Todd Q3 2023 Intrinsic Value Opportunity Review

	3Q 2023	YTD	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
IV Opportunity (Gross)	-3.41%	4.07%	17.94%	16.11%	8.71%	9.65%	8.39%
IV Opportunity (Net)	-3.62%	3.42%	16.97%	15.15%	7.81%	8.74%	7.50%
S&P 500	-3.27%	13.06%	21.61%	10.15%	9.91%	12.24%	11.91%
Russell 1000 Value	-3.16%	1.79%	14.45%	11.05%	6.23%	7.91%	8.45%

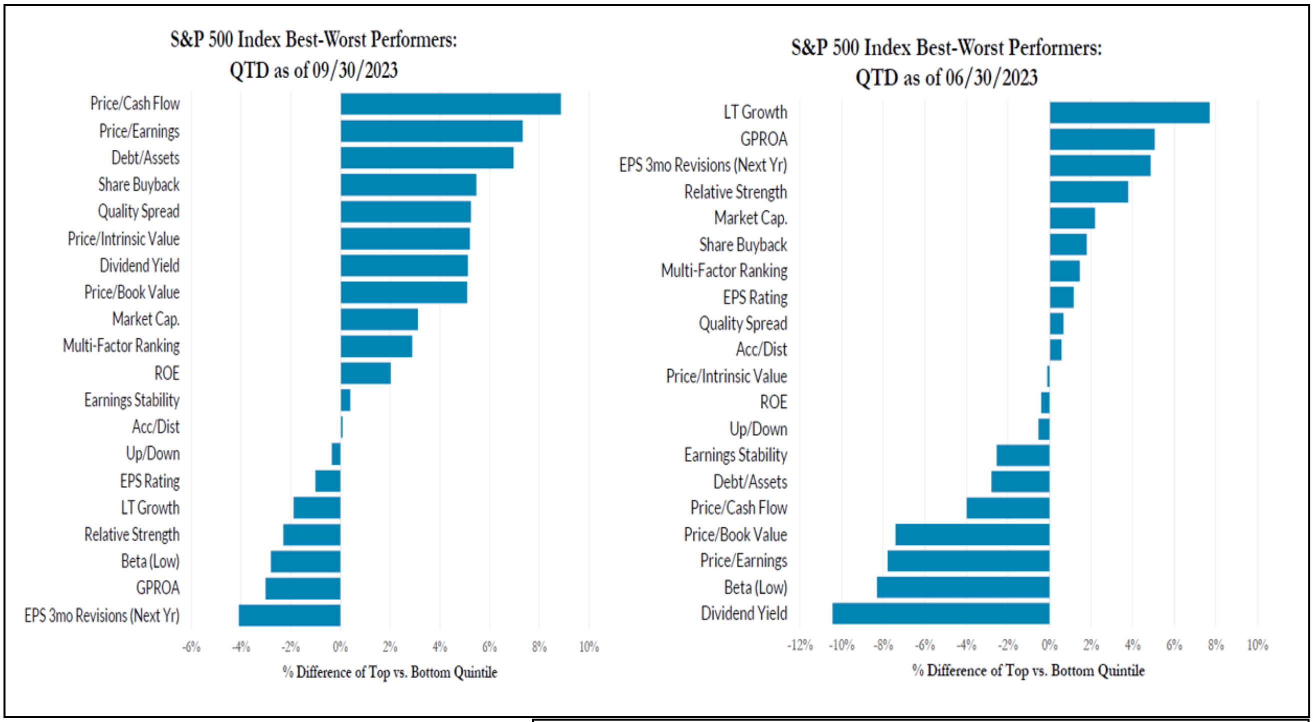
** Annualized Total Returns. Please refer to the attached Performance Disclosure for further information*

Performance Review

The strategy slightly lagged the S&P 500 and Russell 1000 Value in the quarter. Despite the market posting a negative return, we saw some of the more cyclical industries lead the way as recessionary concerns continued to get pushed off and rates moved sharply higher. As we mentioned last quarter, the consumer has been able to withstand policy tightening due to employment remaining full and the prevalence of fixed rate mortgages that have insulated households from higher lending rates (the 30yr fixed mortgage rate is nearly 8% at the time of this writing!). This has driven the resurgence from some of these cyclical groups where we are positioned. The market still remains frustratingly concentrated, which is the main challenge we've had against the S&P this year. We've talked about this ad nauseum. While returns are comfortably ahead of the Russell 1000 Value across most time frames, we remain well behind the S&P over the past 12 months due to the run in the Magnificent 7.

We now enter the 4th quarter with interest rates breaking out to new multi-year highs. Trying to distill the signal from this move seems to be a Catch-22. On one hand, given that inflation readings continue to move lower and more resilient economic activity has provided more cushion for central bankers to keep rates higher for longer, the signal is a positive one more driven by higher growth expectations. On the other hand, higher rates weigh on market multiples and raise the risk of something breaking in the economy. You also can't rule out the return of bond market vigilantes given fiscal policy uncertainty. Washington has been dysfunctional for as long as I can remember. However rising interest costs that are consuming a substantial portion of our budget, the unprecedented ousting of Speaker McCarthy (first in our country's nearly 250 year history) and the suspension of the debt ceiling for two years may have understandably drawn enough skepticism from Treasury market participants to demand higher rates. The true driver of the surge in interest rates will eventually reveal itself. Until then, we'll play the ball as it lies. The leadership we saw this quarter felt more like a normalization of market sentiment toward groups that suffered in the initial panic driven months after the collapse of Silicon Valley Bank. The ISM Manufacturing PMI, which has been in recessionary territory since last year, looks like it may have bottomed back in June. Historically, stocks have done very well over the next 12 months when Manufacturing PMI's bottom. This will be worth watching as it would also feed the narrative around economic growth continuing to outperform expectations. Our focus in recent quarters has been on several secular trends that all revolve around a new capital spending cycle in infrastructure, defense, energy, commodities, etc. The market has been very receptive to these areas and we are hopeful that continues through year end absent some major exogenous event.

Factor performance



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

Value metrics made their way back toward the top of the list this quarter (left chart), another sharp reversal from the prior quarter (right chart). The move higher in interest rates seems to have reoriented the investor community back to paying attention to valuation. Shareholder returns (share buyback and dividend yield) as well as other Quality metrics also performed well over the past 3 months. Growth related factors and several Technical measures, which led last quarter, reversed course and ranked among the worst performing metrics in the third quarter.

Our underperformance in the quarter was primarily related to stock selection, with particular weakness in Health Care as our holdings in this sector faced pressure from lower outpatient trends and rising input costs. Other sectors that posed as headwinds included Financials, Consumer Discretionary, and Information Technology. Our biggest sources of outperformance came from our above benchmark allocation to the Energy sector and stock selection within the Communication Services and Energy sectors. The Communication Services sector benefited from company specific demand strength, while the Energy sector benefited from broad based pricing increases, which are providing investors confidence on future share buyback activity.

The top five contributors to performance during the quarter were primarily Energy companies, benefiting from the rising price of oil and gas. APA Corp. rose after reporting strong 2Q results and maintaining its full year production guidance, despite lower than anticipated CAPEX for the remainder of the year. Charter Communications shares were also helped by strong 2Q results, which showed smaller customer declines than expected in its residential video and residential voice businesses and stronger than expected growth in internet clients. Schlumberger was awarded a major contract with Petrobras, which should help improve the efficiency of its drilling operations. Marathon shares rose on strength in refining and midstream businesses and commentary that growth projects were contributing more than originally anticipated. Exxon shares rose after reporting 2Q results that highlighted an acquisition that should help accelerate its carbon capture goals with it now owning the largest network of CO2 pipelines in the U.S.

The five worst detractors from performance during the quarter were largely in Health Care, but we also saw weakness in names closely related to the consumer. Tapestry shares sank after releasing fiscal 4Q'23 results that showed weak consumer demand. Shareholders also balked at the premium they bid for Capri, a luxury competitor they are acquiring. United Airlines sold off along with the broader Transports industry in the quarter following an announcement of reduced future capacity related to weather-related cancellations at its Key Newark Hub and a limited supply of pilots. Universal Health shares saw cost pressure headwinds related to physician subsidies that should pressure margins. HCA experienced weakness related to lower outpatient trends and higher labor costs. HP Inc. shares sold off after releasing fiscal 3Q results which showed revenue missed expectations due to a corporate PC sales slump and weak pricing, which caused the company to lower its 2023 free cash flow and earnings guidance.

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

10/18/2023
S&P 500 – 4,315
Russell 1000 Value – 1,482

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.

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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.

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