Poplar Forest Capital

Dear Partners,

March not only marks the end of winter; it also marks the end of the college application process. The high school senior has much to sort out: Where do I apply? What should my essay be about? Then comes the waiting and worrying: Will they like me? Will I get in? Admission decisions start coming as early as December and continue through the end of March. This is a time of great tension for most students I've seen go through it. And after all the thick and thin envelopes have been opened, the big question looms: Where should I go?

I watched my oldest daughter navigate this process a year ago; my son tackled it this year. I've come to realize that the admissions process is just one phase in an anxiety ridden rite of passage: the transition from childhood into adulthood. Over the last month, I've read several articles about transition. I was particularly struck by author William Bridges's definition of **transition** as **a gradual psychological reorientation that happens inside us as we try to adapt to change.** With my oldest daughter, the transition from high schooler to independent college student – from submitting her first application to realizing that she'd made the right choice – took about 15 months. As she moved firmly into the second semester of her first year, I heard an excited new tone in her voice. She's on her way!

Mr. Bridges, a California-based consultant and former literature professor, breaks transition into three phases: 1) endings, 2) a neutral zone, and 3) new beginnings. For the college transition to be successful, our kids have to say goodbye to a familiar past while walking into an uncertain future. My son knows that he is going to college this fall; high school is ending. He is now in that uncomfortable neutral zone in which he is uncertain about where he'll go and is wracked by countless worries: Will I like the school I chose? What about my roommate? Will college be fun? Will the work be hard? Will I succeed?

From the outside, it seems confusing. Why aren't these kids happier? They've worked really hard and they've earned the opportunity to go to college. What great news! Fond memories of our own experience come flooding back. But our kids don't have the benefit of our hindsight. College is uncharted territory; uncertainty can be scary.

The current investment landscape offers parallels. For the last six years, investors have operated in an "easy money" environment. Like tutor-hiring parents who fear for their children's grades, the U.S. Federal Reserve (the "Fed") has purchased billions upon billions of dollars' worth of bonds to keep long-term interest rates low. The Fed believes this will help the economy earn better grades. To further their cause, the Fed cut short-term interest rates to zero and kept them there. These actions appear to have worked. The economy is growing reasonably and unemployment is falling. In effect, the economy has earned the grades to get into college; now it's time to see how our students do on their own.

Like anxious parents, many investors are worried about the transition to a self-sustaining environment. "Will my kid gets good grades in college without a tutor?" becomes "Will the economy continue to grow in the face of higher rates?" The market is in what Bridges would call a transition neutral zone – the period of greatest uncertainty. The Fed has been clear: interest rates are going to start increasing.

What isn't clear is the pace of those increases. To me, this is welcome news; the Fed is saying they are increasingly confident the economy can manage on its own.

Uncertainty – what impact will higher interest rates have?

Not only has the Federal Reserve made clear their intention to raise interest rates, they have also given investors some clues as to magnitude. The pronouncements of the Federal Reserve's Open Market Committee include a consensus view that, in a more normal environment, the Fed Funds rate should be around 3.75%. Relative to the current level of 0.00%, there are big rate increases coming.

If investors become convinced that rates are going up significantly, they may begin to liquidate some of their fixed income investments because as interest rates rise, bond prices fall. Where might that money go? Perhaps cash balances will simply grow, but with cash offering returns below the rate of inflation, investors lose purchasing power by holding cash. Perhaps funds will flow into real estate or commodities, but given the track record of those asset classes in the last five to ten years, that seems less likely. That may leave stocks as the most attractive asset class for the time being. I can imagine investors driving prices higher at a rate faster than earnings are growing. It doesn't seem unreasonable to believe the ratio of price to earnings could grow to 20 times before the market reaches a peak.

One of my worries about the market phase we are transitioning into is that it may lead us to become too conservative too soon. While some commentators are concerned that rising interest rates will soon lead to a big decline in stock prices, I can more easily imagine the opposite. If the transition to higher interest rates results in excessive valuations for equities, our portfolios could produce positive investment results that lag the returns of the S&P 500. That may be the result of our taking a more conservative posture in the interest of managing risk. Price matters: as prices rise, the risk of loss grows.

A note on risk: while many market participants describe risk as deviation from some market benchmark (like the S&P 500), we at Poplar Forest define risk as permanent losses of capital. Part of the current love affair investors are having with index funds is their lack of deviation risk (a.k.a. tracking error). While investing in an index fund reduces the risk of generating a below market return, it also reduces the chance of beating the market. With the S&P 500 having produced a compound total return of almost 15% over the five years ending 3/31/15, just keeping pace seems like a great idea. However, index fund providers keep buying as stock prices climb and, as a result, index funds bare the full brunt of any bear market.

I am hopeful that Poplar Forest's investment process, with its attention to risk and a 15% hurdle rate on new investments, will allow us to do better than the indices when lean times arrive. That said, we may underperform in the stage of the cycle where stocks move from fairly valued to overvalued. As I reflect on my behavior, there is a good chance that I'll need to strive to not jump the gun in growing too conservative too soon in the later stages of this investment cycle.

I don't know when the next bear market will come. The odds of a bear market coming soon seem low for reasons I've already mentioned. The economy is growing in what appears to be self-sustaining fashion. Continued economic growth should allow corporate earnings to continue to advance once we

get past a couple current headwinds. Valuations appear reasonable. And finally, we believe **the Fed is not trying to slow the economy**. This last point is important. While the Fed has signaled its intention to raise interest rates, their posture is one of removing stimulus – they are taking their foot off the gas. If the Fed were raising rates to slow the economy – putting their foot on the brakes – I'd be far more concerned. I watch the shape of the yield curve closely in assessing the Fed's intentions. At present, the yield curve is positively sloped; if the curve inverts, we'll likely take a very defensive posture.

As I look ahead, the outlook for stocks appears positive given the factors discussed above. This could be augmented by additional inflows into equities if investors liquidate bonds in anticipation of higher rates. Such behavior could push stocks from fairly valued into the zone of excessively valued. If we see evidence of this behavior, we'll act accordingly. Likewise, if the yield curve inverts, we'll take a more defensive posture in the portfolio. Until then, we will focus on identifying (from the bottom up) what we hope will be great individual investments. Given that we're in the uncertain zone of transition from easy money to more normal monetary policy, we may have to live with increased market volatility. As a result, we may hold a little extra cash to provide us with funds to deploy in market corrections.

In closing – Thank you

This is also an exciting time of transition for Poplar Forest. You may have noticed the new logo. A new website is in development and work is underway to enhance the IT systems we use to manage portfolios. We are also adding to the team. John Blau, currently the President of Oppenheimer Asset Management, will soon be leading our marketing and client service efforts. We've added administrative support and two interns will join us this summer (twice what we've hired in the past) as part of our plan to eventually grow the analyst team from four to six. We'll be expanding our office space to accommodate this growth.

We launched the two mutual funds, the Outliers and Cornerstone funds, at the end of 2014.

After seven and a half years of hard work by a great team of associates, we find ourselves in a very strong position and with a bright future. None of this would be possible without the confidence expressed by our thoughtful, long-term client partners who have entrusted us with their money. We will continue to do what we've done from the beginning: invest alongside you in our funds with the goal of generating market beating, long-term returns. Thank you for making this possible!

J. Dale Harvey
April 2, 2015

Note: for more on William Bridges, see www.wmbridges.com

Contrarian Value – Partners Strategy

Poplar Forest Capital
Contrarian Value - Partners Strategy
Average Annual Total Returns

	1Q 2015	Calendar YTD	1 year	3 year	5 year	Annualized Since Inception (11/1/2007)
Composite Gross	-0.32%	-0.32%	6.17%	19.03%	14.52%	8.63%
Composite Net	-0.57%	-0.57%	5.11%	17.81%	13.29%	7.44%
S&P 500	0.95%	0.95%	12.73%	16.11%	14.47%	6.27%
Russell 1000 Value	-0.72%	-0.72%	9.33%	16.43%	13.75%	5.12%

Past Performance is not indicative of future results and individual account performance may vary. Please see additional disclosures at the back of this document.

While stocks, as measured by the S&P 500, produced a very modest gain to start the year, our portfolio generated a small loss. The biggest positive contributors to our results during the quarter were Aetna, Quest Diagnostics and Baker Hughes. The biggest detractors to our results during the quarter were Hewlett-Packard, Rowan Companies and Microsoft. Looked at by industry, our healthcare holdings added the most to our results while our consumer investments were most detrimental to the Fund's short-term performance.

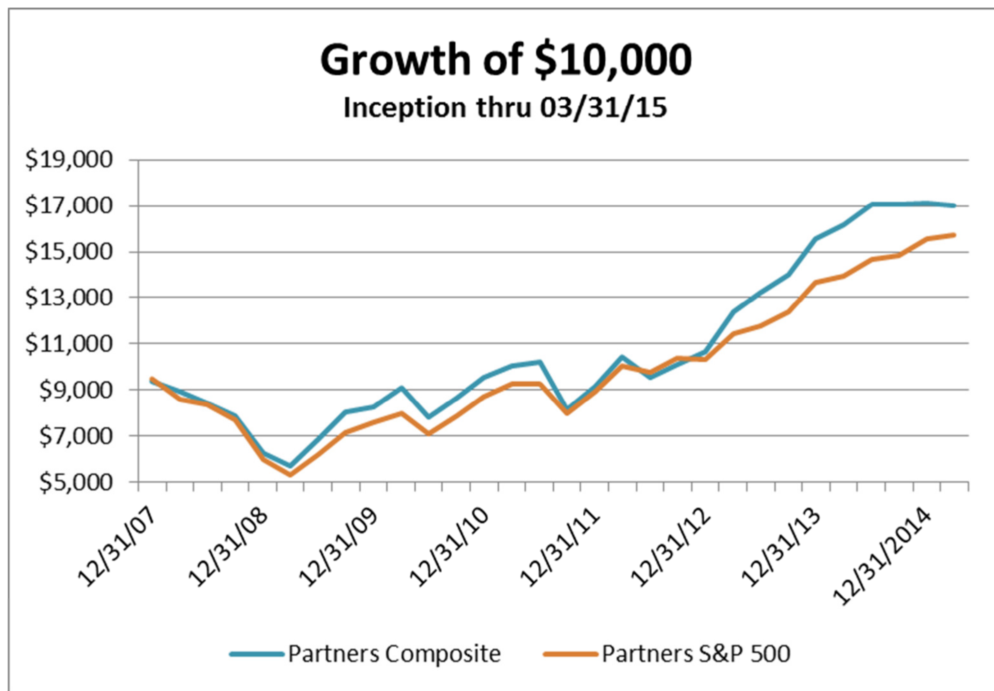
While the economic environment in the U.S. appears sufficiently positive to lead the U.S. Federal Reserve to start the process of normalizing interest rates, that is not the case overseas. Economic growth in emerging markets has been disappointing, and Europe continues to battle a lethargic economy and potential deflation. As a result, the prices of many commodities have fallen and the U.S. dollar has strengthened. The dollar appears to be responding to the current environment of higher interest rates in the U.S. relative to other developed markets. In the short-term, the strong dollar cuts the price of imported goods (good news for consumers), but it also reduces the value of overseas profits (bad for companies with non-U.S. operations). The net result of the strong dollar and weak oil prices has been a material reduction in corporate earnings estimates and that may explain the relatively lackluster performance of stocks in the first quarter of 2015.

With energy and other commodity prices having fallen dramatically, this would appear to be an environment in which bargains could be found. We are spending a great deal of time looking for new investments in the area, but most of the stocks we look at appear to embed expectations for dramatic improvement in prices. While we believe oil prices may return to $75 over the next couple years, we do not appear to be alone in that belief and, as a result, we haven't identified any new energy investments despite our continued investigation. If investors capitulate and give up on a recovery in oil prices, we may yet get a chance to meaningfully increase our exposure to energy stocks.

Long Term Results

Given our focus on long-term investing, we tend to focus more on our long-term results. On an absolute basis, we are pleased with what we've been able to accomplish since launching the fund over five years ago. While in recent quarters the Strategy has not kept pace with the S&P 500, we are pleased to have generated annual returns of 7.44% since the Strategy's inception. In comparison, the S&P 500 has produced a 6.27% return during this period.

The chart below is a hypothetical representation of how $10,000 would have grown had it been invested in the Strategy (to $17,022) or in the S&P 500 (to $15,701). If we are successful, the gap between the lines on the chart will widen over time.



Past performance does not guarantee future results. This chart illustrates the performance of a hypothetical $10,000 investment made in the Strategy since the Strategy's inception on 11/01/2007. It assumes reinvestment of dividends and capital gains. This chart does not imply any future performance.

Investing involves risk. Principal loss is possible. Investments in medium-sized companies involve additional risks such as limited liquidity and greater volatility. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

As of March 31, 2015, the Contrarian Value Partners Strategy's 10 largest holdings accounted for approximately 44.8% of total fund assets. The Strategy's 10 largest holdings at March 31, 2015 were:

Baker Hughes – 5%
Quest Diagnostics – 4.8%
Lincoln National – 4.7%
Eli Lilly – 4.6%
TE Connectivity – 4.6%
Aetna – 4.6%
Citigroup – 4.2%
American International Group – 4.2%
Metlife – 4.1%
AECOM– 4%

Composite holdings and sector allocations are subject to change at any time, and should not be considered a recommendation to buy or sell any security.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

The Price to Earnings (P/E) Ratio reflects the multiple of earnings at which a stock sells.

The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is not possible to invest directly in an index.

A hurdle rate is the minimum expected total annual return from an investment over the expected lifetime of the investment.

A yield curve is a line that compares the yield of bonds of equal quality but different maturity dates. In general, bonds with longer maturity dates offer higher yields than bonds with shorter maturity dates, thus producing an upward sloping yield curve..

The Dow Jones Industrial Average is a price weighted index consisting of 30 large, publicly owned companies in the U.S. It is not possible to invest directly in an index.

Composite Specific Disclosures

Contrarian Value – Partners Strategy Composite contains fully discretionary contrarian value accounts that will generally hold 25 to 35 companies with (i) an investment-grade debt rating, (ii) a history of paying stock dividends, and (iii) a market capitalization among the top 1,000 companies in the United States. These

accounts are managed using a long-term approach to security selection. We define value investing as buying businesses at a discount to our assessment of fair value. We believe fair value is a function of sustainable free cash flow and the growth of that free cash flow. This perspective leads to an investment process that considers both valuation and growth. The balance between these two metrics will vary over time based on where we see opportunity. As no single benchmark is constructed in a manner consistent with our process, we present two indices: the S&P 500® Total Return Index with its balance of growth and value and the Russell 1000® Value Index which is comprised of companies with lower price-to-book ratios and lower expected growth rates.

Poplar Forest Capital LLC is an independent SEC-registered investment advisor that commenced operations in October 2007.

Poplar Forest Capital LLC claims compliance with the Global Investment Performance Standards (GIPS®).

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net-of-fee performance is calculated using the monthly fraction of the highest annual management fee incurred, applied monthly: for the period from composite inception through March 31, 2013: 1.15%, and for the period April 1, 2013 through current: 1.00%. Past performance is not indicative of future results and individual account performance may vary.

The investment management fee schedule is as follows: for pooled investment vehicles management fees are 1.00% with breakpoints outlined in the specific offering documents; for separate accounts it is 1.00% on the first $25 million and 0.60% on the remainder. Actual investment advisory fees incurred by clients may vary.

The compliant presentation and a list of composite descriptions are available upon request by calling Christopher E. Morphy at (626) 304-6000.