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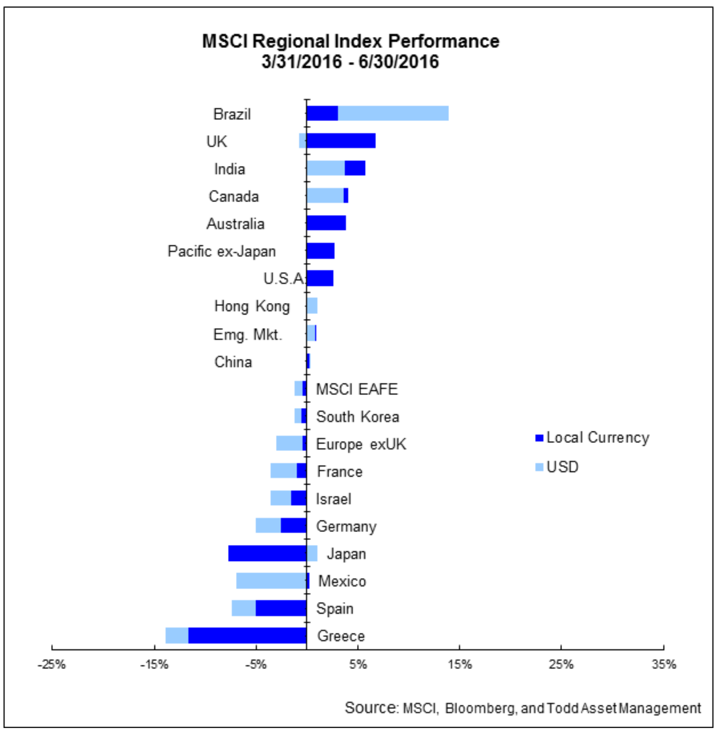
Brexit… A Turning Point?

Todd Global Intrinsic Value Equity Income Review

	2Q 2016	YTD	1 Year	3 Years	5 Years	Since Inception (01/01/11)
Global Intrinsic Value Equity Income (Gross)	3.5%	6.3%	3.4%	6.6%	8.9%	9.7%
(Net)	3.4%	6.0%	2.8%	5.9%	8.3%	9.0%
MSCI ACWI	1.2%	1.6%	-3.2%	6.6%	6.0%	6.3%

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

The Global Intrinsic Value Equity Income portfolio increased 3.5% (gross) compared to the ACWI return of 1.2% for the second quarter. International markets suffered turmoil as Britain decided to exit the European Union and renewed concerns about the financial stability of banks pressured indexes. Emerging markets outperformed developed markets by a wide margin as Brazil, India and the Pacific ex-Japan markets were among the best globally during the quarter (see chart below). There is some healing going on within the Emerging markets as commodities find a bottom.



Without a doubt, one of the largest geopolitical surprises of the past decade was the British vote to exit the EU. In hindsight, we probably should not have been surprised as populist candidates have been surging in the polls in most election contests we have seen recently. Following the election, the "Leave" camp leaders found themselves in the quandary of a dog chasing a bus. Namely, what to do once they catch it? They seem to not have thought that far ahead, and a power vacuum emerged as PM Cameron resigned and a new leader needed to be selected. That situation appears to be sorting itself out, as a new PM has been elected, but there are still many elements of uncertainty to play out in this drama. We think this could be a turning point for governments worldwide as they realize that unhappy electorates want growth oriented policies.

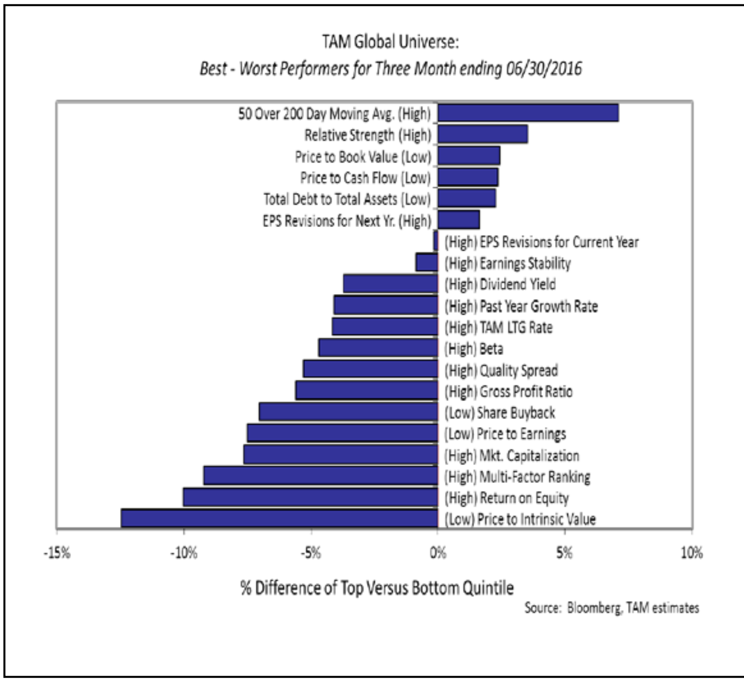
There were other notable developments besides Brexit in the quarter, including:

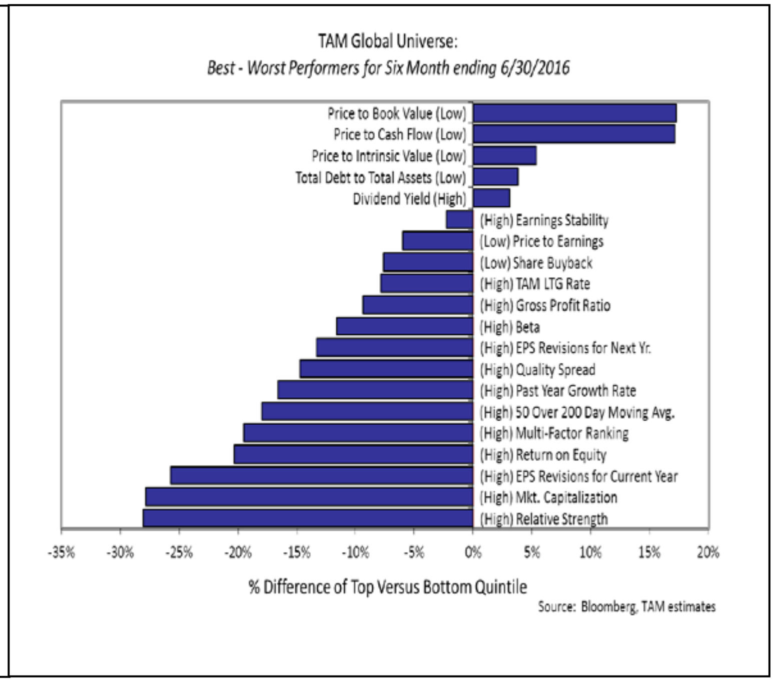
- Most major central banks left policies unchanged. The US Federal Reserve has been tiptoeing towards another rate hike, but economic developments seem to keep them on hold. The Bank of Japan surprised most investors when they left policy unchanged in April. They are currently considering several policies that amount to "helicopter money", i.e. fiscal stimulus directly to consumers to bolster the economy. The European Central Bank left rates unchanged after aggressive moves in March to bolster their economy. The Peoples Bank of China left rates unchanged as well.
- Market rates for bonds have plummeted post Brexit. Many European and Japanese sovereigns moved deeper into negative rates, and the U.S. 10 year government bonds briefly got to 1.35%, before recovering to the current rate of nearly 1.6%. Refinancing of mortgages has surged.
- Most governments are either stimulative or becoming that way. The U.S. has seen government spending go from a drag to a support for growth. China is pursuing more Fiscal stimulus and just reported a modest upside surprise to GDP. Japan is on the path to becoming more stimulative. The British vote could push both the UK and Eurozone governments to adopt more growth oriented policies as their electorates are clearly unhappy with the low growth regimes they have been experiencing.
- Economic progress was uneven in the quarter. The IMF and World Bank lowered estimated 2016 growth. Other trends we have seen include:
    - Second quarter US GDP growth estimates firmed up to something at or above 2.5%.
    - Chinese GDP came in slightly ahead of estimates at 6.7% growth in Q2. The IMF actually raised their estimates of Chinese growth in the quarter.
    - Japanese growth estimates were cut by the government to 0.7% from 1.4% for the year ending April, 2017.
    - Estimates for British and EU growth are being re-evaluated by most investors, with an eye towards reducing them as a messy divorce gets underway.
- A poor May employment report for the U.S. concerned investors heading into the British vote, but a spectacular rebound in June employment led the US market to new highs.

Currencies generally behaved themselves during the quarter. Though many analysts are wondering why the Dollar has not strengthened more given the turmoil in Europe. The Dollar and Euro remain in a trading range compared to each other. The yen has been very strong versus most other currencies, much to the dismay of their central bank. Our sense is the Dollar probably stays in the current range for the rest of the year. The Chinese currency has declined in value, but investors are not nearly as fearful of that as they were earlier this year.

While the Brexit vote will be what most investors remember about this quarter, we think in time it will be seen as a turning point for the EU. Since the financial crisis, European institutions have tended to take half measures when trying to improve economic activity. The ECB participated in the first round of extraordinary bank measures with the US and British central banks during the financial crisis. After this, they allowed their balance sheets to contract, draining stimulative policies from the market. While this was occurring, governments pursued austerity. Tighter monetary policies and austere government spending led Europe to weaker growth. The electorate in Britain has backed a populist movement to leave because of subpar growth and concerns about losing control of their borders. Other populist parties are rising in Europe. This may prompt those governments to pursue pro-growth policies like infrastructure spending and possibly employment, tax and entitlement reforms.

<u>What Worked…And What Did Not</u>





In the two charts above, we monitor how various attributes help or hurt market performance to see if the investors are seeking attractive value, earnings growth or something more concrete like dividends. The charts present this performance for the second quarter and year to date period. This chart measures how the best ranked 100 stocks on each measure compare with the lowest ranked 100 stocks within the our Global universe. The only factors that meaningfully worked thus far this year are valuation, low debt to assets and high dividend yields. ***For fifteen out of the total twenty factors we monitor, the best ranked names underperformed the worst ranked names!***

Performance Review

The Global Intrinsic Value Equity Income Strategy outperformed the ACWI during the quarter as Dividend Yields came back into favor with investors. Global recession fears and historically low interest rates drove investors into higher yielding sectors in the first part of the quarter. Stock selection drove the majority of our outperformance while sector allocation was also additive to performance. Our portfolio continues to generate a substantial yield advantage versus the index, while growing that yield at a high single digit rate. During this period of slowing global growth, we are confident in the ability of the companies in our portfolio to continue paying their dividends.

Within the portfolio, we generally found that our stock selection in Consumer Discretionary, Consumer Staples and Technology contributed to performance the most. Stock selection in Materials and Industrials detracted from performance. Our best five contributors within the portfolio were AT&T, Altria, British American Tobacco, CA Inc., and Chevron. This list consists of 2 tobacco related companies and other names in traditional high-yielding sectors. The five stocks that detracted most from the portfolio were AXA, Allianz, Eaton, Emerson Electric and Potash. AXA, Allianz and Eaton sold off on concerns around Brexit and recession fears, while mid-quarter order info was disappointing for Emerson. A lowered outlook for potash pricing weighed on Potash.

Review and Outlook

Investor concerns are being addressed one by one. The Brexit vote is out of the way. Several other European elections have been held, and most of the continent still seems to be committed to the European Union. The Japanese elections are out of the way, and Prime Minister Abe's mandate for growth was renewed. U.S. elections are coming up, but we now know who the candidates are and will soon have a better understanding of how they will compete for the office. The Chinese stimulus program has been a question mark for some, but appears to be working. Commodity markets seem to have bottomed. Against all of this as a backdrop, the S&P 500 just broke out to a new high. It may be a scared market based on stock selection factors and sector winners, but we believe it will broaden out as the recovery in the US continues and worldwide economies show signs of continued expansion.

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

7-20-2016

MSCI ACWI – 413

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.

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 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 (Gross) 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 verified for the period January 1, 2008 through March 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 Global Intrinsic Value Equity Income Composite for the period January 1, 2011 through March 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 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.

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