

The Reset Button

Todd Global Intrinsic Value Equity Income Review

	4Q 2015	1 Year	3 Years	Since Inception (01/01/11)
Global Intrinsic Value Equity Income (Gross)	5.4%	-5.2%	8.3%	9.3%
(Net)	5.3%	-5.8%	7.6%	8.7%
MSCI ACWI	5.1%	-1.8%	8.3%	6.7%

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

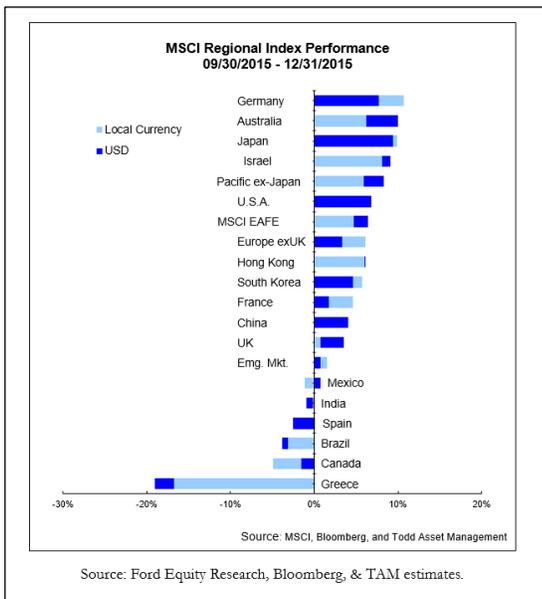
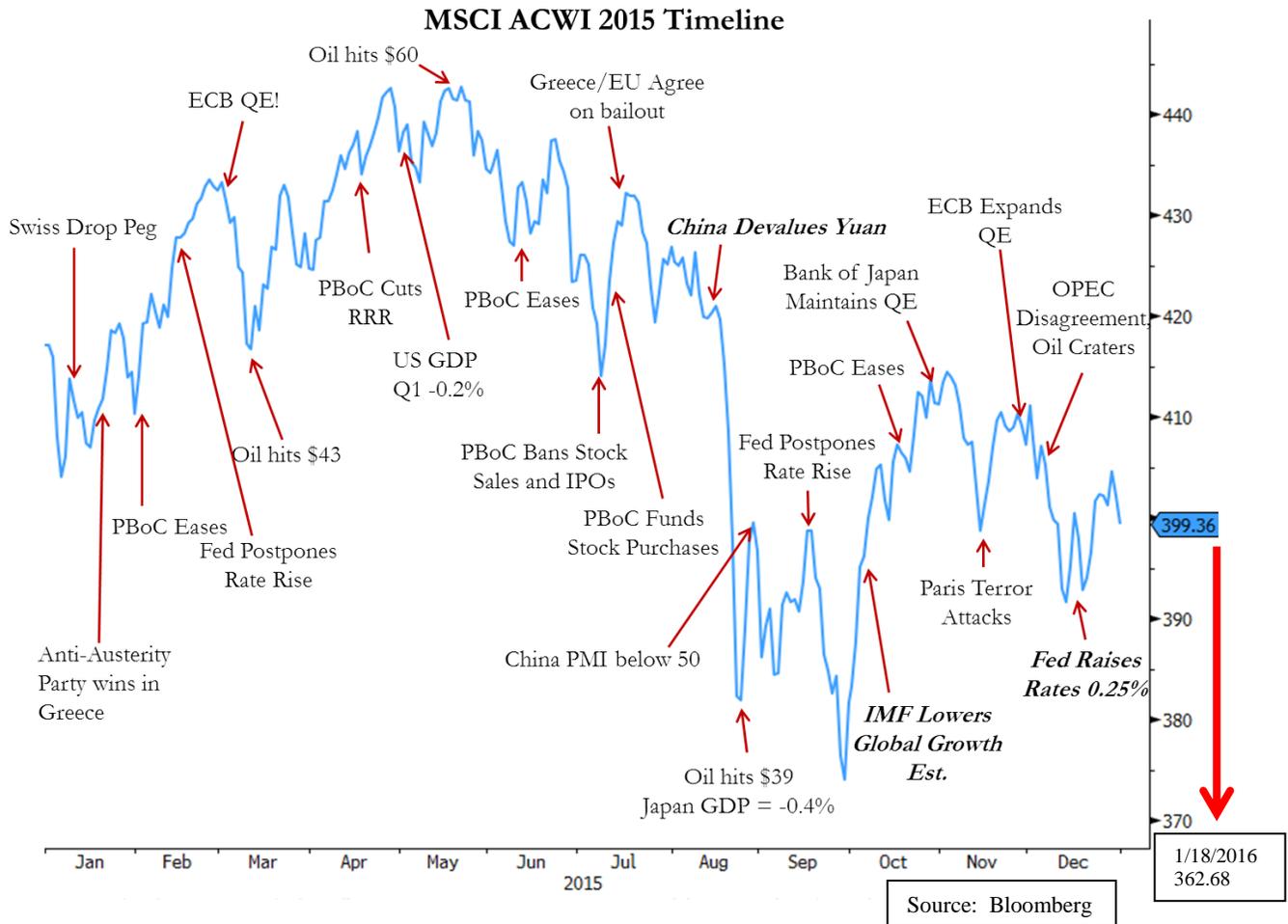
The Global Intrinsic Value Equity Income Strategy posted a gross return of 5.4% for the quarter, compared with the ACWI return of 5.1%. Year to date, our returns were -5.2% vs the ACWI loss of -1.8%. During the quarter, ACWI ex-US returned 3.3% and Emerging Markets returned 0.5%. The S&P 500 index returned 7.0%.

Investors and central banks hit the “Reset” button in 2015. By that, we mean their assumptions for corporate earnings, asset returns, exchange rates, commodity prices and Central Bank easing were reset for many different markets as the year unfolded. The biggest resets we saw were:

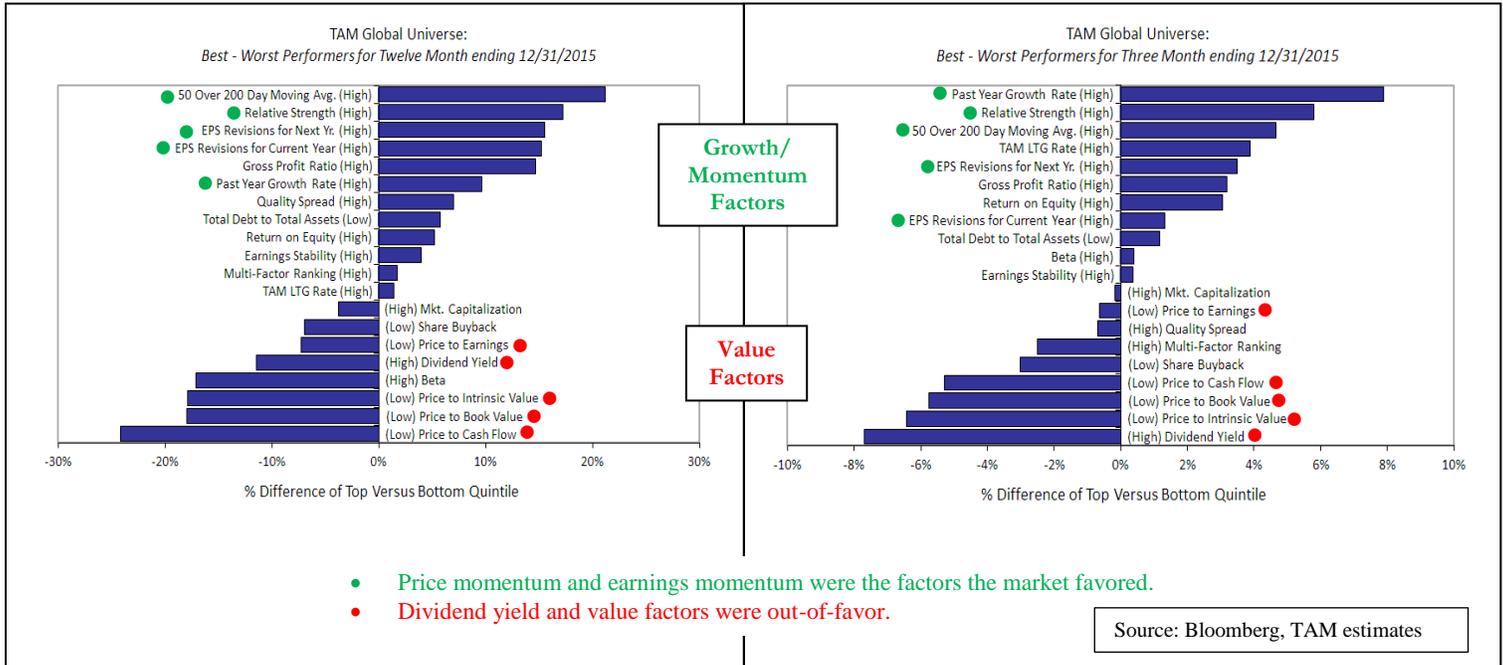
- Economic growth expectations were reset lower for many economies during the year.
- In China, the economic “reset” to a 6 or 7% growth rate was accompanied by a mismanagement of their stock market surge, effectively closing them after their bear market. The result has been a reset of central bank easing expectations and a Yuan devaluation
- In Europe, the Swiss reset their Franc, de-pegging it from the Euro. The ECB began aggressively easing, resetting the euro lower versus most currencies.
- In Japan, the Central bank stepped up and expanded their QE program after a recession, resulting in a reset, i.e. Yen devaluation.
- In the US, this resulted in a wholesale shift to growth investing. Many stocks exhibiting value characteristics were abandoned. Higher rates from the Fed resulted in a reset to a significantly stronger dollar, with correspondingly lower sales and earnings for US multinationals.
- Commodities worldwide bore the brunt of all these resets as weaker demand and oversupply resulted in price weakness.

Are the resets over? Early indications are probably not yet. Lower economic growth may persist for some emerging markets as a result of higher debt levels or commodity declines (or both.) Despite growth concerns, US markets are still elevated. More dollar strength could hurt international translation for domestic investors. Is investing this year a lost cause? Investing should produce better returns than last year with higher volatility because employment and consumer income is growing in Europe, and energy prices remain lower helping all consumers of energy. Consumer demand is better in China and Europe, though general industrial demand is weak as trade flows worldwide have been curtailed. Low rates and stimulative actions by Europe, China, and Japan should lead to a firmer growth estimates at some point later this year.

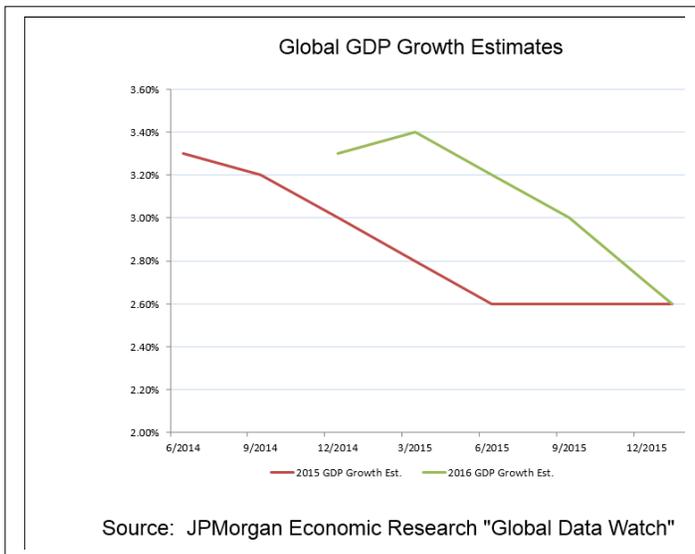
Noteworthy Charts



Regional performance was better for Developed Markets than Emerging Markets during the quarter. Currency movements did occur, though the trade weighted dollar stayed in the range it has traced out over the past year. The Euro went from from \$1.12 to \$1.09, weakening a bit and costing some performance for those markets translated back to dollars. The Yen was flattish in the quarter, so it did not impact those results. The order of performance had one commodity producer (Australia) outperforming but most others underperforming.

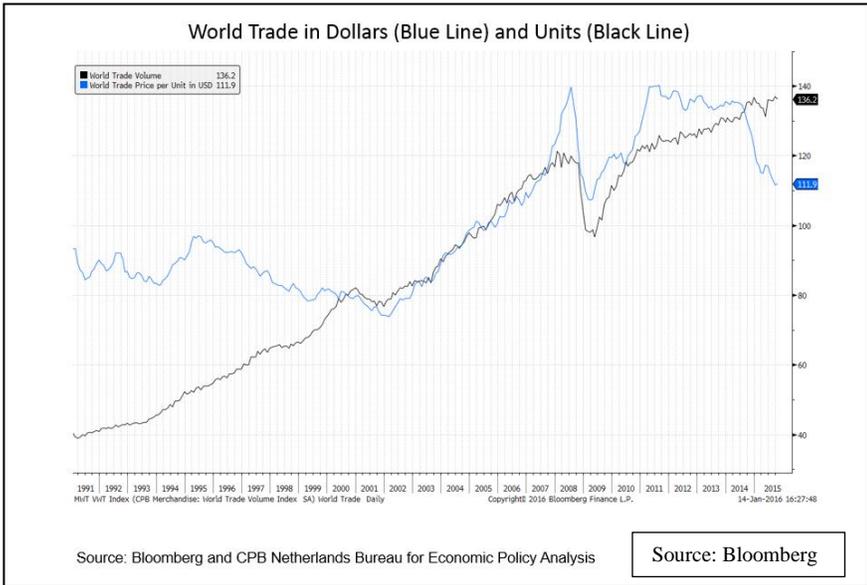


The push for growth at any price led Growth and Momentum factors to outperform value factors. Once again, investors penalized stocks with High Dividend Yields. We've also seen indicators that stocks with high momentum are very expensive versus their history. This is a risk that growth investors will face, because at some point in the future, visibility for other sectors should improve and momentum stocks are likely to roll over.

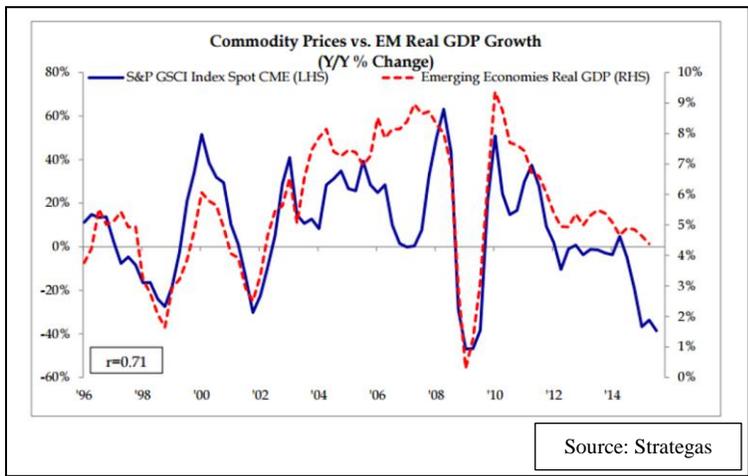


Global GDP growth estimates have been consistently downgraded as the year unfolded. Much of the pressure came from China, the US and Latin America. Europe, the UK and Japan have seen estimates stable, albeit at low levels of growth.

China's economic reset and the currency resets we noted earlier have led to a general slowdown in world trade. This translates into lower economic activity. Stimulative actions should help over the coming year, as Europe spends for the refugee crisis, China promotes consumption and the US anniversaries the currency and oil resets.

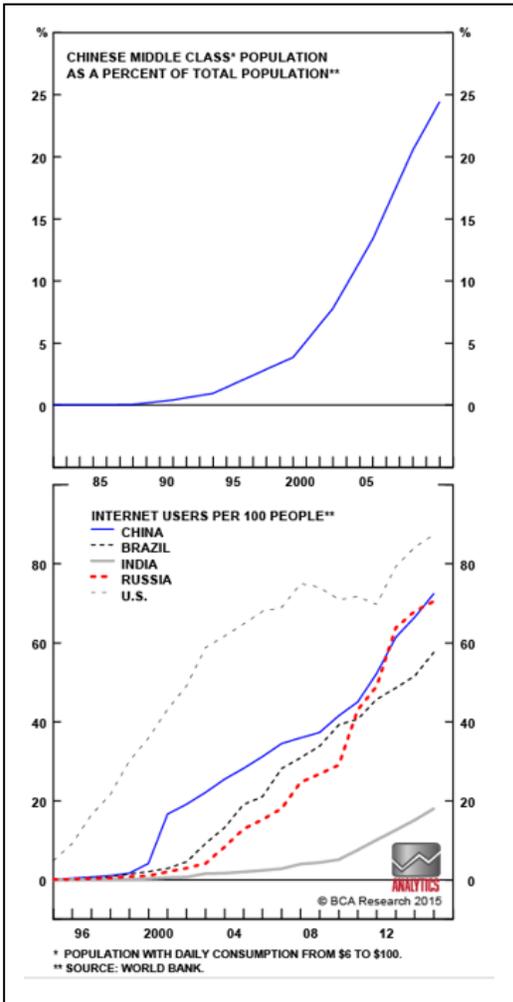


Worldwide trade, measured in dollars, has seen a reset. It appears trade has declined about 20% by that measure (chart left, in blue). We believe volumes give a truer indication (chart left- black line). Worldwide trade volumes are flattish over the past year. What's changed is the dollar versus most other currencies and commodity prices.



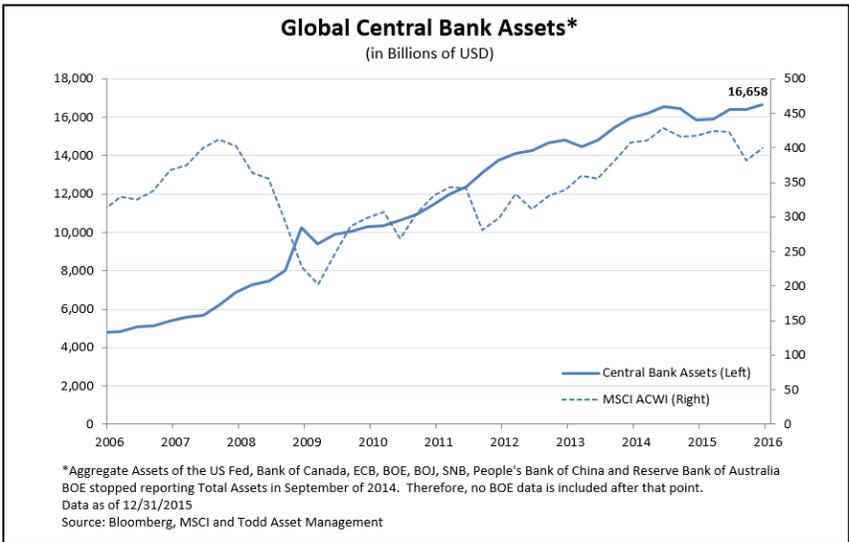
Commodity prices and Emerging Market GDP growth are closely linked, as illustrated in the chart to the left. This may be because Chinese economic growth drives demand for commodities which are also produced in Emerging Markets. When Chinese manufacturing slowed, commodity prices declined. This relationship should lessen as China (and India) shifts to a consumption economy, but it probably holds up for several more years until that shift is more pronounced.

Given the current Chinese situation, commodity prices probably remain under pressure for some time to come.



Before you get too bearish on the outlook for China, review the chart to the left from BCA Research. It illustrates that the middle class continues to grow in China despite the slowing overall growth. It also illustrates that Chinese internet usage is among the highest in the BRICs.

An informed middle class population is one that is capable of consumption. That's what the Chinese leaders are after, and ultimately, we believe they will get that. The current concerns are due to shifting the economy from solely relying on exporting to other countries, and starting to rely on internal demand for growth.



It wouldn't be one of our publications unless we included a chart (see left) showing how Central banks have been busy buying financial assets! This trend continues as the ECB, Bank of Japan and now the Peoples Bank of China are all buying assets or funding loans. In the Chart, note that since 2009, this expansion of holdings has correlated with the rise in the benchmarks. While this trend may be more volatile as the Fed normalizes rates, we still think the central bank driven uptrend in world markets continues.

Performance Review

The Global Intrinsic Value Equity Income Strategy slightly outperformed the ACWI during the quarter, even though investors penalized stocks with Higher Dividend Yields. Stock selection drove the entire outperformance. We have a value and Large Market Cap bias in our stock selection, which the market has not favored. 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 Industrials and Financials contributed to performance the most. Stock selection in Health Care and Telecom detracted from performance. Our best five contributors within the portfolio were General Electric, Intel Corp, Philip Morris, Westpac Banking, and Altria Group. This list featured two Consumer Staples Names, a large Australian bank, a large US Industrial company and a Technology company. The five stocks that detracted most from the portfolio were Potash Corp, Vermilion Energy, Shaw Communication, China Mobile, and Novartis. Two of these names were related to the Commodities complex, with two Communications companies and a Healthcare name rounding out the list.

Review and Outlook

At this writing, the world markets are off to a poor start for 2016 with the ACWI index flirting with a bear market. The bearish argument is that an ill-advised Fed rate increase is a precursor to many more rate hikes. The consensus expects a stronger dollar if rates rise in the US, which has led to concerns about foreign entities that have dollar based debts outstanding. These concerns have cascaded into concerns that China will pursue further devaluation and the Saudi's could abandon pricing oil in dollars. Oil has collapsed, as fears of new supply coming on from Iran, Libya and other hotspots has coincided with the Saudi's and the US maintaining very high production levels and weaker economic growth estimates. This collapse has prompted some fears for ancillary markets like high yield, and maintained pressure on commodity based economies like those of Latin America and Russia. Investors seem to be anticipating financial Black Swans, i.e. highly improbable negative events that occur very rarely.

The pessimists will paint a picture that resembles the 2008 meltdown, because that is their most recent reference point and pessimism gets them airtime on CNBC. We do not believe such a bleak outlook is warranted, for several reasons. First, the banking systems have largely recapitalized, and should be able to withstand the shocks that come from the commodities downdraft. There may be some defaults, but our sense is the regulators have kept most of the large banks from getting too exposed to any one sector. The second reason we are not envisioning a 2008 type crisis is most of the developed world economies are consumers of oil and commodities, not producers. Input costs just declined for much of the world. We would also point out that most governments have been pursuing austerity, but this could change. Europe is likely to adopt more stimulative government policies as they absorb the refugees from the Middle East. The US should see higher government spending in the upcoming year. China is offering tax incentives to purchasers of small cars and pursuing stimulus. Japan is actively trying to get companies to raise wages. All of these indicate to us that world leaders do not want to revisit a great recession type scenario. Finally, we see no recession in the US, as employment growth and end demand still appears firm.

A more negative scenario from here assumes that the central banks take no action. We believe with markets weakening and confidence eroding, more actions are likely from the world Central Banks. We do not know if this would take the form of the Fed halting rate increases, or even more expansion of the European or Japanese central bank balance sheets. Also, China has been busy lowering rates and



promoting lending. Policy makers are treating the European Recovery like it is fragile, and seeking to bolster it. Japan is looking for ways to promote growth as well.

The resets in many asset classes have caused markets to reset as well. Our sense is once these run their course; a good investment opportunity awaits us. A question we like asking people is “if you could go back to 2008-2009, or the growth scare of 2011 or the growth scare of August, 2015 and invest while the market was down, would you?” The answer is invariably yes, they would. But these same investors are now fearful and not willing to buy. It’s human nature. After the markets clear, better times will follow. What we need to do now is hunker down and ride out the turbulence.

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

1-18-2016
MSCI ACWI – 362.68

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 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 September 30, 2015 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 September 30, 2015. 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.