



Poplar Forest Partners Strategy Quarterly Update

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September 30, 2015



Dear Partner,

Late this summer, I travelled back to Charlottesville to help my two oldest kids move into their college rooms. My son, the freshman and a native Californian, worried a bit about how he'd fit in with the preppy Southerners he expected to find at the University of Virginia. He loves his board shorts and t-shirts and he was emphatic about not wanting to look like everyone else. Yet the peer pressure began almost immediately. His roommate was more dialed into local style and swore he'd have Preston dressed like a Southern boy before Thanksgiving. We'll see about that.

The pressure to "fit in" begins at an early age. In social settings, things often go more smoothly for those who look and act like everyone else. While the iconoclast might become the center of attention for his bold rebellion, he may be more likely to end up alone by the punch bowl because "no one wears white after Labor Day." It just seems so much safer to do what everyone else does.

When it comes to investing, I'm most comfortable when I have a differentiated opinion. Some of my best long-term investments have been decidedly unpopular when I purchased them. Oftentimes, the price has gone down further after being purchased. It's no fun when prices go down, but sometimes it is an unfortunate part of the process of investing in out of favor and underappreciated companies. I've used contrarian investment principles for almost 20 years and I expect to use them for the next 20. I'm reminded of a quote often attributed to Thomas Jefferson:

"In matters of style, swim with the current; in matters of principle, stand like a rock."

When it comes to investing, going along with the crowd may feel comfortable, but it may also prevent investment success if success is defined as well above average results. Quite simply, how can you be above average if you are doing what everyone else is doing? As with clothing, investment fashions come and go. From a money making perspective, times of widespread agreement may provide great opportunities for those willing to buck the trends. Based on the bargains I'm seeing in the market today, this may be one of those times.

Current Fashion – Recession and Bear Market Worry

I believe the pervasive attitude today is worry that weak Chinese growth and/or interest rate increases by the U.S. Federal Reserve (the "Fed") will create a recession that will result in a nasty bear market.

With respect to these issues, I have an educated opinion balanced by an awareness of my inability to forecast future macroeconomic variables with any precision. In the case of China, I agree with the consensus opinion that its economy is growing more slowly than in the past and, as a result, the growth in the nation's consumption of commodities will slow and perhaps even fall. With respect to the Fed, I'm in the minority in believing the interest rate-setting Open Market Committee will take pains to not slow the economy by raising interest rates too quickly. Frankly, I think the Fed's fear of recession makes it more likely that they will raise rates too late rather than too soon. From my vantage point, the economy feels stronger than the pundits acknowledge and I believe low oil prices will have a stimulative effect on economic growth. That said, **at Poplar Forest we build our portfolios from the**





bottom up by selecting individual securities where we see a favorable spread between price and value. In my experience, macroeconomic forecasting is not a road to riches.

While many may confess they have no unique ability to predict macroeconomic variables any better than anyone else, that doesn't stop them from translating their opinions into investment decisions. I believe some index fund and ETF providers have enabled gamblers in the market casino to make "risk on" or "risk off" wagers by buying or selling baskets of stocks in particular industries or sectors of the market. This macroeconomic-driven speculation sometimes gets taken even further with ETFs that use leverage to magnify the purported payoff from a correct wager. This feels like borrowing money to bet on the roulette wheel. It may be exciting to bet on future prices, but excitement doesn't often correlate well with profit.

In a time of ubiquitous information, finding the price of an investment security is easy. Stock and bond prices get buffeted minute-to-minute by rumors of changing Fed policy or consumer confidence or new unemployment claims or any number of seemingly unpredictable variables. I am amazed by the amount of time and effort many market participants spend trying to predict future security prices and the variables that influence them in the short term. It is not just the level or direction of prices that gets attention, but also the magnitude of price fluctuations. Since 1990, the volatility of prices, as implied by options on the S&P 500, has been measured and reported as the CBOE Volatility Index – the "VIX." Traders can buy and sell derivative securities based on the price of the VIX. The VIX isn't something you can touch; it is simply a formulaic average of 20 mathematical calculations, yet that doesn't stop people from wagering on its future level. And it doesn't stop there. There is now an index that measures the volatility of the VIX (the volatility of volatility) based on options on the VIX itself. This is progress?

In some ways, it feels like those of us who focus on identifying individual stock investments are about as popular as purveyors of bell-bottom pants. So called "active managers" who build portfolios of individual securities have been losing market share to "passive" strategies (index funds and exchange traded funds – ETFs – for example) for several years now and that trend is predicted to continue indefinitely. Though the consensus predicts our demise, I believe active management can be a good way to generate superior, long-term investment results. Investors who want better than average results may need professionals who spend time analyzing companies as opposed to trying to out-guess "the other guy" on what's going to happen next. Furthermore, as more investors move to passive strategies, the opportunities to identify individual opportunities may grow.

Current Opportunities – Sorting Through Clothes on the 20-50% Off Rack

While a thesaurus may suggest that "price" and "value" are synonyms, I think they are profoundly different. Price is what one pays to buy something. Value is what is received in exchange for the price paid. When it comes to a business, we believe value critically depends on the absolute level, growth and variability of free cash flow over the long run. In the current environment where stock prices are being heavily influenced by fluctuating short-term predictions of macroeconomic variables, having a fundamental view of the value of individual companies may provide an investment opportunity when a company's stock price, having fallen dramatically in response to investors' worry,





fails to reflect its true value. Furthermore, having a strong sense of underlying value can provide a steady base in times of dramatically fluctuating prices. Being disciplined when others start to panic has contributed to past success of the investment strategies we employ at Poplar Forest. It helps guide decisions as we sort through the many securities that have gotten “marked down” in price due to investors’ macroeconomic worries.

I have long been hesitant to use these letters to discuss individual stocks because, **more than anything, I want you to buy into our investment process and not the individual decisions that are the output of that process.** We will not be right on every investment we make, despite the many hours of work and thought that precede our decision to buy it. With that caveat in mind, I’d like to tell you about Reliance Steel & Aluminum (“Reliance”), a company in which we recently increased our investment by 50%. Given the consensus opinion that slowing Chinese economic growth will pressure commodity prices for years to come, few investors are interested in the materials sector. But we are. We see Reliance as a terrific example of the opportunities that exist in today’s market.

Peter McAniff, the analyst who covers Reliance at Poplar Forest, and I recently spent a couple hours with the CEO and CFO to re-check our thesis on this investment. Given the company’s involvement in the metals sector, you might be surprised to know that very little of our conversation pertained to China. And despite the perceived importance of interest rates to the economy, the actions of the Fed did not come up at all. While Chinese economic growth and interest rates will affect Reliance indirectly, they aren’t the focus of management because they are beyond the company’s control. Instead, this successful management team pays attention to the basics of their business: where to expand, when to buy new equipment, who to promote. They’ve been doing it this way for a long time with great success.

For over 75 years, Reliance has used organic growth and timely acquisitions to become the market leader in the highly fragmented steel and aluminum service industry. The company’s business model is attractive in that it doesn’t produce raw steel – an incredibly capital intensive and cyclical business; it buys from the mills, processes the metal and then sells in small quantities to over 125,000 customers. As a result, the company’s margins have been much less cyclical and its returns on capital have been higher than the steel companies to which it is often compared. Having a strong management team focused on doing simple things well every day has allowed the company to earn margins that are substantially higher than its competitors. No wonder Reliance has been the acquirer of choice when private companies in the industry decide to stop going it alone and put themselves up for sale. For me, visiting with this management team was an enjoyable reminder of how good companies are run.

Usually, great companies are recognized for their quality and, as a result, there is rarely an attractive spread between the price of the company’s stock and the value of the underlying business. The opportunity we see in Reliance’s stock relates to the depressed market for non-residential construction that the company serves. This is one of the few sectors of the economy where activity is still well below normal due to what have been very constrained public sector budgets and weak confidence on the part of corporate management teams. Those two factors have prevented a return to more normal levels of infrastructure spending. Reliance’s management team believes that a return to more-normal





levels of non-residential construction activity could result in a 25% increase in their volume. We believe prices would likely track a little higher when volumes expand and, with attractive incremental margins, could result in a doubling of operating income.

We aren't in the business of predicting non-residential construction, but we can observe that current activity is well below prior levels. We see the slowly degrading state of the country's infrastructure and know that it must be addressed at some point. We also see healthy corporate balance sheets and greatly improved municipal finances that suggest there is more money available for investment in non-residential construction than has been the case in several years. Does all this mean an upturn is around the corner? Not necessarily, but the rewards could be handsome if conditions return to normal in the next few years.

If Reliance's end markets recover to "normal," the company's earnings per share could more than double from \$4.50-5.00 today to \$10-12 per share. Based on our assessment of its normalized earnings power, we think the underlying value of the company today could increase substantially. With the stock recently trading at \$55-60, we saw a significant discrepancy between price and value and we acted. Reliance Steel & Aluminum is now one of our larger investments; I hope you now understand why. Where others were repelled by perceived macroeconomic risk and focused on short-term results, we found an opportunity to make what we consider to be a very attractive long-term investment.

Time Horizon Matters

While we have a very optimistic view of Reliance's long-term prospects, we do not know where the stock will go in the short-term. **One of the challenges of being a value investor is that this style of investing often brings with it periods of appearing out of sync with the market; we are in the midst of one of those periods right now.** It can feel a bit like showing up at the prom in a powder blue leisure suit when all the other guys are wearing black tuxedos. For many, the attention received when looking different is just too much to bear.

This is an uncomfortable time in the market cycle given how far stocks have come from the bottom in 2009. Scars still feel fresh from the 2000-2002 and 2007-2009 market declines when stock prices, as measured by the S&P 500, basically got cut in half. I've heard from prospective clients who simply state they are too worried about loss to invest now. For others who rode out the decline, they've now gotten "whole" and want to stay that way; they want to hold much larger cash reserves than they have held in the past given the gut-wrenching declines they've experienced. For some, the wounds from those bear markets exacted an emotional toll that won't soon pass. Those wounds can seem resistant to intellectual arguments about the merits of stocks relative to alternatives like cash or bonds.

While fear of future loss is understandable given the markets we've lived through over the last 15 years, I believe the fear of loss brings with it potentially large opportunity costs. Given the current level of interest rates, I find stocks to be particularly compelling relative to alternative investments like cash and bonds. Importantly, because corporate profits grow over time, investments in equities can provide an opportunity to protect future purchasing power. Some bonds, with their fixed coupons, do





not have the potential to produce a growing stream of income. Meanwhile, cash yields less than current levels of inflation, which means it buys less in a future with rising prices.

The recent stock market volatility has led some investors to fear global recession and a bear market decline (20% or more). I do not share those concerns as I don't see excesses that need to be fixed. I view the recent sell-off as yet another correction (the 15th decline of 5% or more in six years) in an on-going bull market (see the Appendix for more information). Central bankers around the world remain highly accommodating, investor attitudes appear restrained and we continue to find what we believe are attractive long-term investment opportunities using our bottom-up research process.

The ability to resist the pressure to "fit in" has long been evident in actions I've taken both inside and outside of my investment portfolio. The decision to move to (and stay in) Los Angeles 24 years ago surprised those with whom I grew up in Bedford, Virginia (population 6,000). Starting Poplar Forest Capital eight years ago was an even bigger head scratcher for many. I've been fortunate to have had family, friends, clients and colleagues whose encouragement and support made it easier for me to take Robert Frost's less traveled road. Being patient and investing for the long term in out of favor and underappreciated companies is only possible because of thoughtful client partners who entrust us with their money for years (and hopefully decades). We will continue to do what we've done from the beginning: invest alongside you with the goal of generating market beating, long-term returns. Thank you for your confidence in Poplar Forest and for journeying with me on this less traveled road.

J. Dale Harvey

October 1, 2015





Appendix - Market Correction of 5% or More

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 recent 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	8/25/15*	2130.82	1867.61*	-12.4%*

Note: * Low as of 9/30/2015.





Contrarian Value- Partners Strategy

Poplar Forest Capital

Contrarian Value - Partners Strategy

Average Annual Total Returns

	3Q 2015	Calendar YTD	1 year	3 year	5 year	Annualized Since Inception (11/1/2007)
Composite Gross	-13.62%	-11.29%	-10.63%	15.36%	12.88%	6.48%
Composite Net	-13.85%	-11.96%	-11.52%	14.20%	11.69%	5.32%
S&P 500	-6.44%	-5.29%	-0.61%	12.40%	13.34%	5.01%
Russell 1000 Value	-8.39%	-8.96%	-4.42%	11.59%	12.29%	3.65%

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

Being a disciplined value investor can be frustrating when the approach is out of sync with the market; this is one of those times. Looking back, our results peaked roughly a year ago. Since then, the U.S. dollar strengthened relative to other currencies and oil prices collapsed. These macroeconomic variables dramatically impacted our portfolio and our poor results can be explained simply: Avon and energy.

Avon has been a clear disappointment as the fundamental changes made by a new management team have yet to bear fruit. This has been compounded by the strong dollar, which dramatically cut the value of Avon's profits, all of which are earned overseas, and weakness in key markets like Brazil which have been hurt by falling energy prices and other self-inflicted economic issues. I continue to see great potential in Avon, but we haven't added to the stock as it has fallen; we are awaiting concrete evidence that the turnaround we expect is actually occurring.

When it comes to energy, in hindsight, we invested too soon. We avoided the sector in the first five years of Poplar Forest's existence, but we started getting more interested when U.S. natural gas prices dropped from double digit levels to \$2 per Mcf. Three years ago, energy stocks accounted for just 2% of the Strategy's assets. A year later it was up to 8% and at this time last year, 15% of the portfolio was comprised of energy stocks. Since then, oil prices have fallen more than 50% and the stocks have followed the commodity's decline. The dramatic drop in oil prices reminds me of the collapse in 1986 – the last time Saudi Arabia gave up the role of market-balancing, swing producer. The 1986 investment environment provided a number of rewarding, long-term investment opportunities, and we are optimistic the same may happen this time.

During this weak period, we have been focused on tax loss harvesting and on working to assess the downside potential of our investments should a recovery in the oil industry take longer than expected. As a result, we've made a couple of portfolio changes that we feel improve the Strategy's risk/reward balance. While we have begun to see what we believe are "once a generation" type valuation opportunities, we are being patient; we have not added significantly to the energy group, which accounted for 12% of the Strategy's assets as of September 30, 2015.

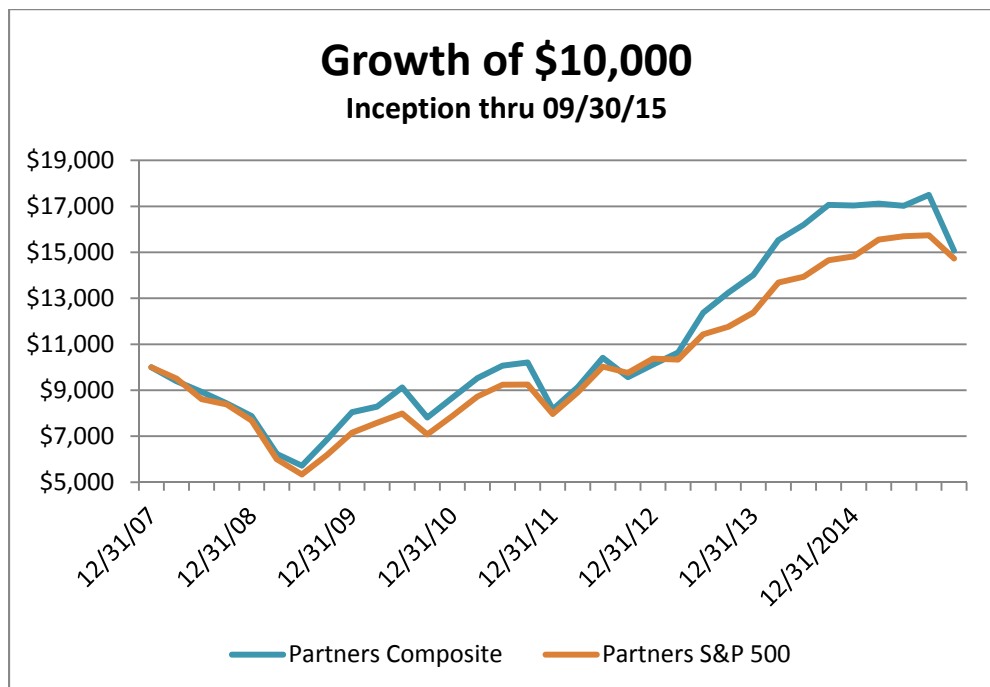




Periods of weak results are frustrating, but I believe they provide opportunity. I'm particularly excited about the value I see in the portfolio today. The companies in which we've invested offer proportionate free cash flow equaling more than 7% of their market value (excluding energy & materials), they trade at a more than 30% discount to our appraisal of fair value, and at close to a 50% discount to the S&P 500 on our assessment of normalized earnings. 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.

Given our focus on long-term investing, we pay most attention to our long-term results. The recent performance of the Strategy has resulted in cumulative results that have not kept pace with the S&P 500. While we are disappointed in current comparisons, this has happened before and we believe that by sticking to our investment discipline, we hope to deliver on our goal of market-beating returns over full market cycles.

The chart below is a hypothetical representation of how \$10,000 would have grown had it been invested in the Strategy (to \$15,072) or in the S&P 500 (to \$14,731). 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, but does not reflect the effect of any applicable sales charge or redemption fees.





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 September 30, 2015, the Contrarian Value Partners Strategy's 10 largest holdings accounted for 44.31% of total assets. The Strategy's 10 largest holdings at September 30, 2015:

American International Group – 4.92%
Citigroup – 4.60%
Baker Hughes – 4.58%
TE Connectivity – 4.46%
Eli Lilly – 4.44%
Lincoln National – 4.39%
Microsoft – 4.38%
MetLife – 4.28%
Mattel – 4.18%
AECOM – 4.06%

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.

Active investing has higher management fees because of the manager's increased level of involvement while index investing has lower management and operating fees. Investing in both actively managed funds and index funds involves risk and principal loss is possible. Both actively managed funds and index funds generally have daily liquidity. Actively managed mutual funds may have higher portfolio turnover than index funds. Excessive turnover can limit returns and can incur capital gains.

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.





An index fund is a type of mutual fund with a portfolio constructed to match or track the components of a specific Index, such as the S&P 500 Index.

Earnings Per Share is calculated by dividing a company's net income by its outstanding common shares. **Earnings Growth is not a measure of a company's future performance.**

CBOE Volatility Index is the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."

Return on Capital is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments. Return on invested capital gives a sense of how well a company is using its money to generate returns.

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.

