TODD·VEREDUS
ASSET MANAGEMENT LLC

January 17, 2012
Jack White, CFA
Partner, Senior Portfolio Manager

Politics Stole the Show

Todd Veredus Intrinsic Value Team Q4 2011 Review and Outlook

	Q4 2011	YTD 2011	3 year*	5 year*
Large Cap Intrinsic Value (Gross)	**13.4%**	**3.8%**	**14.1%**	**0.9%**
(Net)	13.2%	3.1%	13.4%	0.3%
Intrinsic Value Opportunity (Gross)	**11.1%**	**6.1%**	**24.3%**	**2.0%**
(Net)	10.9%	5.3 %	23.4%	1.3%
S&P 500	11.8%	2.1%	14.1%	-0.3%
Russell 1000 Value	13.1%	0.4%	11.6%	-2.6%
International Intrinsic Value (Gross)	**7.6%**	**-11.0%**	**13.6%**	**-1.5%**
(Net)	7.4%	-11.8 %	12.6%	-2.4%
MSCI EAFE	3.4%	-11.7%	8.2%	-4.3%

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

The fourth quarter news flow highlighted that worldwide markets were held hostage by the politics of the European Crisis. Lack of leadership by politicians and European central bankers caused uncertainty creating volatility. Last year was economically sound for the US and Emerging Markets, though somewhat softer for Europe. Annual equity returns were poor across all markets as the fear of European financial contagion kept a lid on stocks; though we saw a solid fourth quarter from US markets. We suspect that 2012 will be a better year as Emerging Markets are finally starting to stimulate their economies. Emerging Markets tend to be leading indicators for developed markets, and lower rates generally lead to better stock markets.

There are a number of themes to be aware of that should play out over the coming year, including:

- Low rates in the US will probably persist, forcing investors to look at high quality dividend paying stocks.
- European financial problems may only slowly improve, as politicians try to avoid relinquishing fiscal control to the European Union. Small progress will be grudgingly achieved.
- Emerging Markets probably continue easing, resulting in better market action.
- The US and Emerging Market economies continue to grow and decouple from Europe which suffers a recession.
- Politics remain at the forefront, as countries representing 45% of worldwide GDP are slated to have elections this year.

Against a difficult backdrop, all of our Intrinsic Value products outperformed their benchmarks on a gross basis in 2011. Our decision to retain and increase our economically sensitive emphasis during the August bear market, while the consensus called for a recession, helped us to post this good performance.

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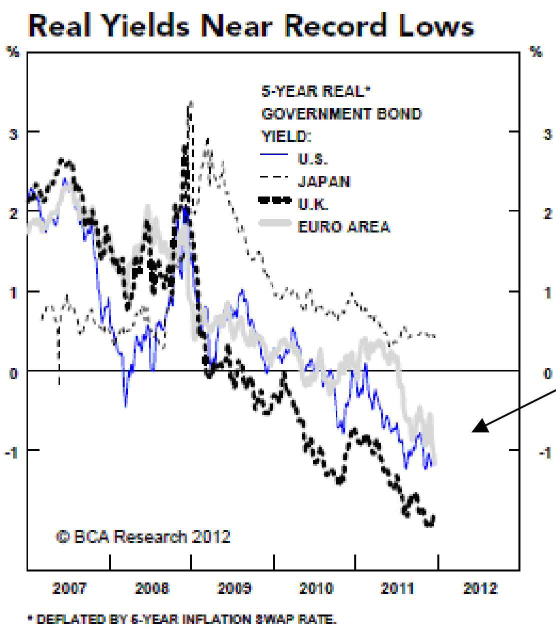
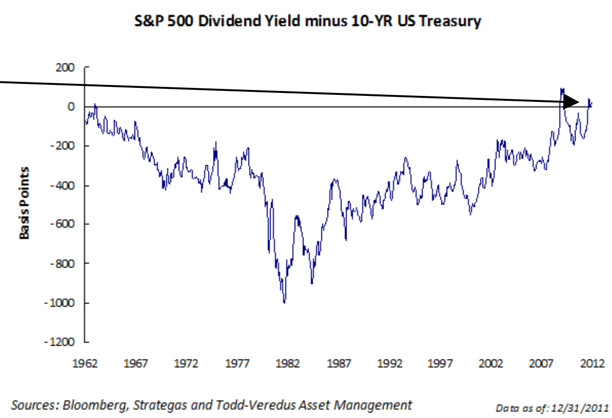
Interesting Charts we saw this quarter

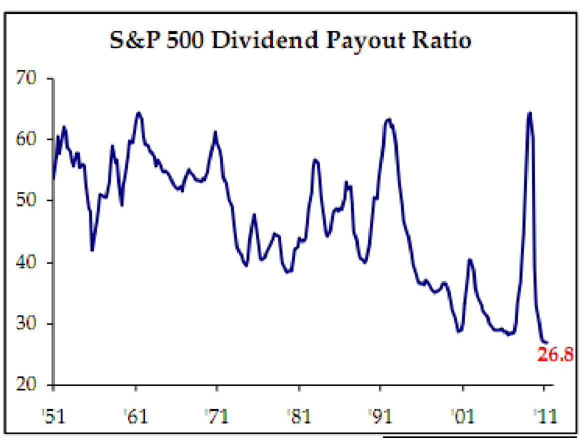
Rates are low and Stocks offer an alternate income source



Low short term rates in the US, Europe and Japan have led to lower government bond yields, as central banks try to avert a deflationary bust by forcing investors to invest in riskier assets. <u>This policy is effectively a tax on savers that causes their real returns to be below zero</u>. Investors are starved for yield.

This low yield phenomenon has been labeled "Financial Repression" and is a way for the government to pay for deficits via low cost bond issuance. As a result of this, and the fear that the economic weakness leads to a depression, stock yields are now higher than 10 year bond yields. This offers investors opportunities in our opinion.





Source: Strategas

In past letters, we have noted that companies are flush with cash, due to structural improvements in earnings and margins. Dividends have lagged, leaving the payout ratio at an all time low. Companies have the ability to grow dividends over the coming years. <u>Yields, with good growth prospects, make stocks an attractive income strategy</u>.

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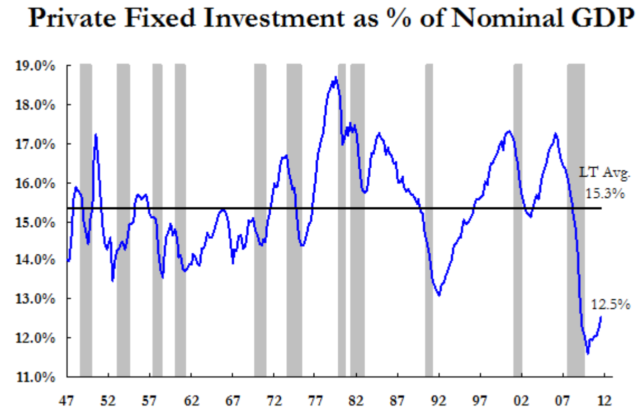
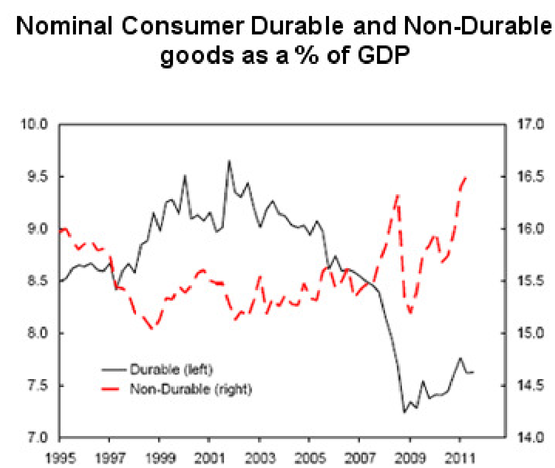
US Economy Continues to Improve, Led by Non-Durables

Private Fixed Investment, which includes residential and commercial real estate as well as other long lived durable goods like cars and factories, has been a consistent weak spot as consumers retreat and companies don't invest in capital. A modest uptick is starting from record low levels. There is probably pent up demand for some of these goods.



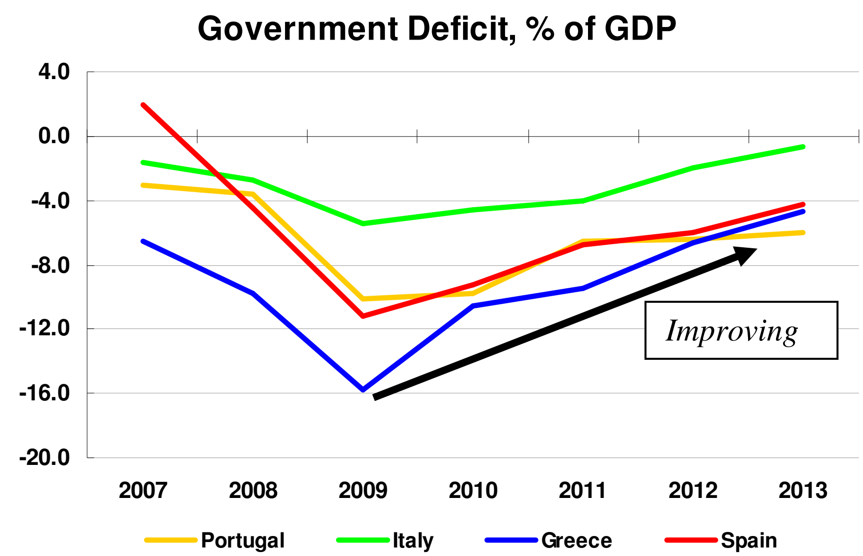
Source: Bureau of Economic Analysis and Todd-Veredus Asset Management



Sources: BEA

The chart to the left shows the percent of US GDP dedicated to consumer durables (blue line) and non-durables (red hashed line.) During the late 1990s until 2003, durables gained at the expense of non-durables. Since then, non-durables have risen smartly as durables weakened. Some reversal is likely as pent up demand is mostly for durable goods. Interestingly, if you sum these, the amount spent on both is about the same percent of GDP between 1995 and now.

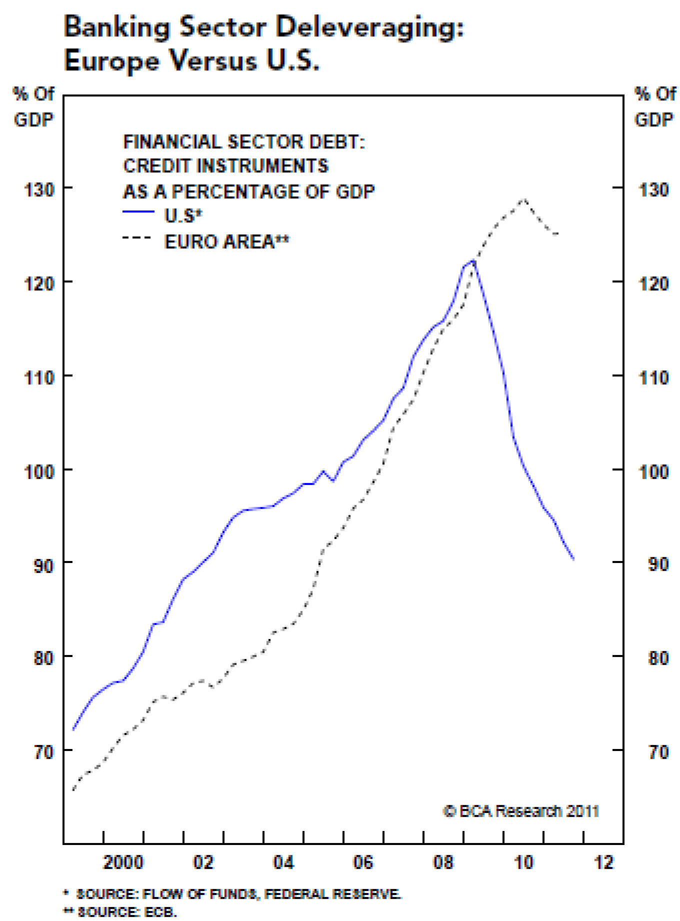
Weaker European Trends Only Improve Slowly



Source: Deutsche Bank, Eurostat and Todd-Veredus Asset Management

European problems center on deficit spending running at unsustainable levels. Investors are concerned about over-leverage and debt defaults. The top chart shows deficits as a percent of GDP for some of the most problematic countries. Note that a gradual improvement is expected through 2013.

Other European problems center on the leverage their banks employed to buy sovereign and corporate debt as investments. The chart to the right compares the financial leverage employed versus the GDP for US and European banks. US banks had their binge in 2008 and have delevered, while European banks have only just begun the process. This could be a headwind to recovery in Europe.



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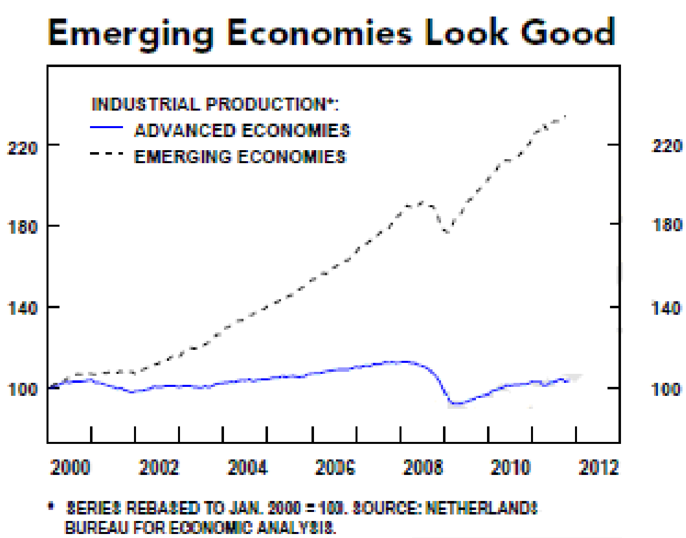
A Bright Spot for the Global Economy… The Emerging Markets

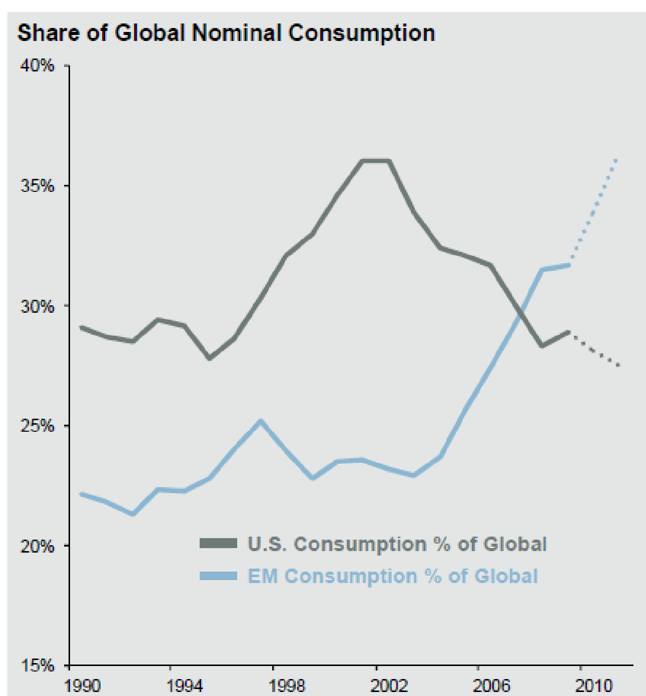
<u>The single most overlooked development on the world stage today is that the Emerging Markets are lowering rates and reserve requirements to stimulate growth.</u> These markets are likely to act as ours have in the past, i.e. lower rates means eventually improving economies and equity markets. Watch for a recovery from the BRICs (Brazil, Russia, India and China.)



Source: BCA

The chart to the left shows the aggregate industrial production growth for advanced versus emerging economies. Emerging economies' IP has better than doubled since 2002 while advanced economies' IP has stagnated. China's full membership in the World Trade Organization starting in 2002 probably drove this. We see no reason for this trend to reverse, though it may slow a bit.

The chart to the right illustrates the share of global nominal consumption for the US versus the Emerging Markets. Since 2002 the US proportion has shrunk while Emerging Markets are gaining, and they overtook US consumption in 2008.



Source: JP Morgan

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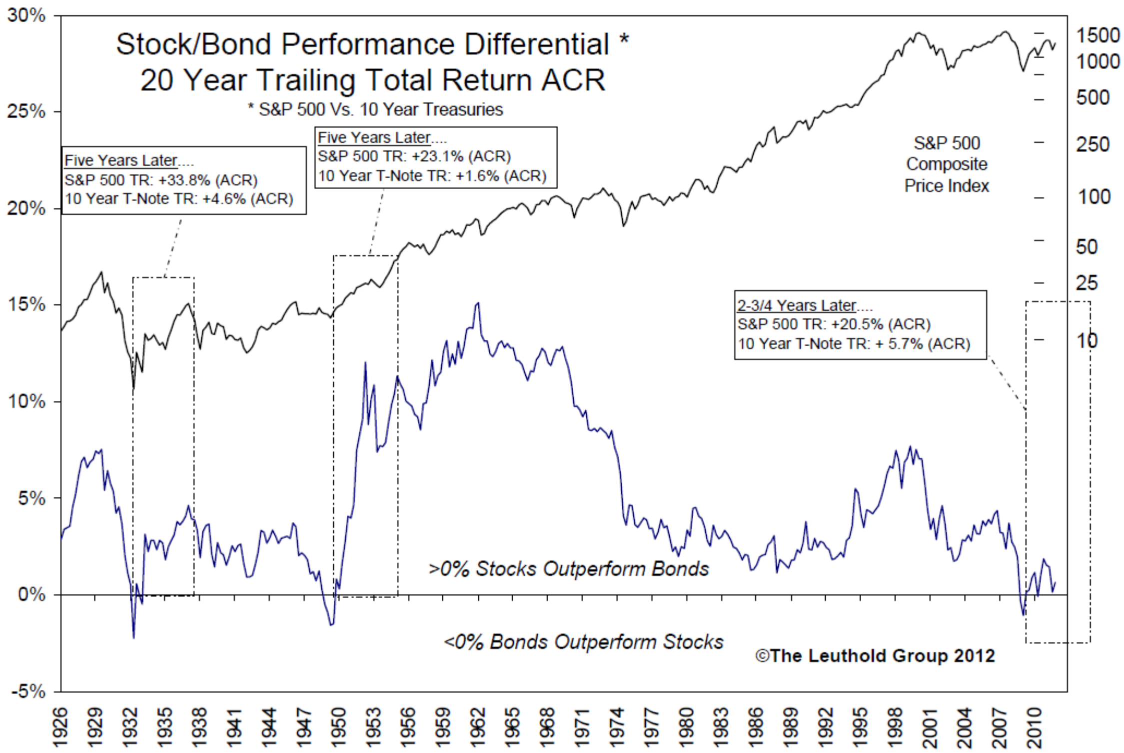
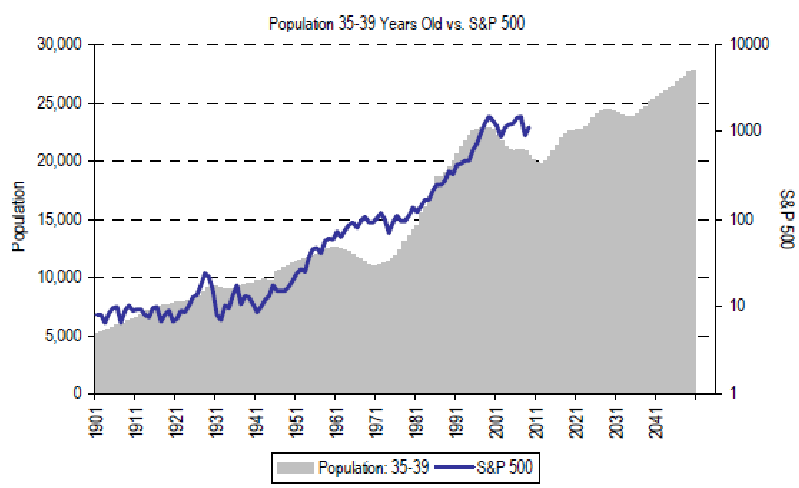
US Markets- We See Causes for Optimism for the Next Few Years



We believe the US Equity Market is setting the stage for better performance for the next two years. Our first reason for optimism is the chart above from the highly regarded Leuthold Group, which shows the absolute level of the S&P 500 compared to the 20 year relative return for stocks versus 10 year bonds. Whenever bonds showed superior performance over 20 years (like they did almost 3 years ago), the following 5 years showed better performance for equities.

On a secular basis, the chart to the right illustrates the level of the S&P 500 compared to the portion of the population between 35 and 39 years in age. This is generally when people start to invest and when this population rises, the market generally does better. This population is slated to increase in coming years.



Source: Citi

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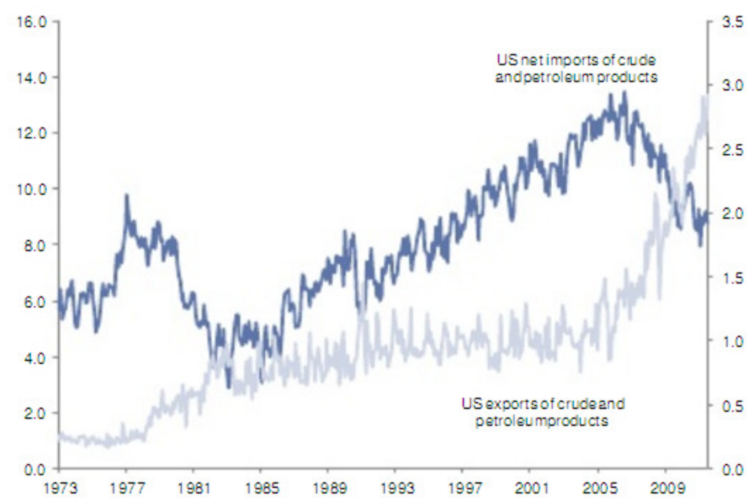
Energy Independence and Other Trends of Interest

The chart below illustrates US imports versus exports of petroleum products, and trends are improving. Fracking, a technique that allows drillers to go after previously untapped reservoirs, has allowed the US to start producing more oil and allowed our exports of petroleum products to grow dramatically. Further advances are expected, and the US could be energy independent in the next decade. Think of the impact that would have on the trade deficit and employment in the US.

US petroleum net imports have dropped by a third
US net imports and exports of crude & petroleum (000bl/d)



Source: US Department of Energy (DOE)

Other important trends we see playing out include a reinvigoration of our industrial base, a continuation in the growth of our net exports, and a frugal consumer that is busy getting their fiscal house in order.   All of these trends argue that US businesses and consumers are becoming more competitive. On the negative side of the ledger, there is still excess spending at the government level that will need to be addressed, though we suspect that some progress will be made on that front in the coming years.

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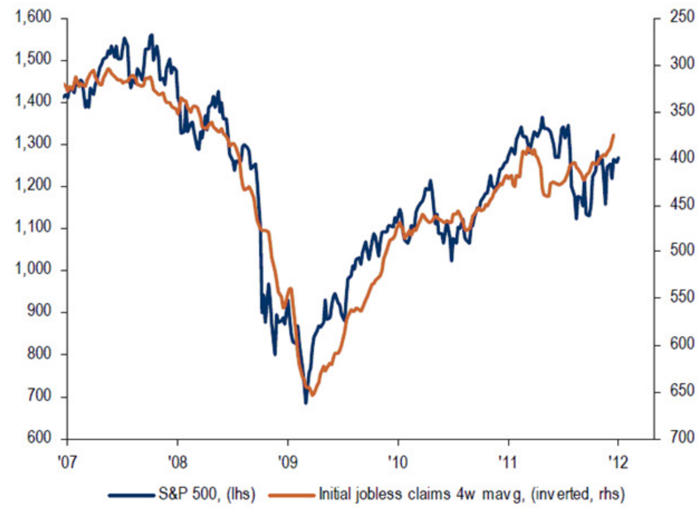
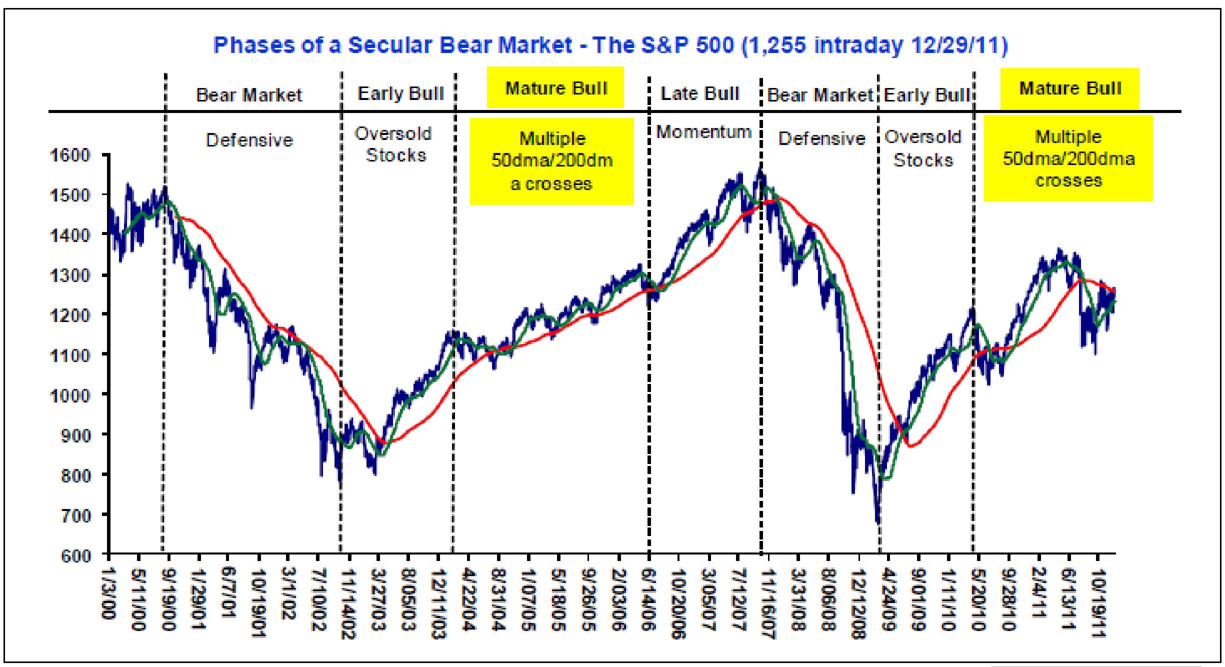
Jobs and Equities



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

Jobs have been a concern since the "Great Recession" hit in 2008. Job growth has been resilient lately, and as the chart to the left illustrates, as jobs go, so goes the equity market. The fact that we have had job growth despite having a lackluster recovery gives us some comfort that there is more room for this market recovery and we have not hit the end phase of the cyclical bull market that is illustrated below.

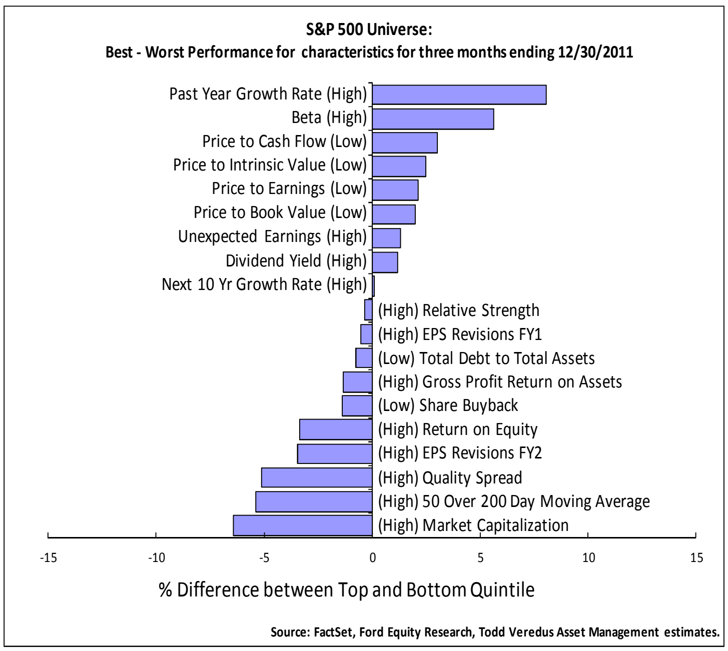


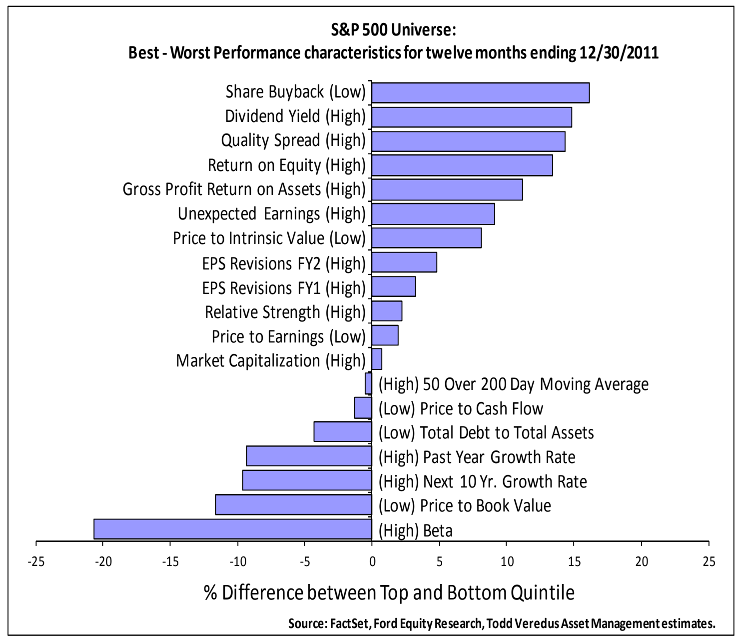
Source: Stifel

In summary, worldwide economies suffered headwinds last year. Markets have been volatile as a result of this, and that volatility may persist. We believe that economies worldwide have probably decoupled. Emerging Markets should see renewed growth, especially as they focus on the consumption side of their economies. The US should continue to see economic growth, but Europe is likely to suffer a self imposed recession. Markets worldwide probably have a better year in 2012 than in 2011 as investors become comfortable that the European problems don't migrate abroad, and low rates force investors to consider income alternatives aside from traditional bonds.

Large Cap Intrinsic Value Strategy Review

The US market recovered during the fourth quarter, as we suggested it would in our last letter. Third quarter concerns about the economy rolling over proved to be incorrect and the market rotated back towards companies that were showing good growth. The safety trade came off as investors moved away from quality and large cap. The interesting point we see in the characteristics below is that valuation measures performed very well during the quarter. This suggests to us that investors are still somewhat cautious in their moves and only willing to buy where valuation looks good. We suspect that this will remain the case for the next few quarters as investors appear reluctant to fully embrace the idea that an economic recovery is sustainable.





For the full year, market return characteristics were very different than either the fourth quarter or almost any other quarter! The worst characteristics for the year were among the best for the fourth quarter. We believe this illustrates the volatile nature of 2011. Sentiment in the beginning of the year was that an economic recovery was at hand, and that feeling evaporated in the third quarter as the European problems prompted a 20% decline during August. Late in the year, the recovery thesis came to the forefront again, but investors did it in a more conservative manner, focusing on the valuations. For the full year, the high quality “show me” stocks with cash to distribute to shareholders, good profitability and visibility of earnings were the winners. Our style tends to emphasize those qualities.

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How did the LCIV do during the quarter?

Our Large Cap Intrinsic Value composite (gross returns) beat the S&P by a little over 1.5% during the quarter and by more than that for the full year. It outperformed the Russell 1000 Value index by about 25 basis points during the quarter and over 3.3% for the full year. We are very pleased with these results, as JP Morgan reports that about half of managers lagged their benchmarks by over 2.5% for the year and almost a third lagged them by over 5%. Our emphasis on quality and valuation helped us during the year, and our bias towards economic sensitivity helped.

Some specific trends within our LCIV portfolios that impacted performance are as follows:

- Stock selection drove almost all of our outperformance.
- Our underweighting and stock selection in Financial Services helped performance during the quarter and year.
- Our stock selection in Consumer Discretionary helped performance for the quarter and year.
- Our overweighting in Technology hurt performance for the quarter and year. Our stock selection in Health Care detracted as well.
- We believe the market is still in a mature bull phase, where valuation and results matter for stock performance. This is the type of environment where our disciplines perform well.

The top five contributors to LCIV portfolio performance during the quarter were Philip Morris International, Union Pacific, Marathon Oil, Google and Ross Stores. We continue to hold all of these stocks. The five stocks that cost us the most in performance were Oracle, Broadcom, GameStop, Capital One Financial and Novartis. Looking through both the leaders and laggards, they are from various sectors and have many different reasons for ownership. It is difficult to pick one theme that caused either leadership or underperformance. We find this encouraging; as it indicates to us we are in a stock-pickers market.

Economic statistics lead us to conclude that the recovery is likely to be durable and sustainable. To capitalize on this, we are overweighting the Consumer Discretionary and Industrial sectors currently. We have been underweight the Financials and Staples. Regulations are likely to remain an issue for banks, although when investors become less concerned about European defaults, a strong rally could occur. We are looking within the group for a potential upgrade to the weighting. We are unlikely to increase our Staples weighting, as input costs remain an issue. We are examining Health Care for an upgrade, as the group consistently ranks among the best in our multi-factor ranking models.

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Intrinsic Value Opportunity Strategy Review

The Intrinsic Value Opportunity Strategy is our rules based product that seeks to opportunistically take advantage of market inefficiencies using our core discipline of intrinsic value, and focusing on cheap stocks that also have reasons to realize returns over the short term. The strategy has much higher turnover than our flagship LCIV product, and tends to become much more concentrated by sector as well. It is our deep intrinsic value product. Fourth quarter returns were disappointing for the product, coming in approximately 2% behind the Russell 1000 Value Index. Much of this was due to our significant underweighting in the Energy and Financial sectors. We also found that our stock selection in the Technology sector hurt returns as well.

For the year, the Opportunity Strategy outperformed (gross returns) the Russell 1000 Value index by almost 5.7%. As we have noted earlier, this is the portion of the market cycle where Price to Intrinsic Value is gaining traction, and the strategy is designed to focus on the best of those stocks that are attractive on this measure.

Specific characteristics that may be of interest:

- Stock Selection in the Consumer Discretionary and Financials sectors added the most to relative performance for the year.
- Our underweight in Financials and overweight in Health Care also added substantially to relative returns during the year.
- Most other areas tended to offset each other for the course of the year, though our consistent underweighting in Utilities was a headwind.
- For the year, on average, the portfolio overweighted Consumer Discretionary, Health Care, Technology and Staples. It underweighted Financials, Energy, and Utilities. Other sectors were about market weighted versus the Russell 1000 Value.

The strategy selects from the best third of the S&P 500 on a Price to Intrinsic Value basis, and then buys only stocks with attractive market acceptance, profitability or financial strength factors. Positions are equal weighted. The result is a portfolio with the potential to realize value over the short term. It is rebalanced quarterly to harvest gains and invest in new opportunities that may have arisen. For the most recent rebalance, the portfolio overweighted the Consumer Discretionary, Health Care, Industrial and Technology areas. The strategy is underweight the Utilities, Telecommunications, Financial and Energy sectors.

During the quarter, the five top contributors to return were Rockwell Automation, Home Depot, Varian Medical Systems, Safeway and Torchmark. The five greatest detractors from the portfolio were Avon Products and Devry, both of which were sold, as well as Broadcom, Oracle and St. Jude Medical.

We believe this is the portion of the market cycle where Price to Intrinsic Value will probably work well. As such we are optimistic about our prospects for 2012 with this strategy.

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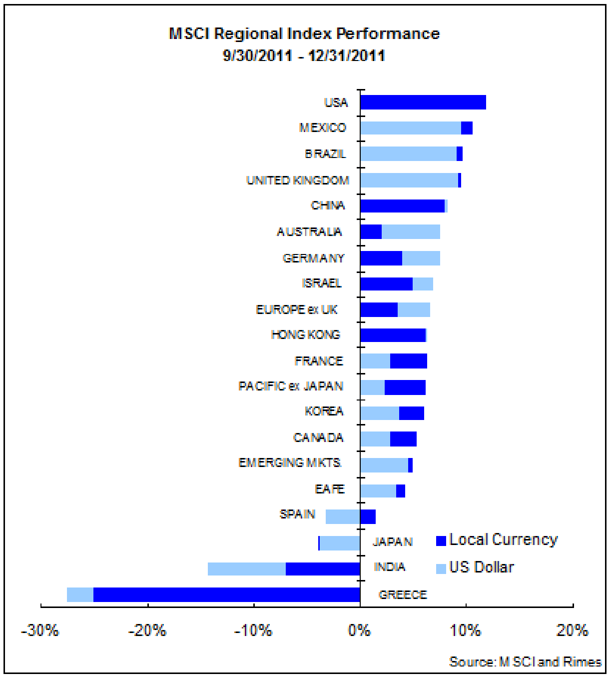
International Intrinsic Value Review

The EAFE index returned 3.4% for the quarter and declined -11.7% for the year. The chart below illustrates relative market returns for the quarter on a local currency and dollar basis. The US, UK and Emerging Markets tended to do better than most European markets.



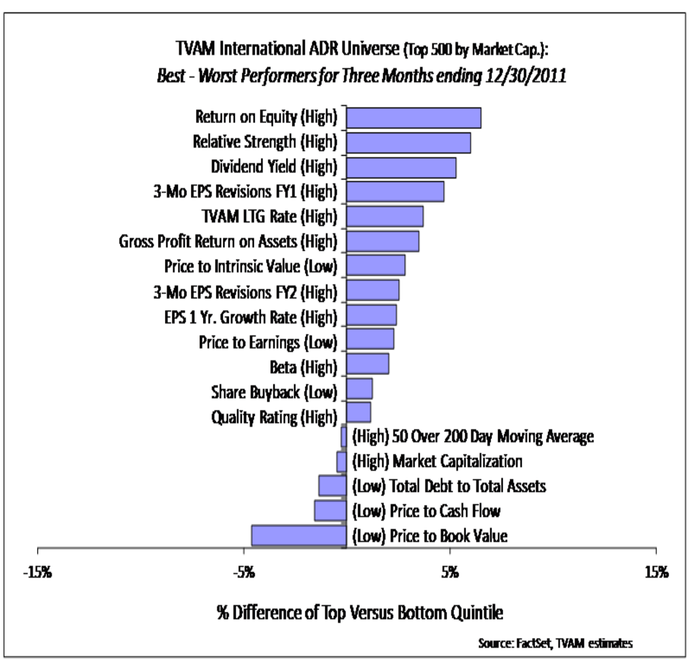
The dollar strengthened during the quarter as the flight to safety towards US Treasuries continued. This lowered returns in dollar terms.

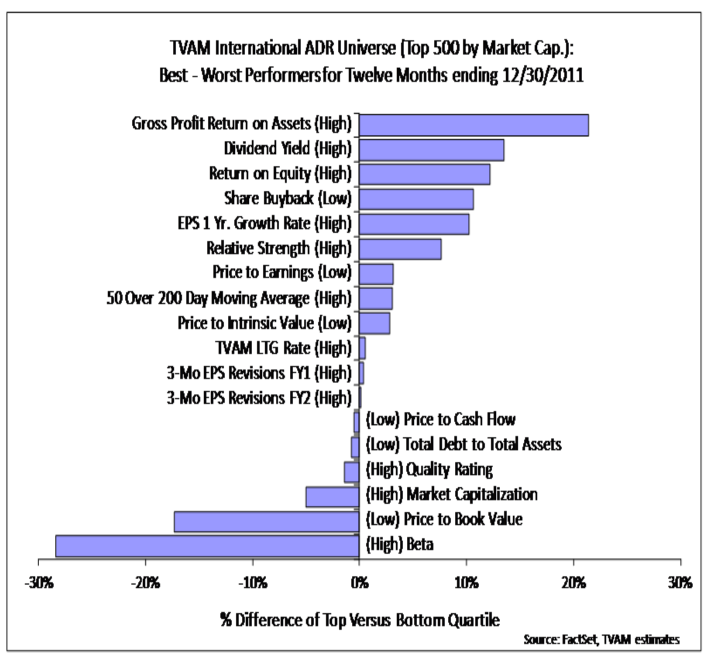
BRIC countries turned in a solid performance during the quarter, snagging three of the top four non-US performances.

The European problem countries (Portugal, Ireland, Italy Greece and Spain, the PIIGS) lagged the Core countries.

Japan has resumed their underperformance.

On a three month basis, International ADR Performance was led by securities with financial strength, market acceptance and the visibility of earnings. Valuations were only a mixed bag internationally. There may be a decoupling occurring where Europe has been dominated by the crisis and flight to safety, while the EM has seen recessionary concerns starting to give way to a traditional, rate driven recovery in the markets.





For the full year, strategies that helped performance focused on visibility of profits, dividends and earnings growth. Factors that lagged in that time frame were beta, accounting measures of value and market capitalization. The financials were among the largest companies in the index at the beginning of the year, and valuation for that group is dominated by accounting measures of value. Our sense is that the financials probably played a large part in those factors detracting from returns.

How did the International Intrinsic Value Strategy do?

Our International Intrinsic Value outperformed (gross returns) the MSCI EAFE index by over 4% during the fourth quarter, which led the strategy to modest outperformance of the index on a full year basis. This is the fifth out of the past six years where the strategy outperformed the EAFE index. International markets only rose by 3.4% during the quarter, as European financial concerns and Emerging Market inflationary concerns continued to weigh on those indexes.

Stock selection was the primary source of our outperformance during the quarter, as our selections in Industrials, Financials and Technology outpaced the index components. Staples were the only sector detracting from performance, and the underperformance was modest. During the quarter, the best contributions to portfolio performance came from CNH Global, Chicago Bridge and Iron, Canadian National Railway, Diageo and INVESCO. Many of these names benefit from continued growth in infrastructure building in the Emerging Markets. The most significant detractors from performance were Avago, Kirin Holdings, Makita, Mitsubishi and Coca Cola Hellenic. Three of these five names are Japanese, and suffered with that market.

As we look forward, we suspect that a global decoupling has occurred that should allow the Emerging and US markets to perform well, while Europe may lag due to a self inflicted recession. The easing that is occurring in the Emerging Markets, coupled with the potential for quantitative easing in developed markets should prevent a liquidity crisis this year. This could set the stage for reacceleration of Emerging Market demand. That would be an upside surprise to most investors and we believe we are positioned to take advantage of that in all of our strategies should it occur.

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Todd-Veredus Asset Management LLC
1- 17-12
S&P 500- 1293
EAFE- 1437

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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INTRINSIC VALUE COMPOSITE DISCLOSURE

Past performance does not provide any guarantee of future performance, and one should not rely on the composite 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 solely as part of 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. Investors should not construe the Composite's performance or any security as predictive of future results. A complete listing of the holdings as of the period end is available upon request.

Todd-Veredus Asset Management LLC ("TVAM") is a registered investment adviser. The performance presented represents composites of tax-exempt fully discretionary accounts, endowments, public funds; the Large Cap Intrinsic Value Composite is invested primarily in a diversified portfolio of large cap domestic equity securities TVAM believes are trading at a discount to their intrinsic value; the Intrinsic Value Opportunity Composite is invested in domestic equity securities within the bottom third of the S&P 500 Index based on price-to intrinsic value and have high relative strength or high share buyback ratings; the International Intrinsic Value Composite is invested primarily in large cap international equity securities (primarily ADRs) TVAM believes are trading at a discount to their intrinsic value. All of these composites seek capital appreciation.

On May 1, 2009, through a series of transactions, certain principals of Todd Investment Advisors, Inc. ("TIA") reached an agreement to purchase the firm from Fort Washington Investment Advisors, Inc. The assets and identified liabilities of TIA were then contributed to Veredus Asset Management LLC ("VAM") in exchange for 45% equity and VAM changed its name to Todd-Veredus Asset Management LLC. TVAM continues to offer the same products that each individual firm offered prior to the combination, managed by the same individuals and process.

The Composites contain fully discretionary, tax-exempt accounts that use either the S&P 500 Index, Russell 1000 Value Index, or the MSCI EAFE Index (Gross) 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.

TVAM claims compliance with the Global Investment Performance Standards (GIPS®). TVAM's compliance with the GIPS® standards has been verified for the period January 1, 2008 through September 30, 2011 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. To receive a complete list and description of TVAM composites and/or a full disclosure presentation which complies with the GIPS® standards, please contact TVAM at 1-888-544-8633, or write Todd-Veredus Asset Management LLC, 101 South Fifth Street, Suite 3100, Louisville, Kentucky 40202, or contact us through our Web site at www.toddveredus.com.

The performance information is presented on a trade date basis, net of management fees and includes the reinvestment of all income. Net of fee performance was calculated using the highest all inclusive annual management fee applied monthly of, .60% for the Large Cap Intrinsic Value Composite; 0.70% for the Intrinsic Value Opportunity Value Composite; or .80% for the International Intrinsic Value Composite. 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 (all shown with dividends reinvested):

S&P 500 Index is a widely recognized index of market activity based on the aggregate performance of a selected unmanaged portfolio of publicly traded common stocks. The performance data includes reinvested dividends and 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.
MSCI EAFE (Gross) Index (Europe, Australia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of June 2007, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The performance data was supplied by MSCI Barra.