretionary, Information Technology and Industrials. Consumer Staples, Energy, Financials, Utilities and Health Care were our most underweight sectors. Themes the strategy focused on during the quarter included Retailers, Media Content Providers, Insurers, Capital Goods and Semiconductors.

Our top five contributors to performance during the quarter were Applied Materials, Twenty-First Century Fox, Best Buy, United Rentals and Sherwin-Williams. Applied Materials continues to experience solid product momentum and booking growth driven by demand for LEDs and OLEDs for TVs and mobile devices. Twenty-First Century Fox had a good quarter highlighted by subscriber growth, strong sports ratings and solid political ratings following the presidential election. Best Buy shares lifted toward the end of the quarter on expectations of better smartphone sales, particularly the Samsung Galaxy S8 and new iPhone. United Rentals is seeing better rental volumes as end market sentiment has improved in the construction and industrial markets. Sherwin-Williams had an excellent quarter with improved sales growth and better pricing driving margins higher.

Our worst five detractors from performance during the quarter were Signet Jewelers, Kroger, Michael Kors, Navient and Tractor Supply. Signet Jewelers is suffering from delayed tax receipts and lower mall traffic, which were especially harmful during this year’s Valentine’s Day. Kroger is experiencing increased competition and pricing pressure from Wal-Mart, which is weighing on estimates. Michael Kors is working through inventories at their wholesale stores in an effort to shore up the brand and sales continue to decline as a result. Navient, formerly part of Sallie Mae (student loans), was sued back in January by the Consumer Financial Protection Bureau over repayment rights. Tractor Supply lowered their long-term estimated earnings growth target at an analyst day in late February and shares have struggled as investors digest this transition.

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

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

Todd Asset Management LLC

04-19-2017
S&P 500- 2,337
Russell 1000 Value – 1,114

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.

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 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®). TAM's compliance with the GIPS® standards 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 Intrinsic Value Opportunity 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.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:

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.