TODD ASSET MANAGEMENT LLC

October 18, 2017
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A Little Like Watching Poker

Todd Intrinsic Value Opportunity Review

	3Q 2017	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Intrinsic Value Opportunity (Gross)	0.6%	5.1%	9.8%	2.6%	11.5%	12.0%	7.5%
(Net)	0.4%	4.4%	8.9%	1.8%	10.6%	11.1%	6.7%
S&P 500	4.5%	14.2%	18.6%	10.8%	14.2%	14.4%	7.4%
Russell 1000 Value	3.1%	7.9%	15.1%	8.5%	13.2%	13.2%	5.9%

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

Ever watch poker on TV? Tune in and you'll see a few people around a table trying not to let others guess what they are thinking. Those that are best at estimating probabilities and guessing what others are thinking tend to win the games. Market action this year is a little like watching poker. News outlets and many strategists have been concerned about any number of things, but the market has sized them up like a poker player and decided the probability of them occurring is low. Poker is a game based on incomplete information and odds. Market information is more incomplete recently than it had been in the past, given the political gaming we see. Still, the market is advancing steadily with low volatility, which indicates to us that investors are focused on earnings and growth rather than the political side of the equation. The press does not know how to deal with incomplete information (or probabilities) and has been focused a number of concerns including:

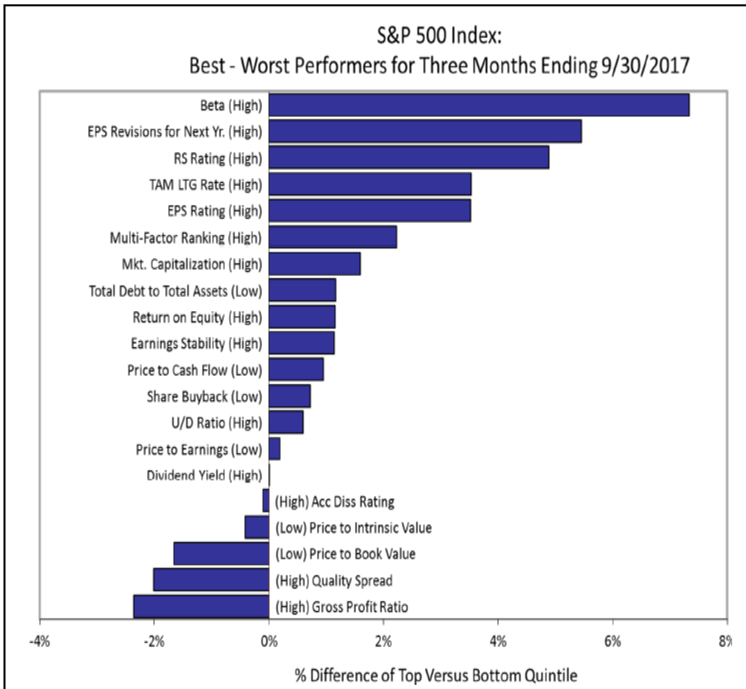
- North Korea unleashing a nuclear device (low probability in our opinion)
- Chinese debt downgrades leading to a financial crisis (low probability in our opinion)
- A hard Brexit (Brexit likely happens, but nobody wins in a hard one)
- Washington drama (Debt Ceiling/ACA/Tax Reform) and Presidential Tweets
- Thirteen percent of Germans voted for an extreme right wing nationalist party
- Hurricanes, natural disasters (unpredictable and transitory)

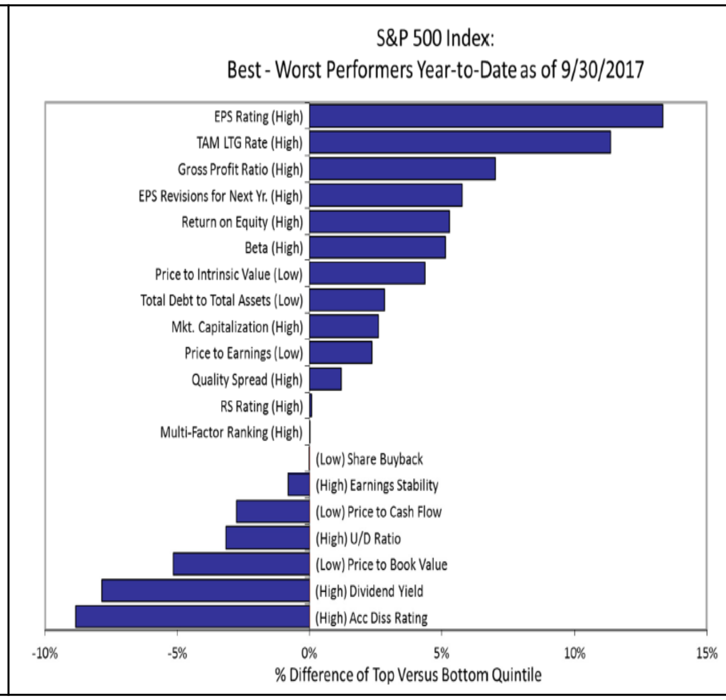
While those items may make for headlines, we believe the market is focused on more positive outcomes as worldwide economies are in a synchronized recovery.

- The economic outlook is improving globally
- Earnings are recovering as the "Great Reset" is over (See "The Great Reset" on the TAM website) and pent up demand exists
- Central banks are tiptoeing away from quantitative easing and normalizing rates
- Inflation remains low, even as commodities look more constructive
- Potential for tax reform in the US, labor reform in Europe, and political reform in Latin America are adding to global confidence.

Odds favor equity markets continuing their advance. As the economic outlook remains firm, bond rates are rising. Investors are hard pressed to make low bond returns meet their long term goals and they need to consider stocks. Investor sentiment remains poor, indicating to us that probabilities of being at a market top are low.

Our customary charts that illustrate the factors being rewarded within the marketplace during the third quarter of 2017 and year-to-date period are presented below. They indicate how the best 100 S&P 500 stocks compared to the worst 100 for each measure. The number of factors being rewarded continues to expand off of the very low levels we saw in 2016. The quarter felt like a "risk on" period as the reflation trade from late last year returned. Beta was rewarded, along with fundamental, technical and some financial strength rankings. Valuation and quality remain generally out of favor. For the year-to-date period, fundamental growth, quality and some valuation measures were rewarded. Technical and some valuation measures were under pressure thus far in 2017.





Source: Bloomberg, TAM

Year to date performance has been good for equities and growth has been in favor. The best sectors have been Technology and Healthcare, while the worst were Energy and Telecommunications. Value styles have generally been out of favor as investors worry about Financial and Energy oriented stocks. Concerns on Financials center on whether or not we will see higher rates needed to spur better earnings. Energy concerns center on oil prices. We see the potential for improvement in the outlook for these sectors, as Energy stocks were standout performers in the third quarter. We think probabilities favor somewhat higher rates as confidence is returning that the economy should see better growth ahead.

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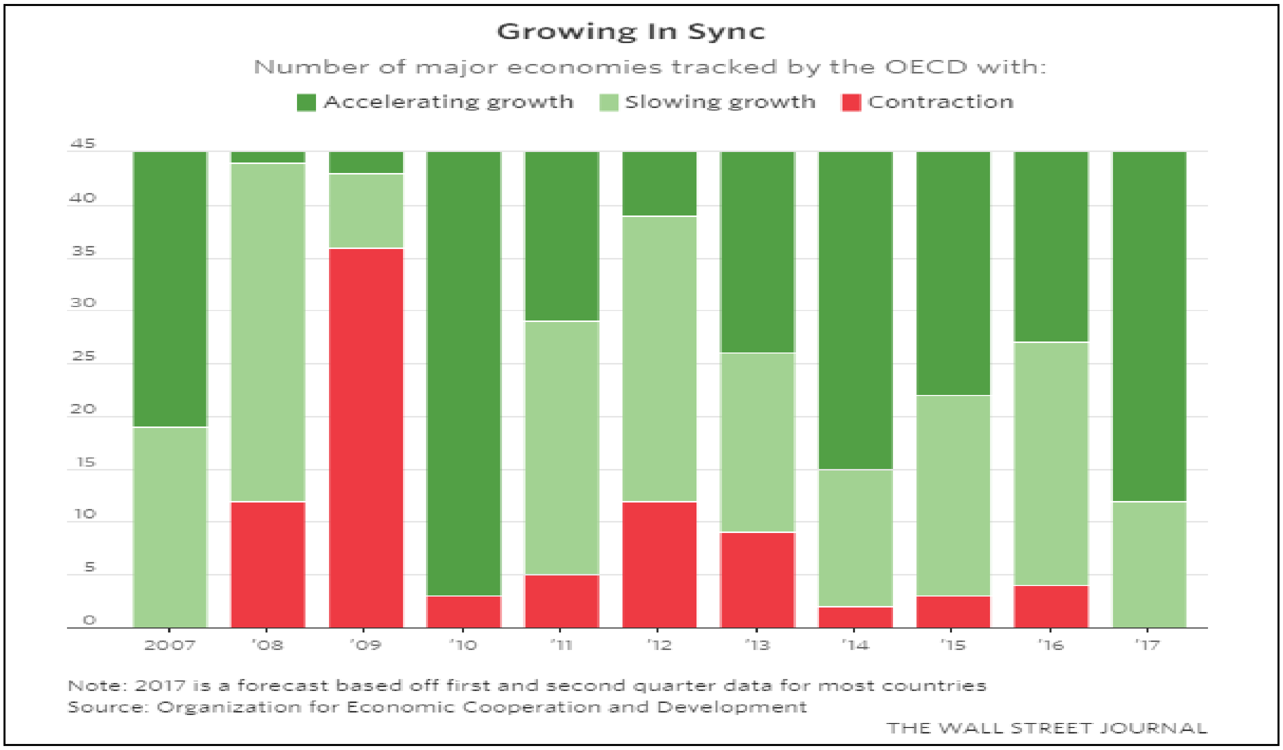
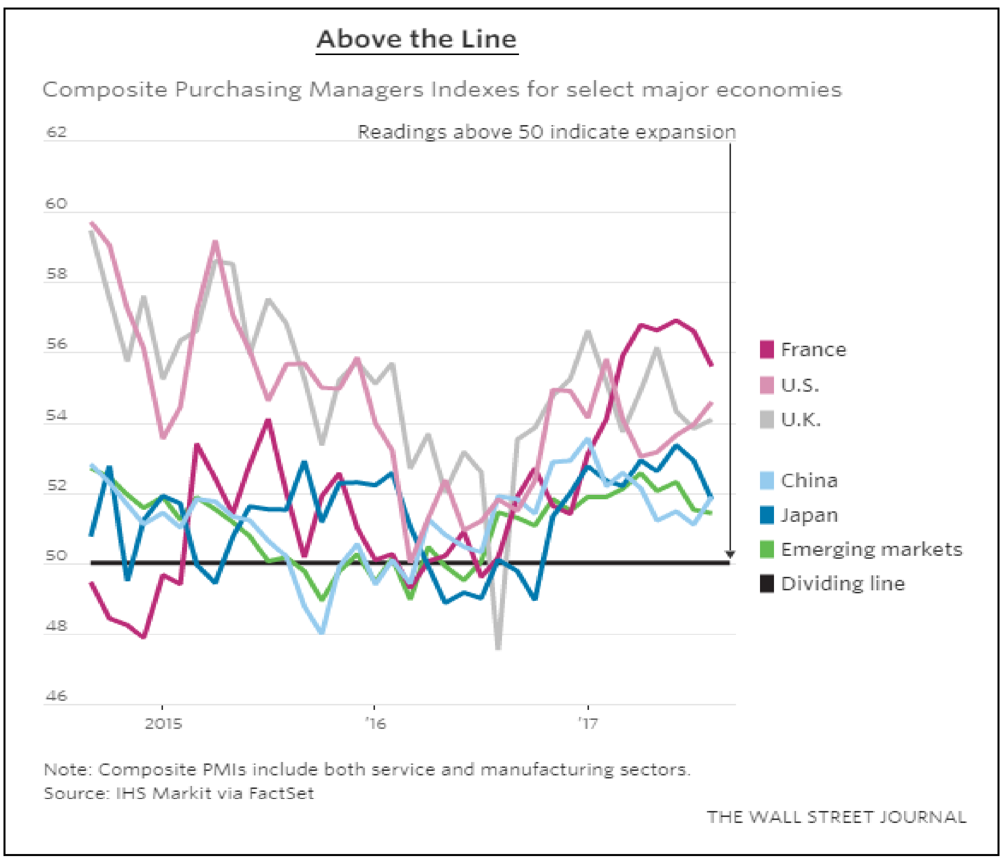
<u>Interesting Charts We Saw This Quarter</u>





"For the first time in a decade, the world's major economies are growing in sync, a result of lingering low-interest-rate stimulus from central banks and the gradual fading of crises that over years ricocheted from the US to Greece, Brazil and beyond."- *WSJ August 23, 2017*

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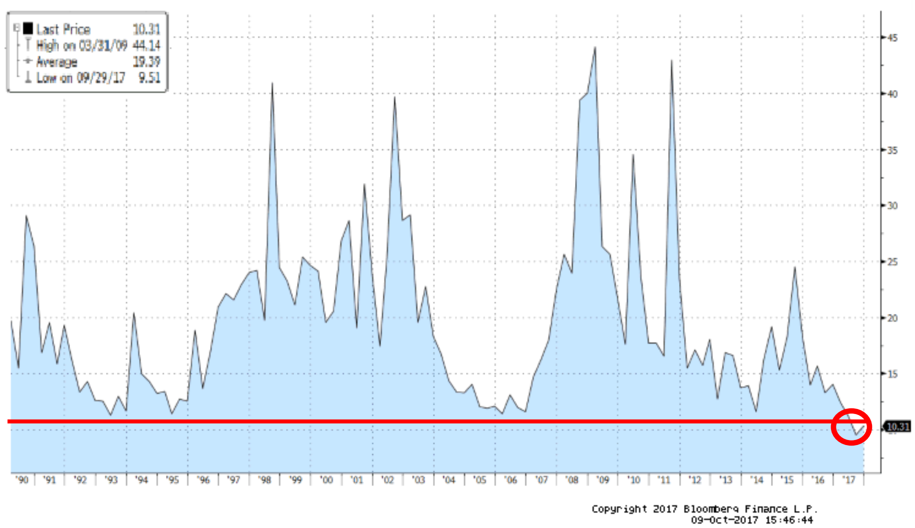
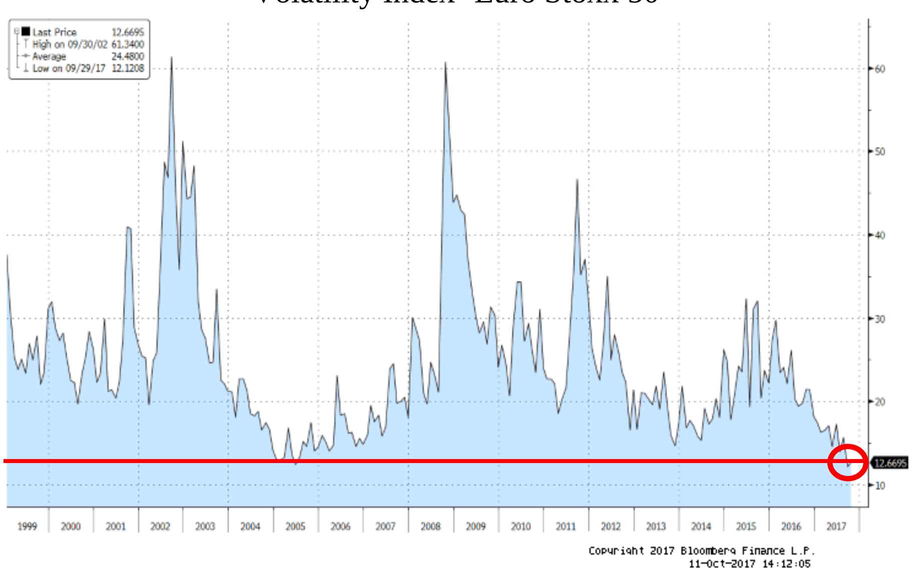
Volatility Index- S&P 500

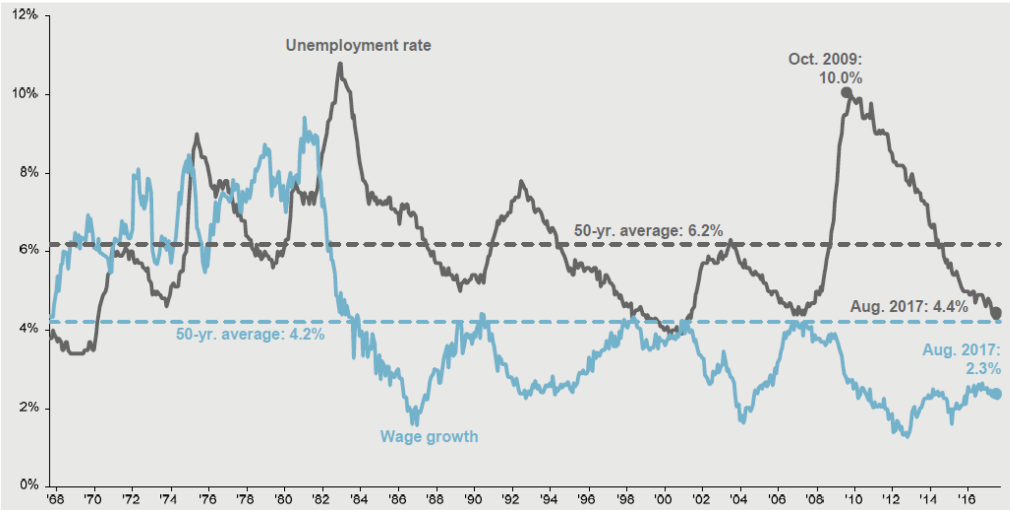


The Volatility Index, or VIX as it is known on Wall Street, is a measure of expected market volatility for an index over the next 30 days. We present S&P 500 VIX in the chart above. The comparable measure for the Euro Stoxx 50 VIX is presented below. Both measures recently set record lows, indicating investors worldwide are less worried than headlines would suggest. This measure can stay low for years at a time.

Volatility Index- Euro Stoxx 50

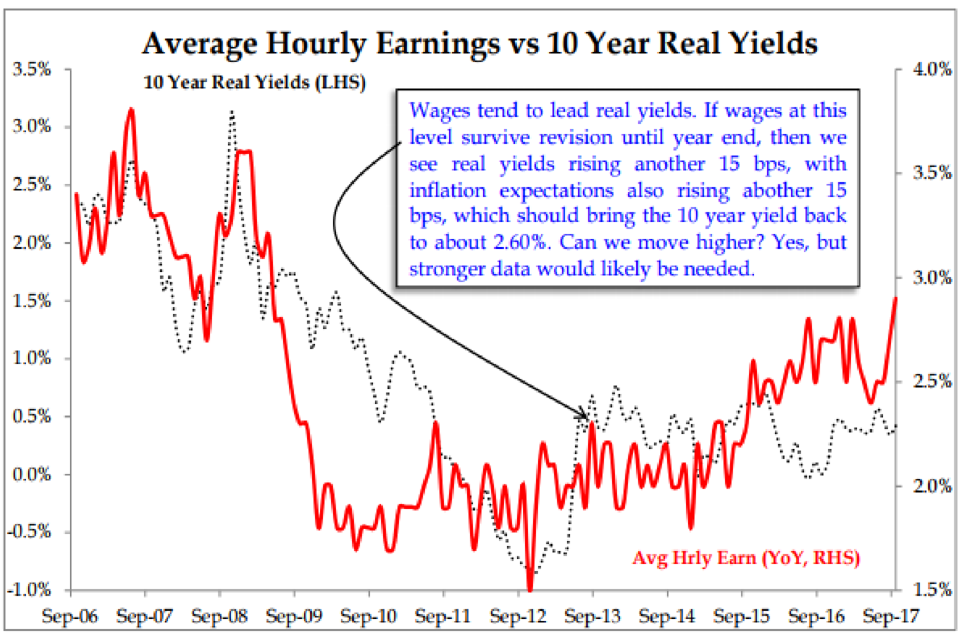


US Civilian Unemployment Rate and Year over Year Wage Growth Should Not Both be Low at the Same Time

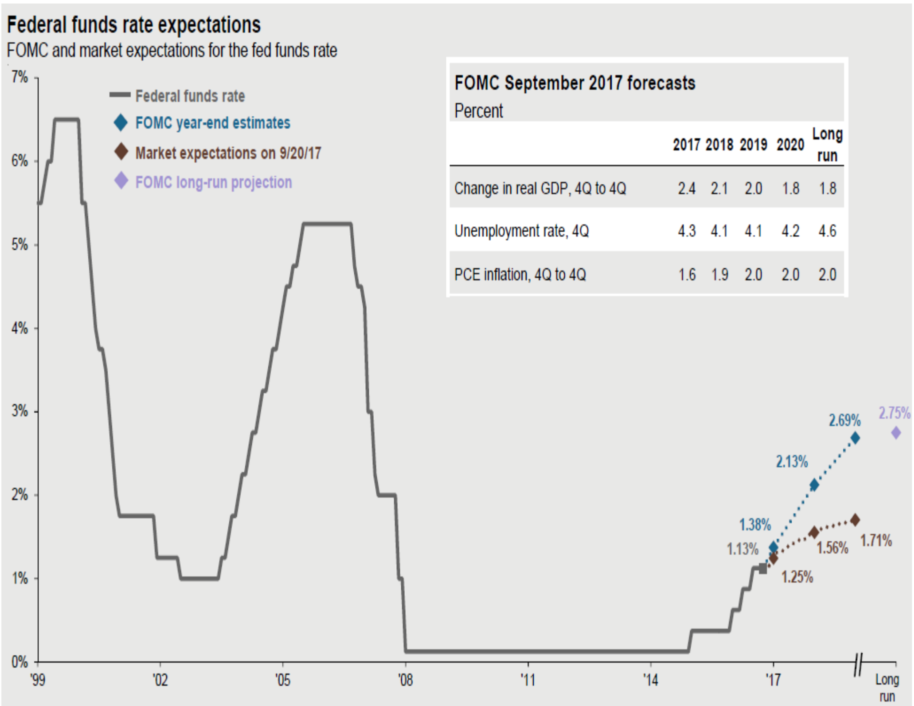


Source: JP Morgan

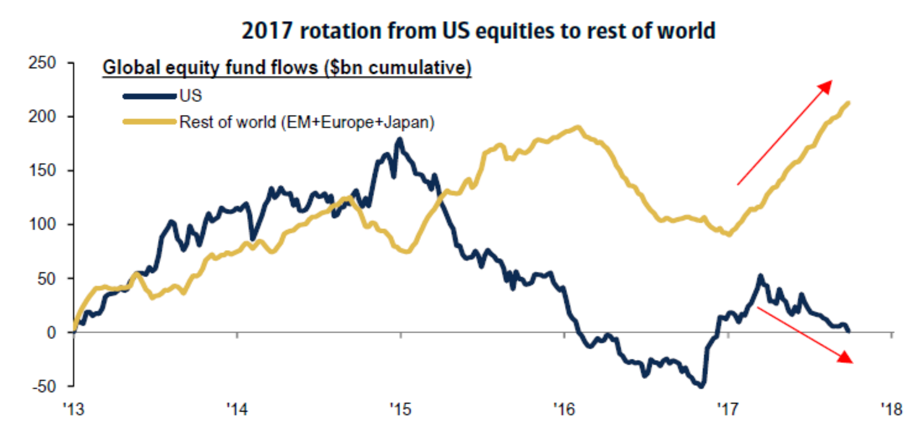
The chart above is weird, and it's not just us saying that. The Fed thinks so too. Unemployment rates are near record lows, while wage growth remains modest. Historically, when wage growth crosses 4%, the Fed becomes much more aggressive about raising rates to head off inflation. Until we see higher wage growth, we think the Fed will remain slow and steady about normalizing rates. The chart below illustrates that real 10 year yields follow trends in Average Hourly Earnings, and those are both rising.



Source: Strategas



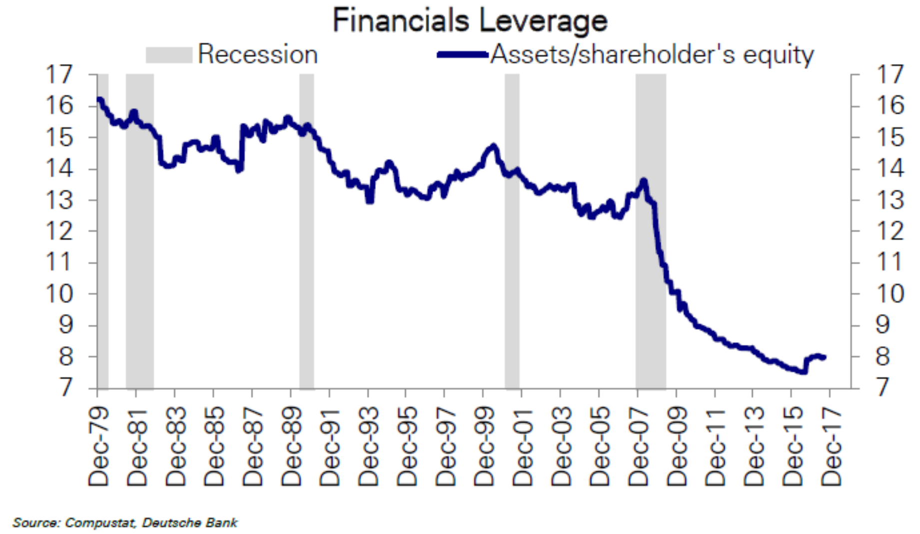
The chart to the left, from JP Morgan, illustrates the different expectations for Fed funds policy rates between the FOMC and the market. If the world is getting back to "normal" then the Fed's higher estimates are likely to be more correct. If we continue to see sub-par growth, the markets' lower assumptions are likely to be more correct. In either event, rates probably go higher from current levels.



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

Fund flows are a good measure of sentiment. Fund flows to international markets are picking up compared to US flows which are declining.

Why a 2008 Type Event is Unlikely



Post Financial Crisis, US banks have cut leverage roughly in half. Less levered banks means larger capital cushions in the event of an economic slowdown.

Performance Review

The IV Opportunity strategy increased **+0.6%** (gross) during the quarter, underperforming both the S&P 500 (**+4.5%**) and Russell 1000 Value (**+3.1%**). The past eighteen months have been difficult for this deep value strategy as all three tranches of our discipline have been underperforming at the same time, something that is very unusual. History suggests a recovery is possible, and it might be a dramatic one. In 2008 and 2009 the strategy reached similarly depressed rankings versus peers, to be followed by a steep recovery when the disciplines regained favor. As QE comes off the table, and investors believe the earnings recovery is sustainable, we would expect better performance.

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, Technology, Financials and Industrials.

Themes focused on during the quarter included Retailers, Media, Insurers, Banks, Airlines and Technology Hardware.

Our top five contributors to performance during the quarter were Micron Technology, Applied Materials, Tractor Supply, Ross Stores and Pultegroup. Micron and Applied Materials are both benefiting from increased spending on data storage capacity which is driving demand and pricing. Tractor Supply shares rebounded after management highlighted improving sales trends on their quarterly call. Ross Stores posted strong sales growth and upgraded their forward guidance as store traffic and customer spending both increased. Pultegroup continues to benefit from solid trends in the US housing market, which is driving better order growth.

Our worst five detractors from performance during the quarter were Discovery Communications, United Continental, Mallinckrodt, Allergan and Kroger. Discovery Communications posted weak advertising and subscription results in the US. Industry wide capacity concerns and a lowered margin outlook caused shares of United Continental to sell off. Mallinckrodt received an unfavorable patent ruling that increased the risk of generic competition for one of their larger drugs. Allergan shares sold off due to concerns around patent protection for Restasis (dry eye) and downgraded earnings revisions on flat prescription demand. Kroger shares sold off following news of Amazon acquiring Whole Foods, which heightened investor concerns around pricing and competition.

As we enter the seasonally strongest period of the year for markets, many voices are arguing for caution in investing, and suggesting that new highs are unsustainable with stretched valuations. Our observation would be that markets had a difficult time during the earnings recession of 2015 and 2016, essentially tracking sideways for roughly eighteen months. Markets have broken out with the earnings recovery, and earnings are expected to continue advancing for the foreseeable future. If tax reform is enacted, earnings comparisons will likely be even better than expected. Betting against this advance has been a losing proposition, and our sense is probabilities favor the advance continuing.

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

10-18-2017
S&P 500 – 2,561
Russell 1000 Value – 1,179

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 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. 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®). The Firm has been independently verified for the periods January 1, 2008 through June 30, 2017. 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 June 30, 2017. A complete list and description of TAM composites and/or the verification and performance examination reports are available upon request by contacting 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, 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.