October 19, 2018
Intrinsic Value Team
Todd Asset Management

Todd Large Cap Intrinsic Value Review

	3Q 2018	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	4.5%	3.3%	12.2%	15.2%	12.5%	15.4%	10.9%
(Net)	4.3%	2.9%	11.5%	14.5%	11.8%	14.7%	10.2%
S&P 500	7.7%	10.6%	17.9%	17.3%	14.0%	16.9%	12.0%
Russell 1000 Value	5.7%	3.9%	9.5%	13.6%	10.7%	15.0%	9.8%

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

Performance Review

The LCIV strategy increased +4.5% (gross) during the quarter, underperforming the S&P 500 (+7.7%) and Russell 1000 Value (+5.7%). Year to date, the LCIV is up +3.3% (gross) vs. the S&P 500 at +10.6% and Russell 1000 Value at +3.9%. In general, the market has favored factors indicating higher quality on the year to date and quarterly basis. Our proprietary quality rating as well as the Gross Profit Return on Assets were each among the top four factors over both periods. In addition, measures indicating higher growth rates and better market action (Relative Strength rating) performed well. Almost uniformly, valuation measures remained in the tank. Growth investing has dominated value investing while the Fed has kept rates extraordinarily low. This may change as the Fed raises rates especially if investors begin to believe the economic growth we are seeing is sustainable.

Our longer term numbers are substantially ahead of the Russell Value, and lagging the S&P 500. This is what you would expect an intrinsic value manager to look like after a long growth cycle. We expect a recovery versus the S&P as the market shifts to favor value when real rates start turning positive. Our performance has been negatively impacted by the perception that the US economy is late in the economic cycle, and that tariffs and higher rates are likely to force the US economy into recession. Several of our more economically sensitive and financial holdings were impacted by this, as we discuss below. Our base case is that we will not likely see a recession for at least 3 years. We believe investors will begin to believe that again post US midterm elections as other issues are resolved as well, and that our performance should benefit from this. For more details on this, please take a look at our accompanying review of our US Outlook.

Stock selection drove most of our underperformance during the quarter. Consumer Discretionary, Technology and Financials were the weakest performing sectors. Energy and Industrials were the most additive. Our factor work showed a slight broadening of factors that worked for the quarter. Value metrics continue to underperform, while Quality related factors and large cap ranked among the best performers. Our Multi-Factor Ranking was moderately additive during the quarter, but remains out of favor year-to-date.

We remain overweight the more economically sensitive sectors, including Financials, Energy and Industrials. We also continue to be underweight in more defensive, yield oriented sectors including Consumer Staples, Utilities, Real Estate and Telecom. Technology is another sector we are underweight as the market flows in to mega-cap technology names drove the sector weight above 26%, while our exposure has remained largely unchanged.

Our top five contributors to performance during the quarter were Apple, Iqvia, Cisco, F5 Networks and Marathon Petroleum. Apple continues to experience solid revenue growth that will become more driven by Services (i.e. App Store, Apple Music, iCloud) which presents a large monetization opportunity over the next few years. Iqvia, which handles outsourced clinical trials for pharmaceutical and biotechnology companies, is winning new business and is benefiting from elevated biotechnology spending as new therapies are tested. Cisco has released new Datacenter products that have reignited product growth. Going forward a shift to more software and subscription licenses should create more stable recurring revenues and higher margins. F5 Networks is seeing product growth reaccelerate as customers invest in newer versions of their software and a renewed focus on cloud and security has strengthened their pipeline. Marathon Petroleum shares rose with oil prices and refiners continue to benefit from the wide spread between WTI and Brent crude oil, which is around $10 currently.

Our worst five detractors from performance during the quarter were ON Semiconductor, NVR, IPGP Photonics, Pultegroup and Aptiv. ON Semiconductor generates 30% of their revenue from China and tariff concerns have exacerbated cyclical concerns around elevated inventories in their industrial segment. NVR and Pultegroup, both homebuilders, have seen shares sell off due to concerns over higher interest rates and slowing order growth. IPGP Photonics generates 45% of revenues from China and reset forward guidance lower due to ongoing tariff concerns as European and Chinese customers have slowed orders in the wake of trade uncertainty. Aptiv also saw shares weaken on tariff concerns and ongoing NAFTA renegotiation uncertainty.

After performing well during the third quarter, US stocks declined and got much cheaper early in October. The concerns driving stocks lower centered on trade tensions, higher rates and the longevity of our economic expansion. We believe stocks are probably also reflecting the potential for the midterm elections to lead to a change in control for the House of Representatives, but probably not in the Senate.

As we look at it, there is a potential for better markets after the midterms. Sentiment has deteriorated broadly in October, but fundamentals still look very solid. Concerns are growing that perhaps we are at peak margins, or maybe our trade spat with China spirals out of control. Other concerns center on the midterms and potential for gridlock afterwards. You will hear naysayers wringing their hands over the Brexit, or our breakdown in relations with Iran. To counter that, we remain focused on the economic indicators. Earnings look excellent. Inflation remains well behaved and is not accelerating. GDP estimates look firm. Valuations are not excessive. The Federal Reserve is telling us that the economy is getting back to normal, not dangerously overheating. Until that becomes a risk, we think stocks should make progress from current levels, but will do so with more volatility than we have become accustomed to over the past few years.

As always, if you need any additional information, Please feel free to contact any of us.

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Jack White, CFA
Jack Holden CFA
Shaun Siers, CFA

10/19/18
S&P 500 – 2,768
Russell 1000 Value – 1,202

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.

Registration of an investment adviser does not imply any level of skill or training.

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 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.

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 June 30, 2018. 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 June 30, 2018. 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 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.
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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