TODD ASSET MANAGEMENT LLC

April 19, 2017
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Reality Check

Todd Large Cap Intrinsic Value Review

	1Q 2017	1 Year	3 Year*	5 Year*	7 Year*	10 Year*
Large Cap Intrinsic Value (Gross)	6.2%	21.2%	8.3%	11.8%	11.8%	7.4%
(Net)	6.1%	20.5%	7.6%	11.1%	11.2%	6.7%
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:

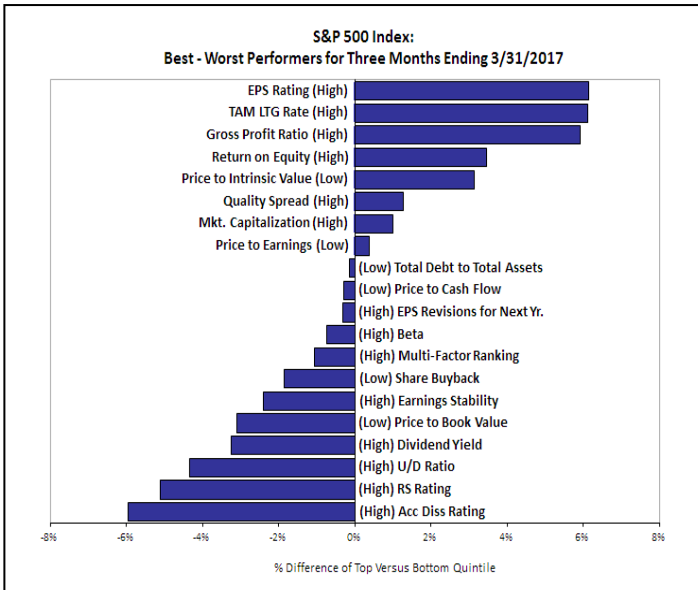
- **US Economy**- Economists expect US GDP growth to be over 2% for Q1, better than most recent first quarters. The Atlanta Fed suggests 0.5%. This disparity may be confusing investors. Analyst's estimates indicate growth is expected to strengthen through the year.
- **International Economies**- International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

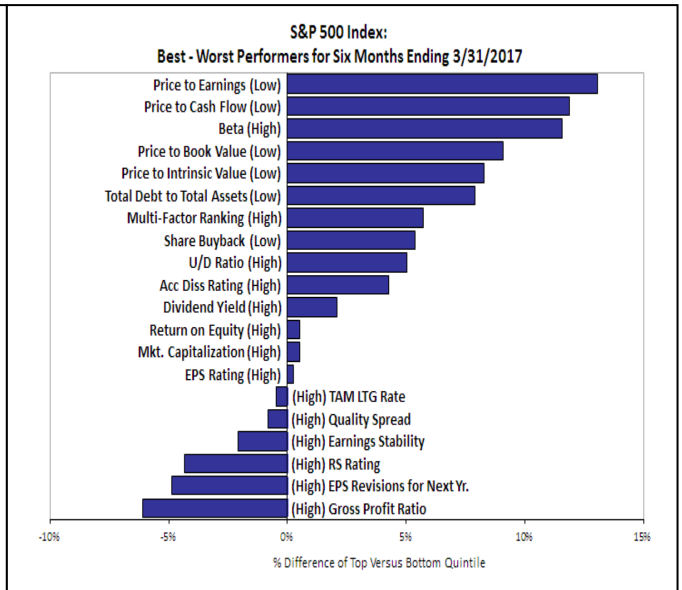
days, investors are questioning whether the administration's expected stimulative fiscal policies are likely.

- **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.

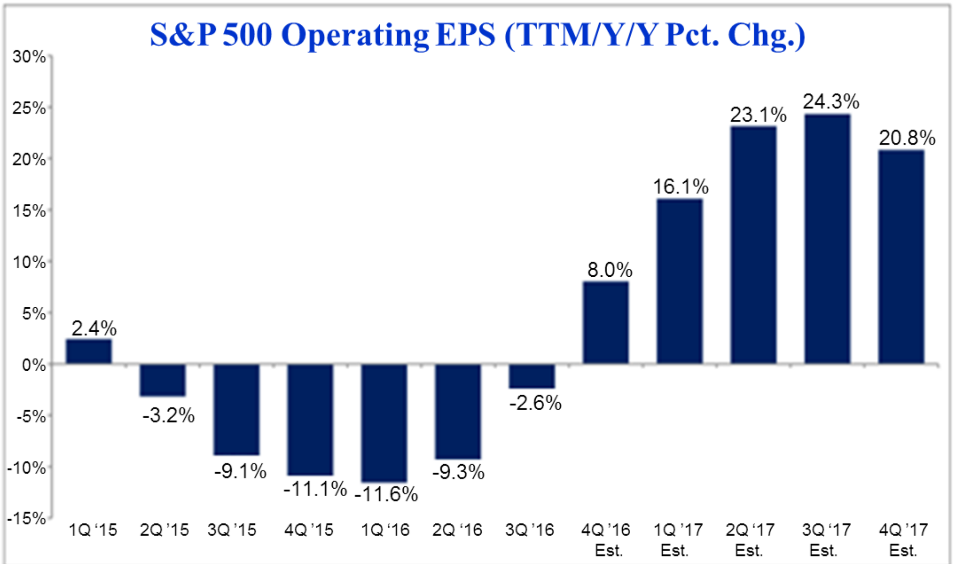
Our customary charts that illustrate the factors being rewarded within the marketplace during the first quarter of 2017 and the trailing six months period are presented below. Over the past six months (right chart below), investors rewarded more factors than in the recent quarter (left chart below), 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

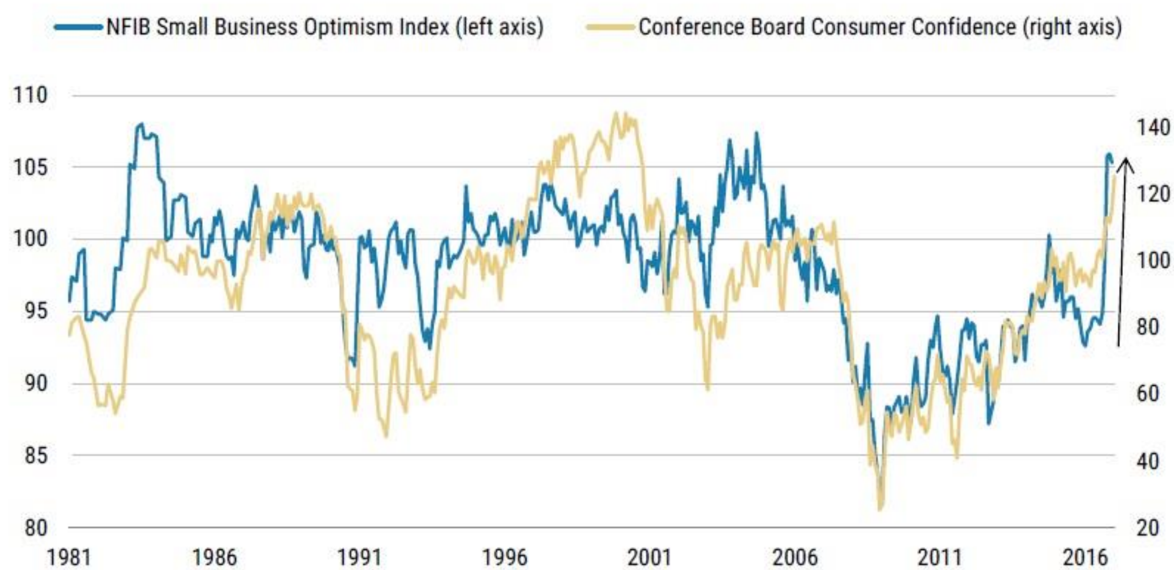
Source: Morgan Stanley

Capital Expenditures Should Rise

Source: Federal Reserve Banks of Richmond, Philadelphia, New York, Kansas City, Texas, Bureau of Economic Analysis, Morgan Stanley Research

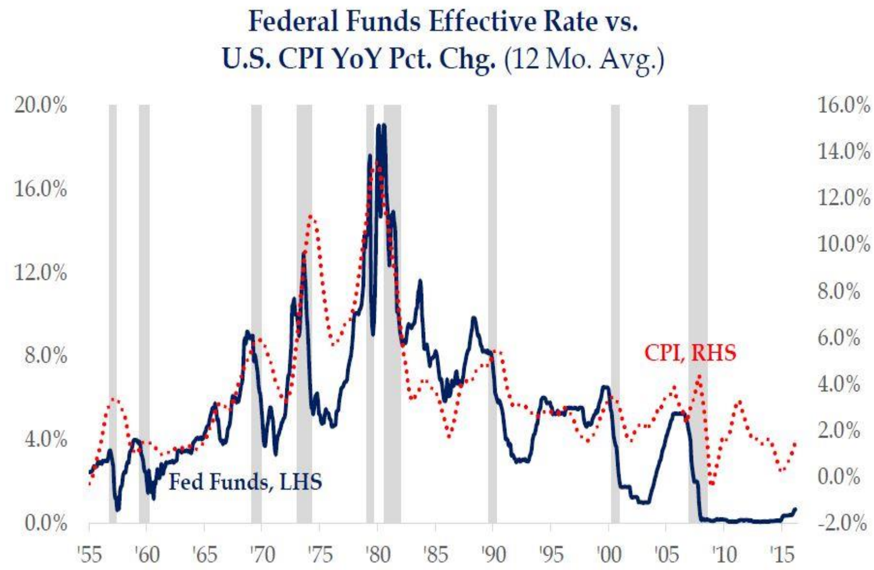
Equipment investment follows capital expenditures plans. By this measure, equipment sales should turn sharply positive in upcoming quarters. Capital spending has been one of the missing ingredients in US economic growth over the past few years. If businesses anticipate easier conditions in the US, expect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

There Has Been a Dramatic Surge in "Animal Spirits"



Source: Bloomberg, Morgan Stanley Research as of February 28, 2017 (NFIB) and as of March 31, 2017 (Consumer Confidence).

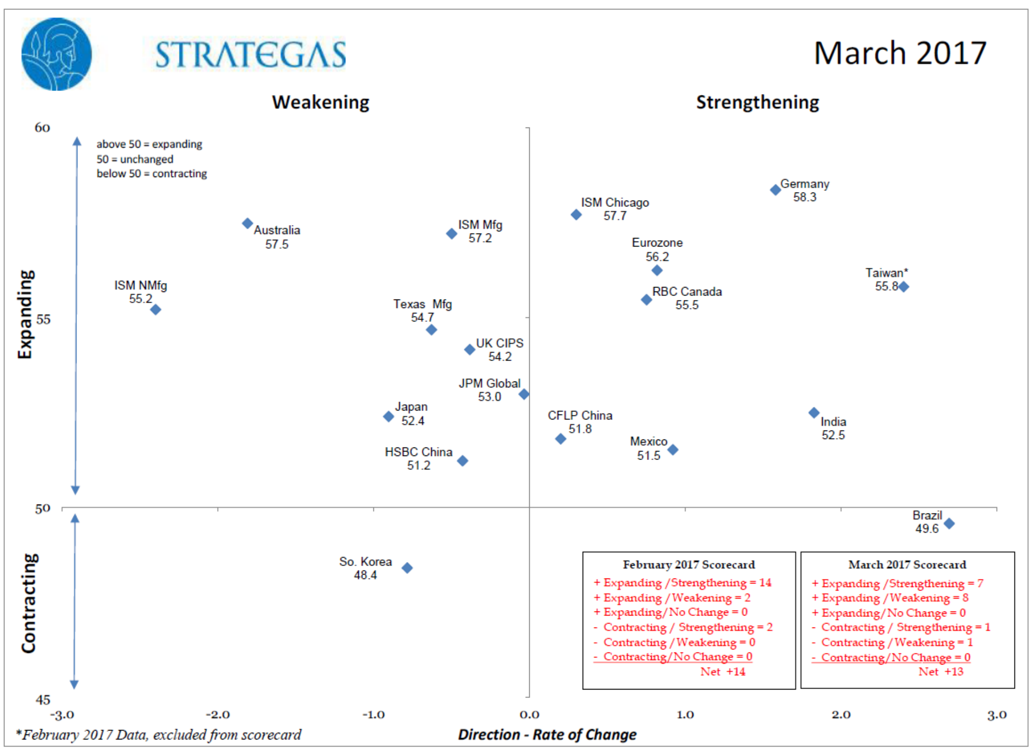
Note the increase in business and consumer optimism after the early 2016 Brexit bottom in those measures. This is a necessary element to get companies to invest in long lived assets and consumers to make longer term commitments. This should bode well for capital expenditures and housing. Watch Washington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



Source: Strategas

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.

<u>Global Economic Activity Is Expanding</u>



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.

Performance Review

The LCIV strategy returned +6.2% (gross) during the quarter, outperforming both the S&P 500 (+6.0%) and Russell 1000 Value (+3.3%). Our strategies continue to point us toward more cyclically oriented areas of the market as investors expect better economic growth in the US and abroad. This helped us to build on recent outperformance in the first quarter, particularly against the Russell 1000 Value. We are now roughly in line with the S&P 500 since 12/31/2015, repairing the sharp losses experienced in the first half of 2016, and are still slightly behind the Russell 1000 Value over that time frame. As investor concerns of a repeat of 2008 have alleviated over the past nine months, our discipline has gained traction. This probably continues for several reasons. First, the Fed is raising interest rates, so lower quality or highly levered companies will probably be penalized. Second, with the economy showing no signs of a recession anytime in the near future, investor confidence should improve. This could provide the comfort factor for investors to reward fundamental disciplines again. Last and most importantly, the market experienced a bubble that peaked last year, the yield bubble. After past bubbles peaked, investors tended to reward fundamentally oriented disciplines for some years. We think that is occurring again, and should provide a tailwind for some time.

Stock selection and our sector positioning both helped our performance during the quarter. Selection was most impactful in Consumer Discretionary, Energy and Industrials. Information Technology and Financials were the areas that detracted the most from performance. Large cap, high quality companies with superior profitability and attractive Price-to-Intrinsic Value ratios outperformed. Conversely, companies that bought in shares and had attractive market acceptance rankings (technical measures) that had been accumulated by institutional investors struggled.

We are overweight the Consumer Discretionary, Financials and Industrials sectors. We are underweight the Consumer Staples, Utilities, Energy, Health Care, Real Estate and Telecom sectors. During the quarter we added to Materials as earnings continue to recover.

Our top five contributors to performance during the quarter were NVR, ON Semiconductor, Apple, Priceline and Ameriprise Financial. NVR, along with the other homebuilders, is seeing better order growth and solid pricing as the housing market continues to improve. ON Semiconductor posted better than expected earnings growth due to content gains in autos and smartphones. Apple is benefitting from customers switching to the iPhone due to ongoing issues with the Samsung Galaxy. Growth in China and the anticipation of the new iPhone release in September are also helping shares. Priceline is experiencing solid booking growth as consumers are feeling more confident about their income and job prospects and look to spend on travel. Ameriprise shares increased as markets appreciated throughout the quarter, helping to boost assets values under management.

Our worst five detractors from performance during the quarter were Qualcomm, Phillips 66, Rio Tinto, Whirlpool and Discover Financial. Qualcomm shares sold off after a licensing dispute and litigation with Apple was announced in January. Phillips 66's results are seeing headwinds from maintenance expenditures that force downtime at certain refineries and weigh on performance. Rio Tinto gave up gains as commodity prices (particularly iron ore) weakened in March. Whirlpool posted disappointing results as poor pricing weighed on margins and volumes were soft in emerging markets. Discover Financial disclosed an increase in credit costs as their consumer credit profile deteriorated slightly in February, which caused share to sell off.

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

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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
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.

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 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 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 Large Cap Intrinsic Value 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

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 index(es) 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.