TODD
Asset Management

April 17, 2023
Intrinsic Value Team
Todd Asset Management

Todd Q1 2023 Intrinsic Value Opportunity Review

	1Q 2023	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
IV Opportunity (Gross)	2.3%	-3.8%	27.1%	10.6%	9.4%	9.7%
IV Opportunity (Net)	2.1%	-4.6%	26.1%	9.7%	8.5%	8.8%
S&P 500	7.5%	-7.7%	18.6%	11.2%	12.4%	12.2%
Russell 1000 Value	1.0%	-5.9%	17.9%	7.5%	9.0%	9.1%

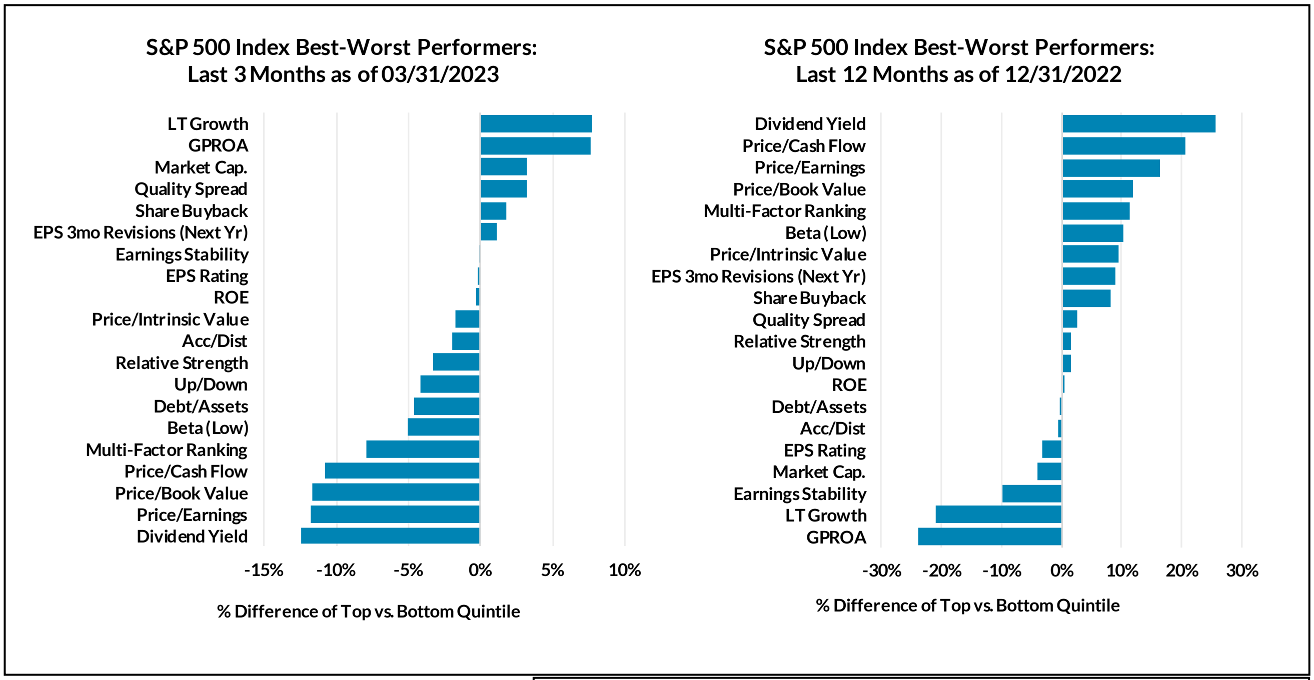
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information*

Performance Review

Old habits die hard. The return of Tech leadership, market concentration and Growth > Value in the first quarter felt like a typical "bull trap" often seen as market leadership rotates. These large, violent and ultimately short lived countertrend rallies often occur as the leadership from the last cycle exerts their last few bursts of energy in the larger unwinding process. Our work shows that these rallies typically only last a few months, but on average amount to +13% of outperformance for the fading style. Within the quarter Growth outperformed Value by +17% from 1/5/23-3/23/23, which is one of the biggest countertrend rallies we've seen in the past 25 years. This was largely driven by the FANG and Friends (Apple, Microsoft, NVIDIA, Tesla, Meta, Amazon and Alphabet), which collectively account for nearly a quarter of the weight of the S&P 500. When the market narrows to this degree, it is difficult for active managers like ourselves as can be seen by the magnitude of underperformance this past quarter vs. the S&P 500. We are still confident that the leadership groups have changed, but as we implied earlier these rotations don't move in a straight line. We would expect investors to refocus on fundamentals as we move through the year. Ultimately, tighter policy should reveal areas of excess as it often does. The areas that led in the quarter or those that were the ultimate source of stress garnered a disproportionate amount of allocations over the past cycle. That stands to reason that those are the excessive areas that likely have headwinds moving forward.

To start the quarter the market had been anticipating that the Fed would soon finish their rate hiking campaign. Bank runs in early March and the ensuing liquidity injections from the Fed and Treasury all contributed to the market narrowing, Growth outperforming and Technology names leading. The new facility from the Fed (Bank Term Funding Program - BTFP) allows banks to post much of their securities portfolio as collateral at the Fed in exchange for funds that can be used to meet deposit outflows, eliminating the need for banks to sell these underwater securities and realize large losses. This seems to have stabilized liquidity stress fairly quickly, however all eyes are on credit to see if these pressures are more systemic. To our eye, most of the recent stress seems to be fairly concentrated to those with large exposure to private equity, venture capital and commercial real estate. Stay tuned but the upcoming earnings season will give us all a good, timely glimpse at how sturdy the outlooks are for various parts of the market.

Factor performance



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

Our customary factor work picked up on the sharp outperformance of Growth over Value in the quarter. This is a complete reversal from 2022, which you can see in the chart on the right. Large Cap Growth was the best performing area for the quarter along with a few Quality measures while Value and Dividend Yield ranked at the bottom. Value underperformed most of the quarter, but this accelerated in March as Financial and Energy stocks got hit the hardest when banking stress became elevated. Only 6 of the 20 factors we follow were additive for the quarter, which also reflects the narrowing we mentioned earlier.

Sector attribution shows that our underperformance for the quarter was concentrated in March and largely driven by our Energy, Technology and Consumer Discretionary positioning. The strategy was heavily overweight Energy, which was one of the worst performing areas in the quarter. Within Tech, our storage and hardware names saw the biggest declines while our absence from the software industry also weighed on relative returns. Also the home and auto retail exposure within Consumer Discretionary explained most of the headwinds in that sector. Healthcare, Industrials and Financials were out best performing sectors.

The top five contributors towards performance during the quarter were WW Grainger, Qualcomm, Nucor, Tapestry, and Steel Dynamics. WW Grainger shares were bolstered after reporting strong 4Q results, which highlighted strong expense management and better than expected 2023 guidance. Qualcomm's fiscal 1Q report lifted shares as it indicted expenses were also well managed, and that this coupled with upcoming product launches should provide strong near-term earnings support despite already known soft cell phone demand. Nucor reported 4Q results that beat expectations for the fourth quarter in a row and provided a 2023 outlook that suggested that despite near term economic uncertainty, reshoring, and infrastructure investments should aid shares in 2023. Tapestry shares also aided our portfolio's performance this quarter as 2023 guidance was lifted amid an increase of average spending levels and a rise in store visits. Steel Dynamics saw strength following its earnings release as management suggested demand should be strong for at least the next six months.

Our five worst detractors from performance during the quarter were Devon Energy, ConocoPhillips, Synchrony Financial, Marathon Oil, and Chevron Corp. In addition to weak commodity pricing, Devon Energy and ConocoPhillips shares were weighed down by expectations for higher capex spend, which are expected to pressure free cash flow, and thus potential dividends and share repurchases in 2023. Synchrony Financial shares sold off with most names in the financial sector amid concerns that bank liquidity may weaken following monetary tightening that has been at the top of investors' minds this year. In addition, Marathon and Chevron shares underperformed on concerns that tighter financial conditions would worsen and lead to lowered demand.

We believe the recent reprieve that growth stocks have seen is a rally within a secular bear market. Earnings season will probably give us a good read on fundamental trends within the market. Europe is expected to have better earnings trend than the US and Asia, something that should increase investor interest in those markets. Many strategists are very bearish on economic prospects globally. We believe economic growth in international markets is probably poised to improve as China reopens their economy. Until the US and European recession questions are resolved, markets probably track sideways in a range. Higher rates have led to higher recession risk (and bank risk), but if we resolve the recession/soft landing debate and get into a recovery next year, the outlook for equities should be good after that. Until then, a trading range with rotation back towards value is our base case.

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   Jack White, CFA   Jack Holden CFA   Shaun Siers, CFA

04/17/2023
S&P 500 – 4,151
Russell 1000 Value – 1,529

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. 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 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 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 Intrinsic Value Opportunity 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 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. 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 for your investment portfolio. The Opportunity product is designed for long-term investors who are willing to accept short-term price fluctuations. Stock market and business risks are general risks. This product generally holds 30 securities and is rebalanced every 3 months, thus it is more concentrated and may generate more investment turnover than other products. It is not required to be diversified by sector, and should be considered a more sector concentrated, aggressive application of the price to intrinsic value investment philosophy. 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.