

Emerging Manager Monthly

A Publication of Financial Investment News

The Trusted Source for Emerging Managers

August 2016

Poplar Forest Readies Next Chapter In Its Institutional Story

Poplar Forest Capital has seen sustained growth in its assets since landing its first institutional account through emerging manager-of-managers Northern Trust Global Advisors four years ago.

"After the first Northern Trust relationship we got some more business there. And then Progress came in off of that and they have both grown to be very nice relationships," said Dale Harvey, partner, ceo and cio of the Pasadena, Calif.-based Poplar Forest. "They've been very supportive of the firm and do a really nice job of helping emerging managers develop."

The relationship with Progress has recently led to the firm securing a \$109 million investment from the California Public Employees' Retirement System (EMM, 11/16).

The firm has also been in the mix for some direct mandates, including being selected as a finalist by the Los Angeles Fire & Police Pension System when the plan was moving a portion of its emerging manager program to direct mandates (EMM, 7/6/15).

The inflow of assets to the firm's institutional strategy, which stood at \$224 million as of June 30, combined with the steady increase of its mutual fund, has pushed Poplar Forest to nearly \$1.3 billion in total firm assets, a rise from \$470 million four years ago.

Along with the solid relationships the firm has developed with both Northern Trust and Progress, Harvey said the firm

Four Years Ago

Poplar Forest Carves Path To Success In Emerging Mgr. Space

Poplar Forest Capital has received its first emerging manager allocation from emerging manager-of-managers Northern Trust Global Advisors.

The domestic large- and mid-cap value equity firm was launched in 2007 by Dale Harvey, formerly a portfolio manager with The Capital Group Companies, where he managed more than \$20 billion through American Funds mutual fund sub-accounts.

"We started a firm that really focused on trying to deliver great long-term results and we want to stay small so that size does not get in the way of our investment results," said Harvey, founder, ceo and cio of Pasadena, Calif.-based Poplar Forest.

"I'm doing the same thing that I did at American Funds for years and years very successfully. It wasn't about wanting to do something different. It was just I wanted to do the same thing without the constraints of size," Harvey said.

The firm currently has approximately \$470 million in assets under management, the majority of which is through the firm's mutual fund.

The size of the allocation to the firm through Northern Trust was not disclosed, however Poplar Forest's minimum account size for a separate account is \$25 million. "We would like the institutional side of our business to grow," Harvey said. "We would love that to be a \$1 billion business for us and that is a first step in that direction."

Chris Murphy, head of client service and business development for the firm, said he believes the emerging manager space "just seemed like a perfect fit for us" and is grateful to have Northern Trust as its first relationship because of its longstanding emerging manager business. "They were one of the pioneers."

The allocation comes as the strategy prepares to reach its three-year mark at the end of 2012.

Along with Harvey, the firm has four full-time analysts that are primarily responsible for six to eight companies in the portfolio and also are charged with identifying investment opportunities for addition into the portfolio. Each of the firm's four analysts have sector responsibilities, but also have their responsibilities evolve based on

that are hyper-focused on the short term while its high conviction portfolio construction forces the investment team to remain focused and eliminate stock creep.

"I think you see a lot of other value funds with 80, 90, 100 investments, a significant number have positions that are less than one half of 1%. In our minds, that is not an investment that is a place-holder. We are not going to do that. If a stock is in our portfolio, it is going to be a meaningful investment," he said.

The firm's portfolio construction approach is centered on a ladder system that allows a company's weighting to range from 2% to 4%, with the position build up done in one-third "steps." For example, for a company with the potential to be a 3% holding in the portfolio, the firm will make an initial 1% investment and then evaluate, understand and absorb the stock and how it responds to news items and other factors to ensure as a value investor the firm is not "buying a falling knife," he said. If the stock continues to be correct, the firm will take another 1% position and once again evaluate the company before making the full investment.

"We think about risk as permanent losses of capital. We are not focused on benchmark risk. So we will have a portfolio that may have zero exposure in some sectors and up to 25% exposure in a sector and a lot of that is driven by where we see opportunity from a bottom up perspective and where we see risk," Harvey said, noting that currently the firm has a full weighting to financials and little or no exposure to the income-oriented market.

"In the short run people are worried and maybe defensive stocks are going to continue to perform and financials are going to lag and we are going to look out of step, but when the market changes, we are going to be in a great position," he said. "We are willing to look out of step in the short run with the goal of generating top decile returns."

What's In A

Harvey is a Virginia native and graduate of

continues to keep itself relevant and familiar to the other players in the manager-of-managers space.

"We would love to expand in that space," Harvey said. "We've talked to several more and I think a lot of it is finding opportunities – being there when they need somebody. We're trying to stay in front of as many people as we can and hopefully when a need rises they will think of us."

With Poplar Forest topping \$1 billion in firm assets and approaching a five-year track record in its institutional strategy, Harvey has seen an uptick in interest in the firm despite headwinds faced by many in the space such as philosophical shifts to passive strategies.

"We are seeing more interest. That said, it's a challenging market environ-

ment in which active management has struggled across the board. The whole rise of passive strategies is a headwind for everybody in this space so that's clearly something we've had to face," Harvey said. "I'm optimistic that there's a very positive cycle coming for active value. Looking at the next several years I think it's a really great opportunity and we're trying to find people who share that view."

Harvey's confidence in Poplar Forest's ability to continue its growth over the next several years is rooted in the firm's progress since launching in 2007 and the depth of the team he's built around him, which includes Portfolio Managers Stephen Burlingame and Derek Derman, Analysts Catherine Lloyd and Peter McAniff and, most recently, Akash Ghiya, who joined the firm earlier this year from PIMCO and helps round out the investment team moving forward.

The firm has also doubled its marketing team as it continues to work to project its story to the institutional space and beyond.

"Slow and steady...it's a battle of just getting that message out. We've grown our marketing team from two people to four because we think this is a great time to be investing with us," he said.

"We've got a great team and proven process," he added. "We're all highly-aligned with our clients. I think when you put all of that together it's a very compelling story and we're looking to tell as many people as possible."

Important Disclosures

Active investing has higher management fees because of the manager's increased level of involvement while passive investing has lower management and operating fees. Investing in both actively and passively managed mutual funds involves risk and principal loss is possible. Both actively and passively managed mutual funds generally have daily liquidity. There are no guarantees regarding the performance of actively and passively managed mutual funds. Actively managed mutual funds may have higher portfolio turnover than passively managed funds. Excessive turnover can limit returns and can incur capital gains.

Poplar Forest Capital, LLC, is the adviser to the Poplar Forest Funds, which are distributed by Quasar Distributors, LLC.

Mutual fund investing involves risk. Principal loss is possible. The Fund may invest in debt securities which typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The Fund may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater in emerging markets. Investing in small and medium sized companies may involve greater risk than investing in larger, more established companies because small and medium capitalization companies can be subject to greater share price volatility. The Fund may invest in options, which may be subject to greater fluctuations in value than an investment in the underlying securities.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus contain this and other important information and can be obtained by calling 1-877-522-8860 or by visiting www.poplarforestfunds.com. Read it carefully before investing.

None of the companies mentioned in the article are affiliates of Poplar Forest Capital, LLC.