April 23, 2018
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What if it's not late cycle?

Todd Global Intrinsic Value Equity Income Review

	1Q 2018	1 Year	3 Years *	5 Years *	7 Years *	Since Inception * (01/01/11)
Global Intrinsic Value Equity Income (Gross)	-1.6%	10.8%	8.6%	8.9%	10.1%	10.5%
(Net)	-1.7%	10.2%	8.0%	8.3%	9.4%	9.8%
MSCI ACWI (Net)	-1.0%	14.8%	8.1%	9.2%	7.9%	8.3%

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

The first quarter of 2018 was feast or famine as a January for the record books gave way to a February and March that were dismal. By the end of January, most worldwide markets were up 4 to 11%. The best results for larger economies came from the US (up 7.5%) and Hong Kong (up 10.8%). January results were bolstered by Tax Reform in the US and an anticipated pickup in investment that should help the US and its trading partners. Then, in a case of "no good deed goes unpunished" strong US employment growth for January (reported early February) spurred a selloff as US rates rose. The weakness spread from the US to international markets. As the selloff intensified, volatility spiked, algorithmic programs kicked in and low volatility funds were liquidated. US stocks declined over 10% in a few days, while international indexes declined slightly more than 9% peak to trough. Markets recovered slightly through mid-March, when concerns about US tariffs led to a retest of the lows leaving most markets in the red for the quarter.

We hear arguments from bearish strategists that it is late in the US cycle, and they anticipate a recession in the foreseeable future. Some of the things supporting a late cycle call would be:

- Inflation fears are being stoked as oil prices remain strong, US unemployment is low and inflation measures are rising. Still, on an absolute basis inflation remains low.
- Minutes of central bank meetings for both the US Fed and Bank of England reinforced the potential for rates to increase more than anticipated as the outlook improves.
- Some economic indicators show that different gauges of industrial activity globally are declining from high levels.

We do not think it is late cycle, and believe the US and worldwide economies should have visibility to grow over the next several years. Why we believe this is not a late cycle call:

- GDP estimates are rising for most of the world. International economies are much earlier in the cycle than the US, and capital spending could extend the US cycle.
- Interest rates are still negative in many parts of the world, and low in the US. Expansions tend not to end until central banks end them with an inverted yield curve.
- US tax cuts are only being felt by businesses and consumers now. Repatriation of capital in the US is still to come. An increase in Federal spending is now in the works.
- Leading economic indicators are still improving. Typically, recessions don't happen until they deteriorate.

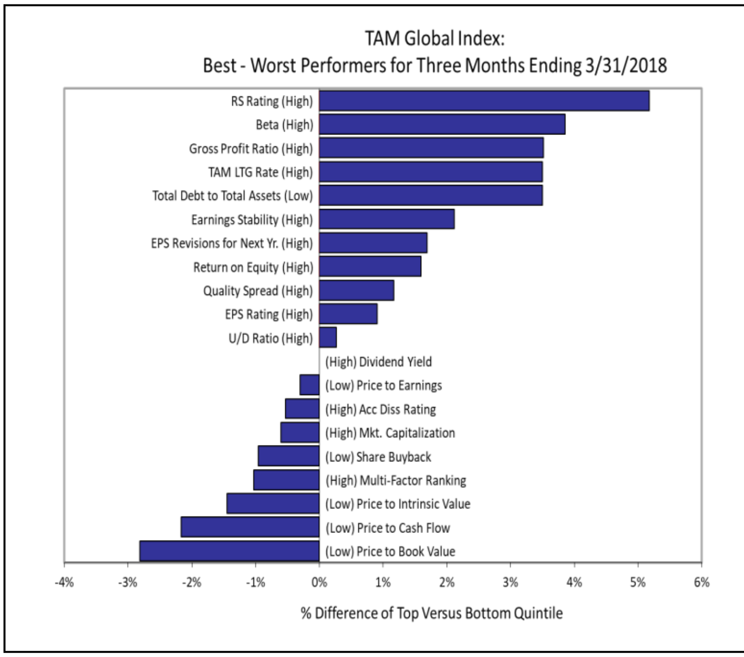
Some strategists are concerned that the return of volatility may indicate the end of this market advance. We do not believe so for two reasons:

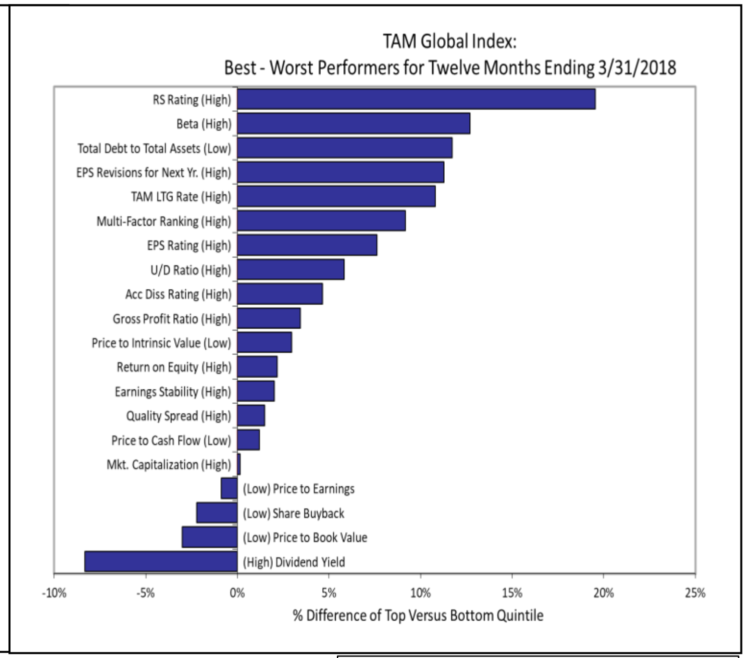
1. Rates have generally risen since the beginning of the year, indicating no flight to safety mentality. German yields are negative out to five years, where they had been negative out to seven years in early January. US 10 year rates have risen from 2.4% to over 2.9% in the same time frame. Japan bought bonds early in February to keep rates low as market forces pressured them upward.
2. Earnings and economic growth estimates have increased. Inflation is rising slightly but is still at low levels.

We think that markets sense the end of the abnormal period of negative rates and extraordinary central bank actions. This correction probably indicates the return of more “normal” markets. This return to normality likely takes years, but as better growth occurs you would expect cyclical sectors to perform better and rates to rise. Another byproduct of this would be that fundamentals regain traction and value oriented fundamental managers like us should outperform.

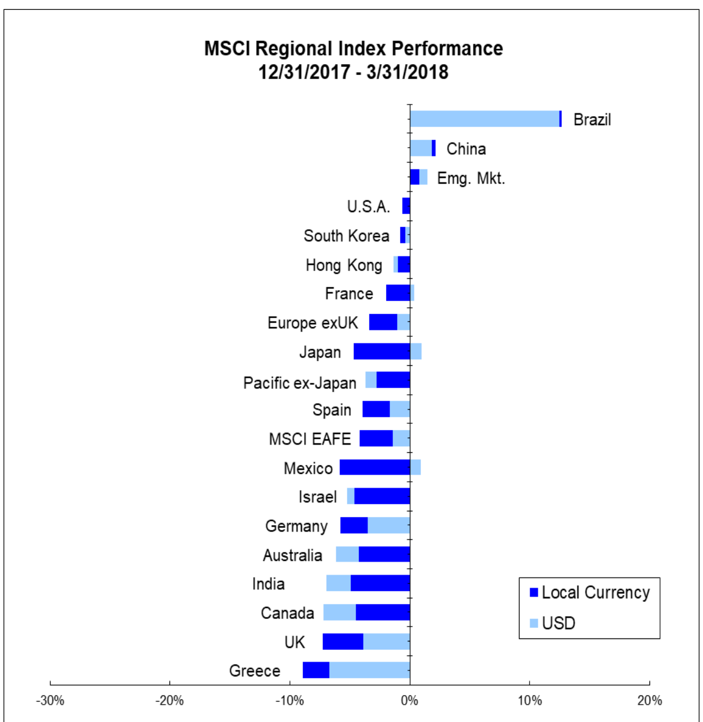
We are not sure how long this correction takes to run its’ course, especially as trade tensions are coming to the front of political concerns in early April. We remain positive on the outlook for equity markets over the intermediate and longer term, as we do not see any reason for a near term recession unless a full blown trade war erupts. We still think that is unlikely, but the probability is higher now than it was before President Trump announced tariffs. Markets are going through some growing pains as the end of abnormality starts to sink in, but that should lead to markets that truly are normal. That should ultimately be a good development for markets and investors.

The factors we measure to evaluate what styles are in favor are presented on the next page. Global factor performance over the past three months tended to favor the quality oriented ones. Measures of financial strength, earnings stability and lower debt provided good returns, along with measures of technical strength and beta. High Dividend yields did not add or detract from performance. Lagging factors included capitalization, valuation measures, and our multi-factor ranking. Over the past year, the leading factors favored strong measures of technical strength and measures illustrating strength and stability in earnings. High Dividend yields were actually the worst performing factor for the last 12 months. Lagging factors continued to include market capitalization and valuation measures.





Source: Bloomberg, TAM estimates



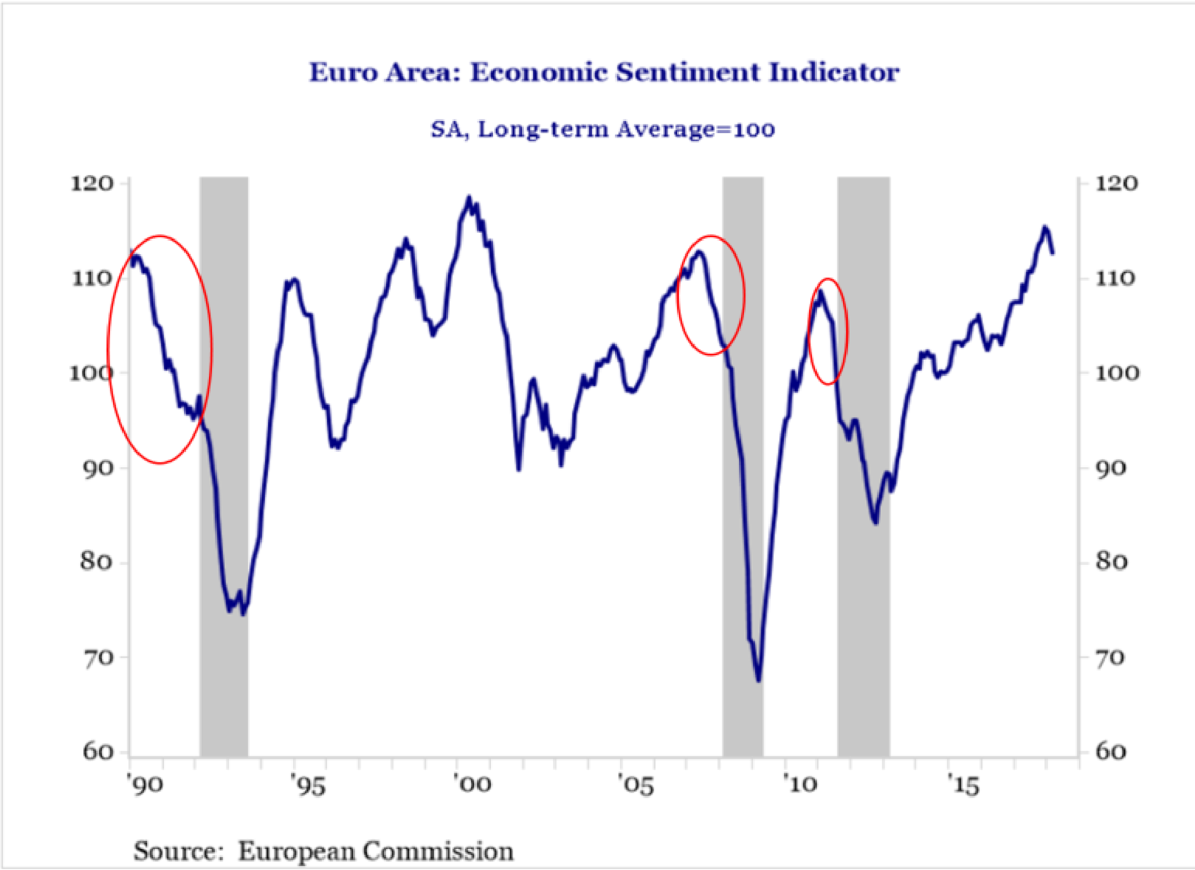
Source: MSCI, Bloomberg, and Todd Asset Management

Emerging markets dominated the leadership this quarter, as Brazil and China were the only two markets on our list to show positive returns.

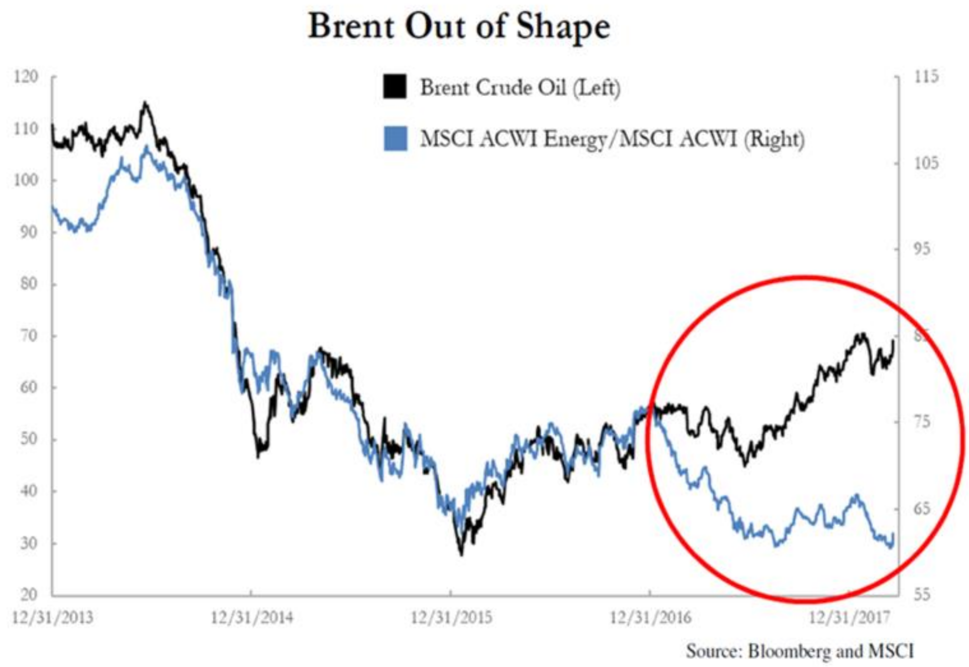
Currencies played a more dramatic role this quarter than usually is the case. The dollar weakened by 3% compared to the Euro, 6% against the Yen and 8% versus the Mexican Peso. Most observers have expected the dollar to strengthen given the firming US economy, but market action has confounded most analysts with the dollar’s decline.

Among the larger laggards, the UK encountered more turbulence with their Brexit negotiations, and Canada has been raising rates. Greece has been one of the more volatile markets, but it is a very small.

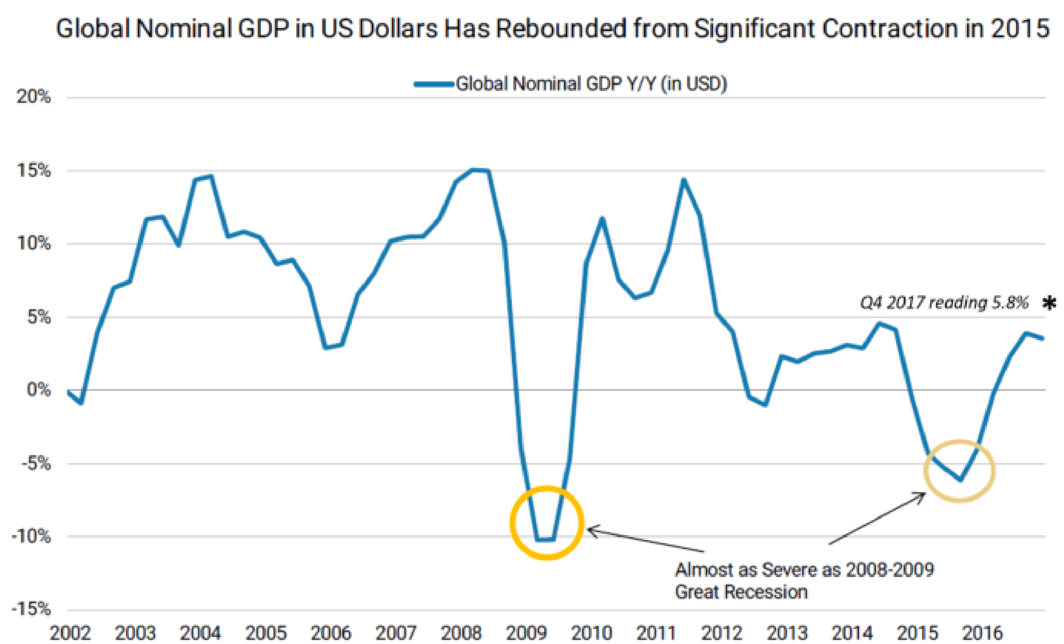
Interesting charts we saw this quarter



European Sentiment continues to improve. Historically, recessions have not started until sentiment declines at least six months and drops below the 100 level on the index. We are a long way from that.

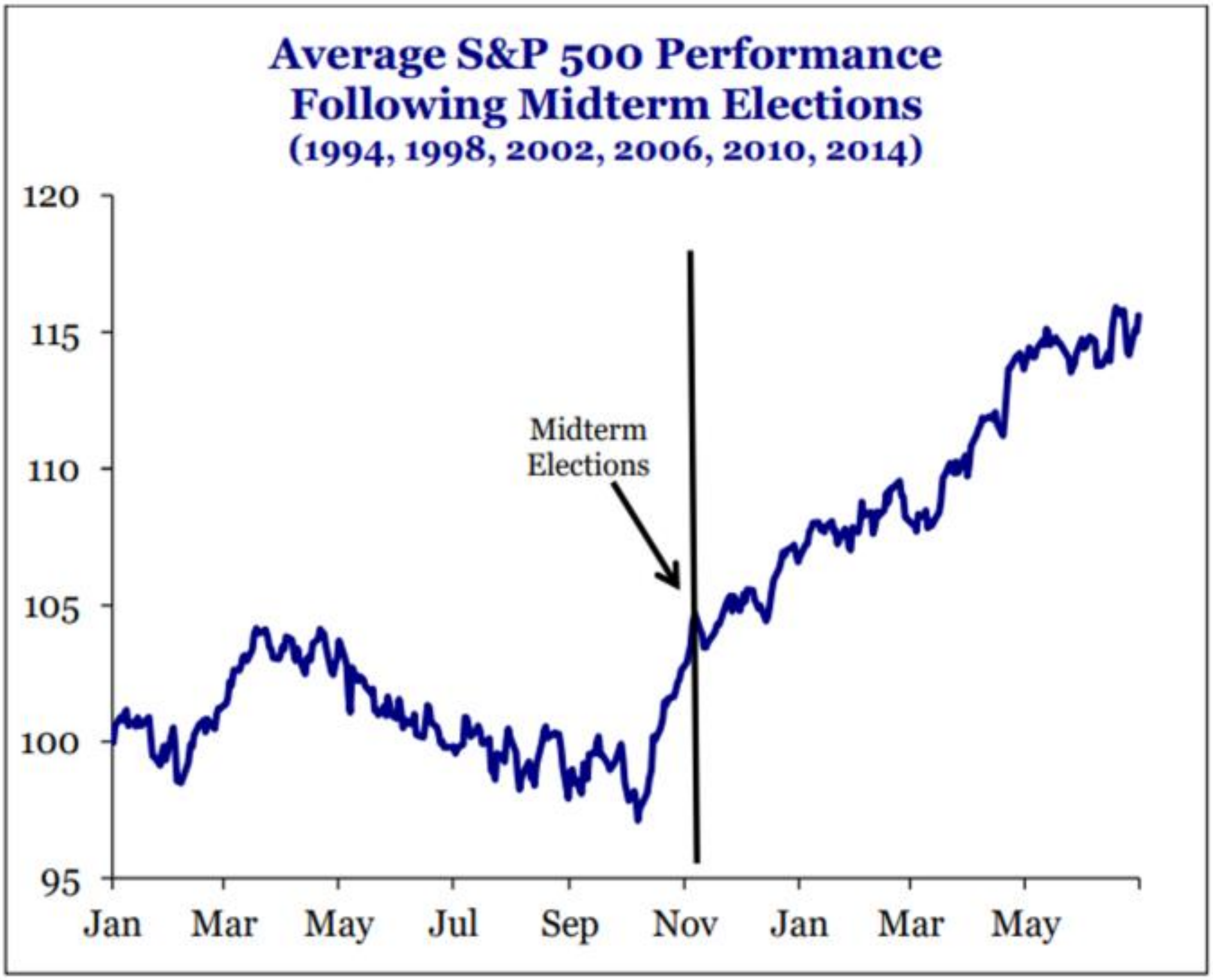


We recently sent out this *Chart of Interest,* highlighting that oil prices are rising while oil stocks linger near relative lows. We expect oil prices to remain firm and for the stocks to play catch up.



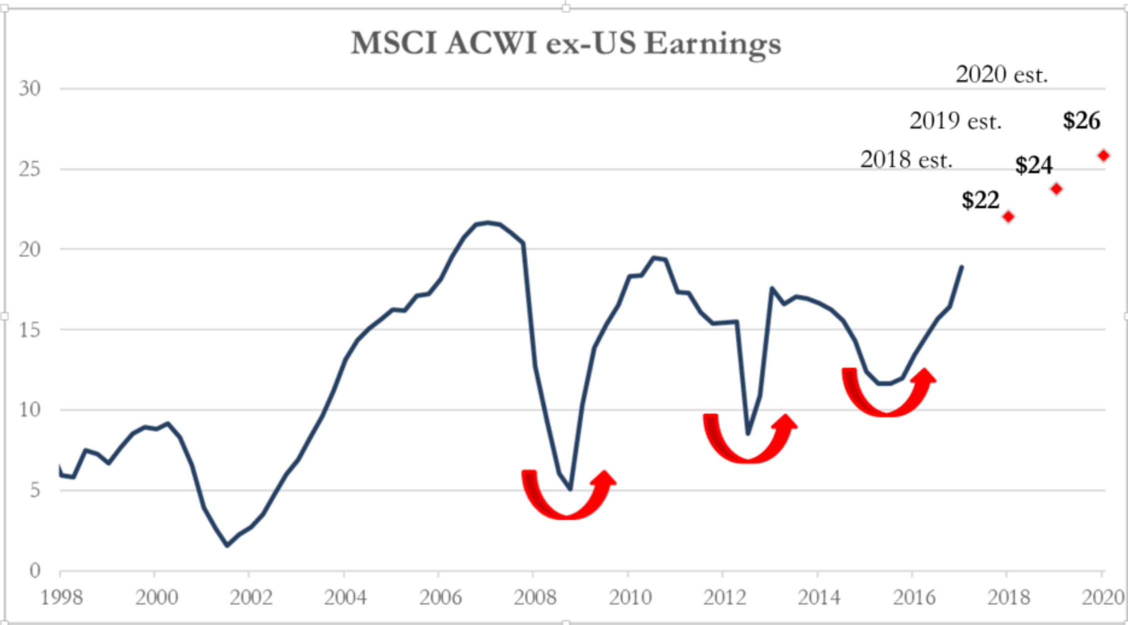
Worldwide GDP growth continues to recover in US dollar terms, and estimates are still rising.

Source: Haver Analytics, Morgan Stanley Research, IMF Estimates



Source: Strategas

Midterm elections could keep US and World markets range bound until some clarity emerges. After that, expect a significant relief rally.



The triple dip earnings recession since 2008 has troughed with expectations that the rebound in earnings should be durable.

Global Intrinsic Value Equity Income Strategy

The Global Intrinsic Value Equity Income strategy returned -1.6% (gross) during the first quarter, versus the MSCI ACWI (Net) index decline of -1.0%. The quarter was marked by stronger economic indicators early in the quarter that moderated as the quarter went on. Overall, we still see international economies acting well and believe any small moderations in growth are just that, moderations and not turning points. Rates increased during the quarter for the most part, and the amount of European bonds with negative yields declined. Much of the improvement in expectations arose from stimulative policies in the US, and a recovery in inflation expectations in international markets. As the quarter progressed, market gave back the early year gains as concerns about inflation, then higher rates, then protectionism and finally tech regulation led investors to book profits.

We believe international growth rates should continue to improve compared to US growth as those economies have less mature recoveries in place and growth prospects are brightening. Chinese retail sales growth remains near 10%, highlighting that the EM consumption theme we advocate is still in place. European economic growth was better than expected last year as personal consumption picked up.

Sector selection was responsible for our underperformance during the quarter. Primarily our underweight in Technology accounted for almost all of the underperformance. Our best performing sectors during the quarter were Consumer Discretionary and Healthcare. Regionally, the US was the only area to outperform. Our worst performing areas were Financials and Consumer Staples.

We are overweight the Financials, Energy and Consumer Staples, sectors. We are underweight the Technology, Industrials and Healthcare. Regionally, we are overweight the UK, Canada, and Europe. We are underweight Emerging Markets and Japan.

Our top five contributors to performance during the quarter were Kohls Corp, Tapestry, Cisco Systems, GlaxoSmithKline, and Total. Our worst five detractors from performance during the quarter were British American Tobacco, Altria Group, Shaw Communications, AXA Financial and AT&T.

In summary, we are enduring a correction (decline of over 10% but less than 20% from the peak) in the markets. We do not anticipate it becoming a bear market (i.e. a decline of over 20% from the prior peak). Volatility has increased back to normal levels after the low volatility phenomenon of last year. Some investors fear corrections, but they are natural and usually signal that some underlying change is occurring in the market. We believe the change this time is that the worldwide economies are finally re-entering a more normal phase after ten years of post-financial crisis restructuring and de-leveraging. This correction could take longer to play out and be followed by a very strong year-end rally if mid-term election history repeats itself and trade tensions ease. Corrections often lead to rotation of leadership as well, and a shift from growth to value seems overdue. We think that rotation is probable over the next few quarters.

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04-23-2018
MSCI ACWI (Net) – 247

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
GLOBAL INTRINSIC VALUE EQUITY INCOME 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 fully discretionary accounts invested in a diversified portfolio of attractively valued domestic and international equity securities with a goal to seek dividend income along with growth of that income and capital appreciation. The international securities are internationally domiciled, US traded equity securities.

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 Global Intrinsic Value Equity Income Composite contains fully discretionary, taxable, and tax-exempt accounts that use the MSCI ACWI Index as the benchmark. The Composite does not include accounts with social restrictions. 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, 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 Global Intrinsic Value Equity Income Composite has been examined for the periods January 1, 2011 through December 31, 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 transaction costs and includes the reinvestment of all income. Net of fee performance was calculated using the applicable annual management fee schedule of 0.60% applied monthly. 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. **As of 12/31/17, the benchmark was changed to the MSCI ACWI (net) from MSCI ACWI (gross). The ACWI (net) is computed net of foreign tax withheld on dividends, this is consistent with the composite**.

The composite performance has been compared to the following benchmark. The index is unmanaged, and not available for direct investment; it includes reinvestment of dividends; it does not reflect management fees or transaction costs:

MSCI ACWI (net) Index is a float-adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.