Poplar Forest Partners Strategy Quarterly Update

June 30, 2016

Poplar Forest Capital

Dear Partner,

There's an old Adirondack chair on the porch at my house. It's a quiet place to sit and read and think. There is a lovely peacefulness in looking at the grass and flowers. It’s particularly nice in the late afternoon when the breeze gently blows the leaves on the trees. Being away from the noise of the market can be very productive. Over the last few weeks, I spent a fair bit of time in that spot reflecting on my two decades of work as a portfolio manager.

Upon receiving my first portfolio responsibility in the American Balanced Fund 20 years ago, I set a goal: beat the S&P 500 by at least 3% per year for at least 30 years. Legendary investor John Neff and his team at the Windsor Fund had accomplished that and I aimed to do better. While an extra 3% a year may not sound like much, few professional investors have achieved this level of success and it has powerful implications for clients. If, for example, the S&P 500 were to produce a compound annual total return of 7% over 30 years, then someone who initially invested $100,000 would have roughly $760,000 at the end of the period. In contrast, a portfolio that generated 10% a year - 3% per year more than the S&P - would be worth $1.75 million after 30 years. It is quite rewarding to know that a successful investment process, as exemplified above, could result in clients having more than twice the money they would have had if they had put their money in an index fund.

Achieving the magnitude of returns I have long targeted isn't easy. Most mutual funds fail to beat the market, and that certainly explains the current popularity of passive investment strategies. If I didn’t believe I could beat the market, then I would have chosen a different line of work, and I certainly would not have started Poplar Forest in the fall of 2007. As I look back on the last 20 years, I am very pleased with what's been accomplished, and I am optimistic that what I’ve learned will make the next 20 years even better. I’ve tried to use this letter as a vehicle to share the key takeaways from my experience in the hopes of making our investment process even more fruitful.

None of this happened in a vacuum; I’ve been blessed to work with incredibly talented people at both the Capital Group/American Funds and at Poplar Forest. Colleagues make a huge difference in the quality of our work life and I've been fortunate to work with many like-minded people who share a commitment to putting clients first.

The Last Twenty Years

My first few years as a portfolio manager (1996-1999) were difficult. In early December, 1996, Alan Greenspan first raised the prospect of "irrational exuberance" in the stock market. As it turned out, Greenspan was a bit early with his worry. Stocks, as measured by the S&P 500, more than doubled in a little more than three years after Greenspan coined the now-famous phrase. Investors were enamored with growth. Traditional valuation measures were discarded in favor of new approaches based on potential customers. Who cares about the proverbial bird in hand when there might not be just two, but a dozen in the bush? Those of us who believed in “value” and “buy and hold” investing were deemed to be dinosaurs who just didn't get it. I remember a neighbor regaling me with tales of tremendous stock market gains. He had little idea what he was buying, but he was getting rich while my thoughtfully constructed portfolios went nowhere.

Then the tech bubble burst...

The next eight years (2000-2007) was a Revenge of the Nerds period when value investors were rewarded handsomely while former market darlings crashed. My heretofore brilliant neighbor suffered losses that wiped out all his profits and more. We stopped talking about the market; how about those Dodgers? It was a fertile time for acolytes of Graham and Dodd. Warren Buffett's reputation for brilliance was restored. Value stocks, as measured by the Russell 1000 Value Index, generated almost 10% a year more than the stocks in Russell's Growth Index. It seemed the best of both worlds: value stocks declined far less than the market when the tech bubble burst and they returned more in subsequent years.

Then the housing bubble burst...

Value stocks, the darlings of the previous eight years, didn't shield investors from losses in the 2008-09 bear market as they had in 2000-2002 – nor did they recover as strongly. The last cycle's winners became the next cycle's losers. Economic growth was mediocre despite Herculean efforts by central bankers around the world who tried to use monetary policy to jump-start growth. After having lived through two major bear markets in a decade, investors became scarred and risk averse. As a result, current investor favorites are a bit of an odd couple - growth stocks and companies with high dividend yields. As a result, companies like Amazon and Netflix trade at over 100x earnings, and leading electric utilities like Duke, Southern Company and AEP trade at 18x. When I started in the business, utilities were valued at 11x (a substantial discount to the market) because they were perceived to be slow growing; now they trade at a premium because they are perceived to be safe and because they offer above average dividend yields.

The post-financial crisis investment environment has been dominated by macroeconomic factors and unprecedented central bank intervention in markets. As investors try to guess the direction of the economy and central bank policy, their actions appear to be that of a metronome ticking back and forth between "risk on" to "risk off," with the result being undue volatility in markets. In the last eight years, there have been fifteen market declines of 5% or more (see Appendix). Each time, an event has created worry of downside in stocks that leads fearful investors to sell. Brexit is the latest such episode and there will likely be more such scares in the future.

Takeaways: Many investors look backward, not forward. Markets are cyclical and cycles can last longer than expected. The winners in one cycle often become losers in the next cycle. While value investing may win in the long run, it doesn't beat the market every year. The pendulum swinging between fear and greed can result in dramatic changes in valuation that can overshadow earnings growth in the short term.

Volatility and Lumpy Results

When I was in business school, we were taught that companies with more volatile results are more risky and thus deserving of lower valuation multiples. While there is merit to the argument, especially for investors with a short time horizon, I think the concept has been overly emphasized. **While the current zeitgeist could be summarized as volatility equals risk and risk is bad, I think volatility can be good for long-term investors in that it provides opportunities to buy low and sell high – provided one can confidently assess the intrinsic value of the securities being bought and sold**.

Over my career, shifting sentiment has created investment opportunities when then current market worries pushed the value of certain stocks down to prices that were too good to pass up. In some cases, pursuing those bargains led to periods of weak results for our strategies, for example in 2011 when financial stocks went on sale and in 2015 when worries about impending doom in China led to discounts on energy and commodity companies. Investing in banks and insurance companies in 2011 ultimately proved very rewarding, though we had to live through over a year of weak results relative to the broad market. Buying energy stocks a year ago also produced handsome returns. In the last week, Britons voting to leave the European Union have led to yet another bout of volatility and stock price declines. I believe that when we look back in a couple of years, the bargains we currently see will have also produced market-beating returns.

The biggest problem with buying stocks that are "on sale" is there is no way of knowing in advance how long the sale will last, or how big the discounts will become. Being a contrarian requires patience; out of favor stocks can stay out of favor for a long time. I think it is important to stick with our process even when it's out of sync in the short term. For example, the "old economy" stocks that I found to be attractively valued in 1997 stayed in the market's dog house for a couple years. As the bubble inflated, commentators seemed to be constantly extolling the virtues of the stocks that were in favor while heaping scorn on those in the dog house. Investing contrarily involves minimizing the noise that is driving the behaviors of others and focusing on the business fundamentals that drive long term value. When the tech bubble burst, those that had been last were suddenly first.

Many professional investors are afraid of long stretches of underperformance as it creates challenges for the marketing department. Prospective clients may have a hard time determining whether weak short-term results are either (1) the result of a bad process, or (2) an outcome of an investment approach that is out of sync with the current fashions of the broad market. In my experience, there is a tendency to assume the worst. As a result, even managers with great long term track records often have to live with client redemptions at precisely the time they see the greatest number of bargains and, conversely, have to deal with an influx of new client funds AFTER their performance has recovered. People say they want to buy low and sell high, but in practice, they often do just the opposite.

In the BUSINESS of managing other people's funds, lumpy returns can create a problem. In the PROFESSION of stewarding clients' hard earned money, lumpy results are often a byproduct of a disciplined investment process. From my vantage point, too many practitioners are more focused on the business, and too few on the profession. As a result, I am not surprised by the popularity of index funds that charge low fees in exchange for "average" results. I'm also not surprised by the creeping practice of "closet indexing" pursued by many so-called active managers. I think John Maynard Keynes was talking about this challenge when he said:

> *"It is the long-term investor, he who most promotes the public interest, who will in practice come in for the most criticism, wherever investment funds are managed by committees or boards or banks. For it is in the essence of his behavior that he should be eccentric, unconventional and rash in the eye of average opinion. If he is successful, that will only confirm the general belief in his rashness; and if in the short run he is unsuccessful, which is very likely, he will not receive much mercy. Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."*

In this context, I'd prefer to be deemed *"rash in the eye of average opinion"* while being successful, than wise and not beating the market. When I founded Poplar Forest in the fall of 2007, I intended to build a professional investment management firm focused on generating market-beating, long-term results for a select group of clients. The contrarian investment process we follow seems to me to be a great way to grow wealth dramatically in the long term, but it can produce uneven results in the short term. I'd rather make a lumpy 10% compounded annual return than a smooth 7% a year. But not everyone feels the same way, and the pattern of our results simply may not appeal to certain prospective clients. I wish that weren't the case, but our goal isn't to be everything to everyone; we simply strive to deliver market-beating, long-term results for those who agree that a contrarian approach to investing makes sense and who can weather the ups and downs of this approach.

Takeaways: Volatility can create opportunity, yet the "noise" accompanying it can at times be deafening. I need quiet space to think, to chew on potential ideas. I need to constantly find ways -- like that Adirondack chair on my porch -- to escape the noise of email and blinking prices on my computer monitor. Stocks that are cheap usually aren't popular. I'm willing to accept short-term volatility and discomfort in exchange for potentially great long-term returns. Lumpy results can be a challenge for the marketing team, but they seem to be an unavoidable characteristic of long-term, contrarian investing.

Bad Timing versus Bad Outcomes versus Mistakes

As I said previously, one cannot know in advance how long a sale will last or how deep the discounts will go. Our process of investing in "scoops" of 1/3 of our target position at a time (as opposed to buying a full position all at once) has generally helped our results - especially in 2008 - but perhaps we can do better. As I think about the future, I will be paying a little more attention to the timing of initial investments with a goal of improving our returns. In particular, I think there may be room for me to go a little more slowly when acquiring shares of particularly beaten down stocks.

In contrast to bad timing, bad outcomes are something that I don't know how to avoid - every investment, with the exception of cash, has some risk of capital loss. We do detailed and thoughtful analysis to identify those investments where we believe the probability of success is decidedly skewed in our favor, but even situations offering 80/20 odds will not work out one time in five.

In my experience, most stocks are fairly valued most of the time. If all stocks were fairly valued all of the time, as some academics suggest, then investing would be akin to betting on the flip of a coin - the odds of "winning" would be 50/50. The purveyors of index funds would have you believe that all investing is similar to betting on coin flips and that your best bet is to simply buy a little of every coin in the hopes of simply achieving an average outcome.

My apologies to those of you with bad memories of statistics class in high school or college, but statistics offers a helpful alternate explanation: the normal distribution. The concept of a normal distribution suggests that roughly two-thirds of the time an investment will generate a return roughly in line with the average, i.e. you might as well have flipped a coin. However, one third of the time, the outcome will be statistically different than normal with 1 out of 6 being appreciably better than average and 1 out of 6 being worse than average. If one were to take a universe of 500 stocks, like the S&P 500, then statistics would teach us that at least 80 stocks (500 / 6 = 83) would be better than average in any given time period.

Our investment process at Poplar Forest is focused on identifying those stocks whose future returns will hopefully be on the right hand side of the normal distribution curve while seeking to avoid those offering the dreadful and often negative returns of the left side. We generally own just 25-35 stocks at a time since we are focused on investing in companies which, in our opinion, reflect the best risk/reward ratios in the market. I distinguish bad outcomes from mistakes because while we may be correct in assessing the risk/reward ratio of a given investment, it still may not work out in our favor in the same way that even Stephen Curry doesn't make a basket every time he shoots the ball. Given how good a shooter he is, his coaches want him to shoot as often as he can because his odds of launching a successful shot are demonstrably above average. But as we've seen, even a league MVP on a team with the best record in history can go home without a championship ring when too many shots fail to go in the basket. Losing a game or a series doesn't necessarily mean a team has a bad process; sometimes the ball just bounces the wrong way.

As I look back over twenty years, there have been times when it was a mistake for me to shoot. My worst shot (i.e., biggest mistake) was in believing the housing down cycle in 2007-2009 would not be as severe as it turned out to be. I could see evidence that houses were over-valued by 20% in 2007, yet my evaluation of the downside risk in Fannie Mae, Freddie Mac, etc., assumed home prices would decline by no more than 5%. I believed that as long as people had jobs, they would pay their mortgages. As long as loan payments were made, mortgage finance companies would be okay. This was just plain wrong.

This error was compounded by leverage. I failed to appreciate the financial leverage employed by the leading mortgage finance companies. When your assets are levered 30-to-1, a 4% decline in asset value completely wipes out the equity account - next stop: bankruptcy. Fortunately, our process of investing in scoops helped limit the damage of my analytical mistakes with these stocks. Still, we would have been much better off if we had avoided them entirely.

One lesson of this experience might be: avoid leverage of all types. Looking at some of the bad outcomes produced by our investment process would suggest this as an advisable process change, but it would come at a cost. In fact, some of my best investments have been businesses with significant financial or operating leverage. Furthermore, no investment program can eliminate mistakes; the challenge is to minimize their impact. While I will be more sensitive to leverage in the future, I'm not going to make a "no leverage" pledge. Instead, I will be a little more sensitive to the margin of safety in investments involving companies with high operating or financial leverage. I will also pay a little more attention to the underlying quality of the businesses in which we invest.

I suppose time horizon impacts one’s judgement as to whether a decision was a mistake versus bad timing. For several years now, I’ve expected interest rates to increase as I did not believe investors would be willing to accept negative real interest rates. So far, that conclusion has been wrong, but does that mean it was a mistake? I don’t think so. Importantly, our investments in businesses that would benefit from higher interest rates involve companies with very strong capital positions that can survive if interest rates stay at historically low levels. As a result, I believe our downside is limited, but that the upside will be more than worth the risk when the interest rate cycle turns.

Takeaways: Seek companies with staying power in case our assessment of conditions proves to be poorly timed. Consider “normalizing” balance sheet leverage when determining intrinsic value – this would isolate the impact of financial engineering from business fundamentals.

What's Worked? - Price Relative to Normal Earnings

I love my job, in particular the thrill of discovering a greatly underappreciated company with tons of upside and a long runway of potential outperformance. It doesn't happen often. Finding such an opportunity - a stock I can imagine being invested in for a decade - brings me great joy. It can feel like being a kid at Christmas.

Investments that evoke those feelings of elation often involve companies whose margins are depressed relative to their own history and to the margins of their competitors. I love to find businesses that have under-levered balance sheets and that generate excess cash despite having depressed margins. It's even better if they participate in a growing, yet fragmented industry where there is an opportunity to take market share and to grow a bit faster than the economy for the foreseeable future. The combination of revenue growth, margin expansion and the deployment of free cash flow can drive tremendous growth in earnings per share. In a perfect world, I would be able to buy the stock for a market multiple or less. When everything goes well, an investment like this can double or triple in price over a few years and a potential reward of this magnitude seems worthy of patience even if things don't go well in the early innings.

At times, this creates confusion for those looking at our portfolio. In the short run, a company like I've described above may not look particularly "cheap" on a current P/E basis. Given that we're contrarian value investors, observers sometimes wonder why the aggregate valuation metrics of our portfolios don't look lower. Given the choice between a company with historically high margins trading at 12x earnings or a business with depressed margins trading at 15x, I'll more than likely choose the second stock despite it appearing more expensive. I focus on normalized earnings far more than current earnings. When the company with depressed margins gets back to normal, its earnings might be 50% higher with the result being a normal P/E ratio of 10x as opposed to the 15x multiple on current earnings.

For me, "value" is far more dependent on future earnings than on current results. As I mentioned earlier, I think most stocks are fairly valued most of the time. In short, market participants generally do a REALLY good job of assessing CURRENT fundamentals. While most professional investors are smart and hardworking, keeping up with all the current news can anchor them to the present in a way that seems to preclude imaginings about the future. Their pondering of the future is far too often driven by "management guidance." In situations where management hasn't shared targets for future results, then analysts seem to most often extrapolate the past without thinking about how things might be different in the future. Frankly, **I think the fear of being wrong creates a huge impediment to independent thought**. If an investment analyst relies on management's statements in assessing a potential investment, then they can blame the company if things don't work out. **This creates a huge opportunity for those of us who take pride in thinking for ourselves.**

Life isn't lived in a straight line. We recognize this in our analysis and consider a range of outcomes when evaluating an investment. We're most interested in those companies where we believe the downside risk is low, where the base case projected return exceeds our 15% annual return hurdle, and where a best case outcome is even better. Building a portfolio of investments with this profile seems like a prudent way to manage portfolios for the long term.

Takeaways: Our process of buying stocks at discounted valuations based on future earnings often works because many market participants fear being wrong in the short term. Successful investing requires skating to where the puck is going, not to where it is now.

Conclusion – What a Wonderful Life

I'm an incredibly fortunate man. I have a loving wife, amazing kids and lots of good friends. I've been blessed with great parents, teachers, and mentors who have helped me make my dreams come true. I was the rare child who discovered his vocation at an early age and who was encouraged to pursue his dreams. I spent a dozen years preparing for a job I first learned about in high school, and I will be forever grateful to Bob O'Donnell and the other senior people at Capital who gave me an opportunity to manage money for clients in the American Balanced Fund back in the summer of 1996. For 20 years, I've done my best in the hopes of delivering market-beating returns for the clients whose money I manage. I feel good about what I've been able to do for them and I'm excited to continue doing it.

A great deal of thought went into the investment process I established all those years ago. I was convinced that it was a money making strategy and I have remained true to it. There have been some minor tweaks along the way and I hope to use the lessons of my experience to further refine and improve the process with a goal of generating even better results for all of our current and future client partners. The profession of managing investment portfolios is challenging, especially when markets are volatile and when one's style is out of sync with current fashion. It is incredibly helpful to have client partners who understand what we do and who give us time to do it. Thank you for your patience and for entrusting us with the stewardship of a piece of your investment portfolio. We'll manage your money the same way we manage our own with a continued goal of market-beating returns.

To my family, friends, teachers, mentors, and clients, I want to express my gratitude for all of your support and encouragement. I'd like to offer special thanks to my associates at Poplar Forest. Over the last eight and a half years, we have accomplished a lot. It would not be possible without their hard work and commitment to our cause.

It's been an incredible journey and I look forward to many more years of shared success.

Thank you,

J. Dale Harvey
July 1, 2016

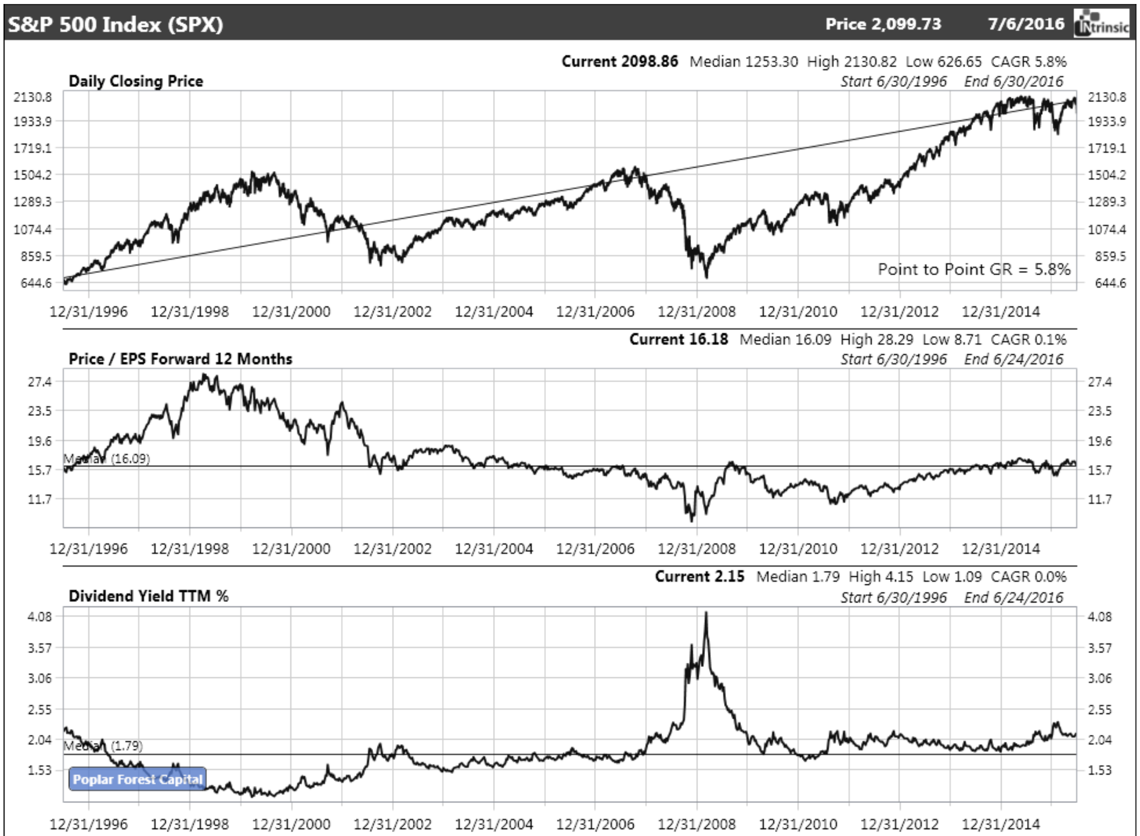
Appendix - Historic Perspective

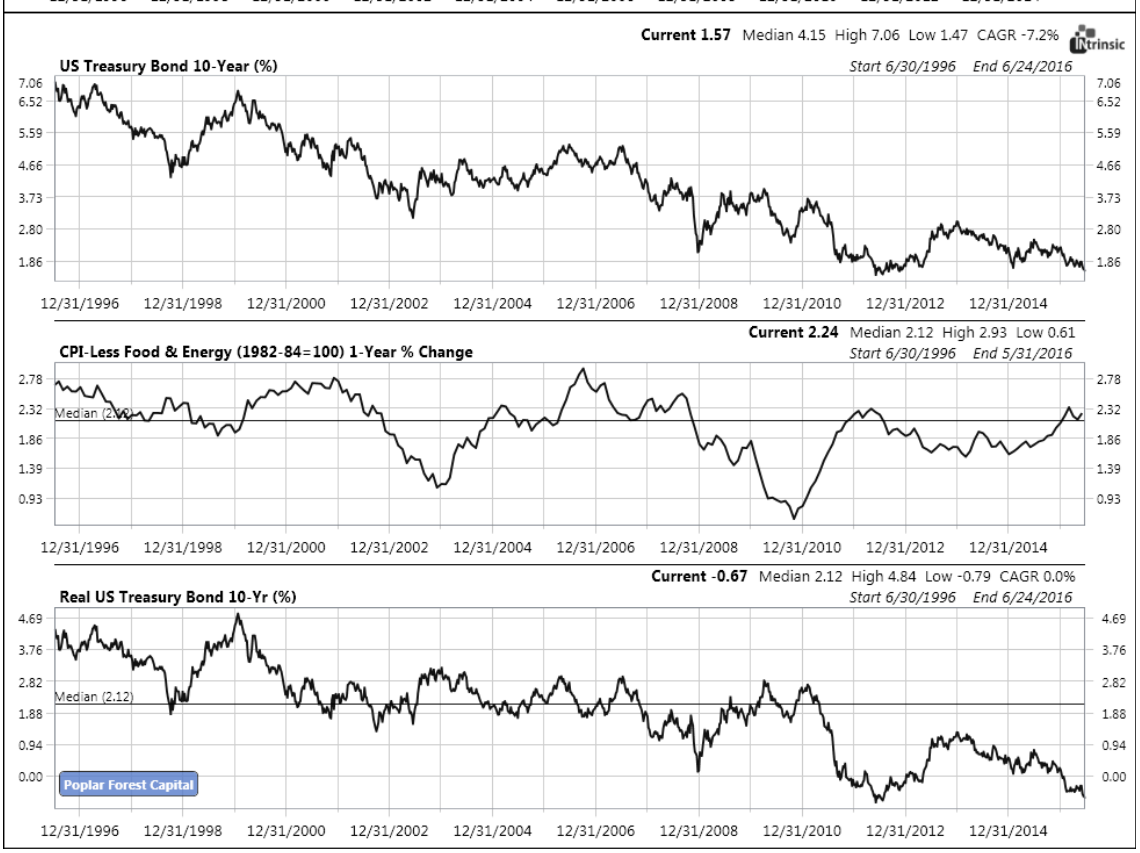
As you'll see on the next page, stocks endured a 20-year rollercoaster ride. The S&P 500 grew at a 5.8% rate over that period – basically in line with earnings. The P/E ratio and the dividend yield ended the period roughly where they started, which suggests stocks are neither cheap nor expensive relative to the last 20 years. Bonds are a different story: yields have declined dramatically over the last two decades despite relatively stable inflation. This suggests the drop in yields has been a function of investor willingness to accept a lower real return. Said another way, the price of perceived safety is at a multi-decade high.

For long-term investors, it was a challenging but productive period. The S&P 500 opened at 670.63 on July 1, 1996 - the day I first assumed responsibility for a diversified portfolio of client funds. Twenty years later, the S&P closed at 2098.86 for compound annual price appreciation of 5.8% and a total return of 7.8% per year including dividends. Along the way, the market has endured numerous market corrections and two bear markets in 2000-02 and 2007-09. Stocks haven't historically followed a straight line pattern and I don't expect them to do so in the future. For the patient, long-term investor, this volatility can be a blessing in potentially providing opportunities to buy low and sell high.

In the more than six years since its early 2009 bottom, the S&P 500 has advanced from a closing low price of 677 to a high of 2131 – a gain of 215%. Along the way, the market has had a correction of 5% or more 15 times and three of those corrections have exceeded 10%. In each case, the market recovered from the decline and moved on to make a new high:

Date of High	Date of Low	S&P 500 Closing High Price	S&P 500 Closing Low Price	% Change
3/26/09	3/30/09	832.86	787.53	-5.4%
5/8/09	5/15/09	929.23	882.88	-5.0%
6/12/09	7/10/09	946.21	879.13	-7.1%
10/19/09	10/30/09	1097.91	1036.19	-5.6%
1/19/10	2/8/10	1150.23	1056.74	-8.1%
4/23/10	7/2/10	1217.28	1022.58	-16.0%
2/18/11	3/16/11	1343.01	1256.88	-6.4%
4/29/11	10/3/11	1363.61	1099.23	-19.4%
4/2/12	6/1/12	1419.04	1278.04	-9.9%
9/14/12	11/15/12	1465.77	1353.33	-7.7%
5/21/13	6/24/13	1669.16	1573.09	-5.8%
12/31/13	2/3/14	1848.36	1741.89	-5.8%
9/18/14	10/15/14	2011.36	1862.49	-7.4%
12/5/14	12/16/14	2075.37	1972.74	-5.0%
5/21/15	2/11/16*	2130.82	1829.08*	-14.2%*
Note: * Low as of 6/30/2016.				


S&P 500 Index (SPX)
Price 2,099.73
7/6/2016
Intrinsic
Current 2098.86 Median 1253.30 High 2130.82 Low 626.65 CAGR 5.8%
Daily Closing Price
Start 6/30/1996 End 6/30/2016
Point to Point GR = 5.8%
Current 16.18 Median 16.09 High 28.29 Low 8.71 CAGR 0.1%
Price / EPS Forward 12 Months
Start 6/30/1996 End 6/24/2016
Median (16.09)
Current 2.15 Median 1.79 High 4.15 Low 1.09 CAGR 0.0%
Dividend Yield TTM %
Start 6/30/1996 End 6/24/2016
Median (1.79)
Poplar Forest Capital


Current 1.57 Median 4.15 High 7.06 Low 1.47 CAGR -7.2%
Intrinsic
US Treasury Bond 10-Year (%)
Start 6/30/1996 End 6/24/2016
Current 2.24 Median 2.12 High 2.93 Low 0.61
CPI-Less Food & Energy (1982-84=100) 1-Year % Change
Start 6/30/1996 End 5/31/2016
Current -0.67 Median 2.12 High 4.84 Low -0.79 CAGR 0.0%
Real US Treasury Bond 10-Yr (%)
Start 6/30/1996 End 6/24/2016
Median (2.12)
Poplar Forest Capital

Contrarian Value- Partners Strategy

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

	QTD	YTD	1YR	3YR	5YR	Annualized Since Inception (11/1/2007)
Composite Gross	2.87%	6.04%	-2.85%	9.40%	11.67%	7.35%
Composite Net	2.62%	5.51%	-3.82%	8.32%	10.51%	6.19%
S&P 500	2.46%	3.84%	3.99%	11.66%	12.10%	5.86%
Russell 1000 Value	4.58%	6.30%	2.86%	9.87%	11.35%	4.72%

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

The second quarter started as a continuation of the recovery from the first quarter low in February. By the 8th of June, the S&P 500 had gained 3% since 3/31/16 and the market had been led by Energy, Healthcare and Financial Service companies. When British voters collectively decided that the UK should leave the European Union, investors responded to the uncertainty by selling stocks that appeared economically sensitive and declines of 6-7% were common for many industries.

The emerging consensus opinion appears to be that a major financial crisis (like 2007-08) will be averted. Central bankers are expected to yet again offset investor uncertainty with even looser monetary policy. Interest rates are expected to remain low for the foreseeable future and the 10 year U.S. Treasury bond ended the quarter at a yield of 1.49%. Given ever-declining rates on Treasury bonds, it should come as no surprise that Telecom, Utility and Consumer Staples stocks were the best sectors in the quarter ended 6/30/16, as highlighted in the table on the following page.

	3/31/16 Closing Price	6/8/16 Closing Price	**% Change**	6/27/16 Closing Price	**% Change From June 8**	6/30/16 Closing Price	% Change From June 27
S&P 500	2060	2119	**+3%**	2001	**-6%**	2099	+5%
Brexit Winners:							
Telecom (IYZ)	30.73	31.68	**+3%**	31.23	**-1%**	33.30	+7%
Utilities (XLU)	49.62	50.27	**+1%**	51.03	**+2%**	52.47	+3%
Staples (XLP)	53.06	53.88	**+2%**	52.99	**-2%**	55.15	+4%
Brexit Losers:							
Energy (XLE)	61.89	69.55	**+12%**	64.64	**-7%**	68.24	+6%
Healthcare (XLV)	67.78	72.48	**+7%**	68.38	**-6%**	71.71	+5%
Financials (XLF)	22.50	23.62	**+5%**	21.45	**-9%**	22.86	+7%
Industrial (XLI)	55.47	57.15	**+3%**	53.10	**-7%**	56.01	+6%
Cons. Cyclical (XLY)	79.10	79.50	**+1%**	74.77	**-6%**	78.06	+4%
Technology (XLK)	44.36	44.29	**-0%**	41.43	**-6%**	43.37	+5%

The quarter started out quite well for the Partners Strategy given our exposure to Energy, Healthcare and Financials, but the Brexit vote put a damper on those gains and the Strategy ended the quarter only slightly better than the S&P 500 with a gain of 2.62% versus the S&P's 2.46%.

The top positive contributors to the Strategy's results were spread across industries: Dun & Bradstreet (information services), Quest Diagnostics (healthcare services), Reliance Steel & Aluminum (materials), Chevron (energy) and Devon Energy (energy). The biggest detractors were also broadly spread: Microsoft (technology), TE Connectivity (technology), MSC Industrial Direct (industrial), MetLife (insurance), and Avon Products (Consumer). I don't think there was any particular theme to either our biggest winners or our biggest losers.

I continue to be excited about the value I see in the portfolio today. We ended the quarter with roughly 4% in cash and our research efforts continued to identify what appear to be very attractive new investment opportunities. While the Brexit decision produced a headwind that temporarily dampened the Strategy's results, it also produced a fresh crop of potential investments for us to review. Given our current cash position, we will continue to be patient with a focus on identifying what we believe are the most compelling risk/reward opportunities in the market. We believe that investing in financially strong companies when they are out of favor, and thus trading at heavily discounted prices, can offer very compelling prospective returns – particularly in the current low yield investment environment.

Disclosures

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.

Opinions expressed are subject to change at any time, are not guaranteed, and should not be considered investment advice. Discussion of a particular security should not be considered a recommendation to purchase or sell that security. There is no assurance that any security discussed will remain in our portfolios for any particular length of time. Securities discussed do not represent an entire portfolio and in the aggregate represent only a small percentage of a portfolio. It should not be assumed that any securities discussed were or will prove to be profitable.

As of June 30, 2016, the Contrarian Value Partners Strategy's 10 largest holdings accounted for 44.04% of total assets. The Strategy's 10 largest holdings at June 30, 2016:

Reliance Steel & Aluminum	**5.14%**
Dun & Bradstreet	**4.62%**
Quest Diagnostics	**4.57%**
Hewlett Packard Enterprise	**4.53%**
Chevron	**4.47%**
MSC Industrial Direct	**4.47%**
AECOM	**4.25%**
American International Group	**4.09%**
Citigroup	**3.97%**
Baker Hughes	**3.93%**

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.

Free cash flow is revenue less operating expenses including interest expenses and maintenance capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, investing back into the business or share repurchases.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

The Russell 1000 includes 1,000 or fewer of the largest U.S. firms by market capitalization and represents about 90% of the U.S. market; if an issue disappears because of bankruptcy, merger or other corporate action, it is not replaced until the next index reconstitution. The index is reconstituted on a June 30th annual cycle.

The Russell 1000 Value index measures the performance of the Russell 1000's value segment, which is defined to include firms whose share prices have lower price/book ratios and lower expected long/term mean earnings growth rates.

Price/Book is the ratio of a firm's closing stock price and its fiscal year end book value per share.

Price/Earnings (P/E) Ratio is the ratio of a firm's closing stock price and its earnings per share.

Earnings Per Share is calculated by dividing a company's net income by its outstanding common shares.

Earnings growth is the percentage increase in earnings per share from one year to the next.

Dividend Yield is a financial ratio that indicates how much a company pays out in dividends each year relative to its share price. Dividend yield is represented as a percentage and can be calculated by dividing the dollar value of dividends paid in a given year per share of stock held by the dollar value of one share of stock.

Forward earnings per share or forward price/ earnings is a measure of the price-to-earnings ratio (P/E) using forecasted earnings for the P/E calculation. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period.

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 Patty Shields at (626) 304-6045.