Poplar Forest Partners Strategy Quarterly Update

December 31, 2016

Poplar Forest Capital

To My Partners,

I'm pleased to report that after a couple lean years, 2016 was decidedly better for Poplar Forest. The Partners Strategy was up 26.27%, outperforming the market. While we are obviously pleased with our 2016 results, I would urge you – as always -- to focus on our long term results. Our contrarian approach to investing usually leaves us positioned quite differently than the broad market and that often means our investment returns are decidedly different than the broad market averages – some years, like 2016, are quite a bit better and others are worse. I suspect that will be the case going forward as our investment process is built on normalized earnings and free cash flow looking out three to five years; sometimes we have to live with weak short term performance in order to position ourselves for market-beating long term returns.

After such a strong year in 2016, you may be wondering if we're heading into a weak period – I don't think so. I believe the market has transitioned away from a focus on monetary policy as a salve for disappointingly slow economic growth to a more optimistic mindset. While investment programs that focused on quality, low volatility and high dividend yields were winning approaches in 2009-2015, I believe that 2016 was the first of at least a handful of years in which value oriented strategies, like those we employ at Poplar Forest, will be market leaders.

Though the recovery from the bursting of the housing bubble in 2008 has been slow, the U.S. economy appears to be on much sounder footing with unemployment now below 5% and wage growth starting to show signs of life. While much attention, rightfully, has been paid to the outcome of the recent presidential election, I think it is important to note that the economy was strengthening well before Election Day. For example, in the third quarter, the U.S. economy grew at a rate of roughly 3%, and worries of persistently low inflation and economic stagnation had already begun to be replaced with a growing confidence that the economy is in a self-sustaining mode that will allow the Federal Reserve to begin the process of bringing interest rates back to more normal levels (a Fed Funds rate of 3%).

An environment in which the U.S. economy is running steadily on its own is likely to see an additional boost from new leadership in Washington. We're optimistic about the potential benefits of regulatory reform and tax relief and believe that the post-election rally has not fully reflected the upside potentially accruing from anticipated changes in these areas.

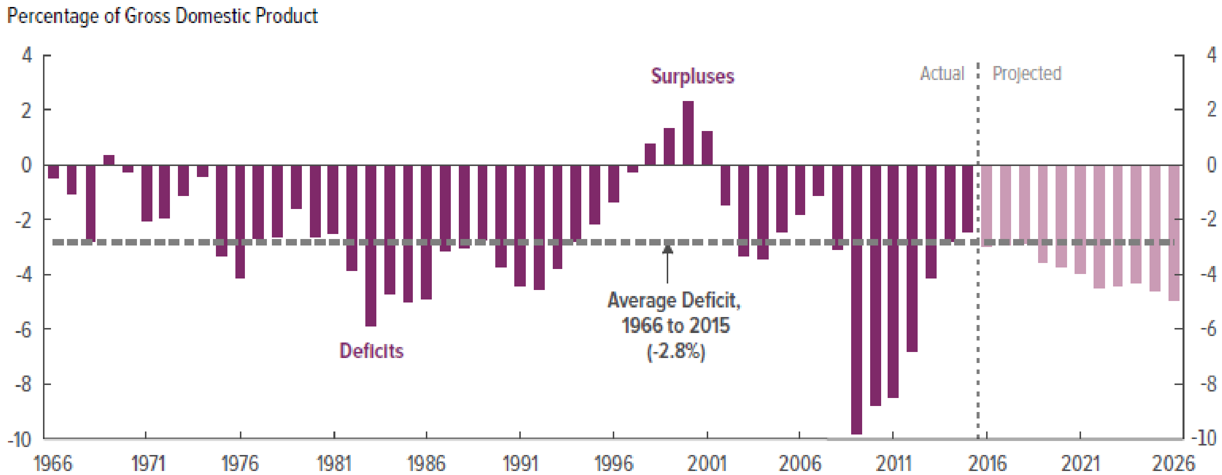
The Trump Plan – Can We Afford It All?

Like an old-time politician promising a chicken in every pot, Donald Trump the candidate talked of plans for regulatory reform, lower taxes, more defense spending and a $1 trillion plan to improve American infrastructure. For investors in stocks, these plans are all very bullish. Reduced regulation should mean lower costs. Lower corporate taxes could lead to higher profits (perhaps 5-10% higher earnings for the S&P 500®). More defense spending will mean work and higher income for defense contractors. Spending $1 trillion on infrastructure means more jobs and new business opportunities for companies that build roads, bridges, airports and water and power systems. What's not to like? If all this comes to pass, the stock market seems likely to rise by much more than the 5% increase we've seen in the S&P 500® since Election Day.

In addition to expecting much higher stock prices, I'd love to pay less in taxes each year. And as someone who drives in snarled LA traffic and who travels on commercial airliners for work and pleasure, I can attest to the need for improvements in the nation's infrastructure. I have an easy time imagining the projects that need to be undertaken; I am less clear on how these projects are to be funded.

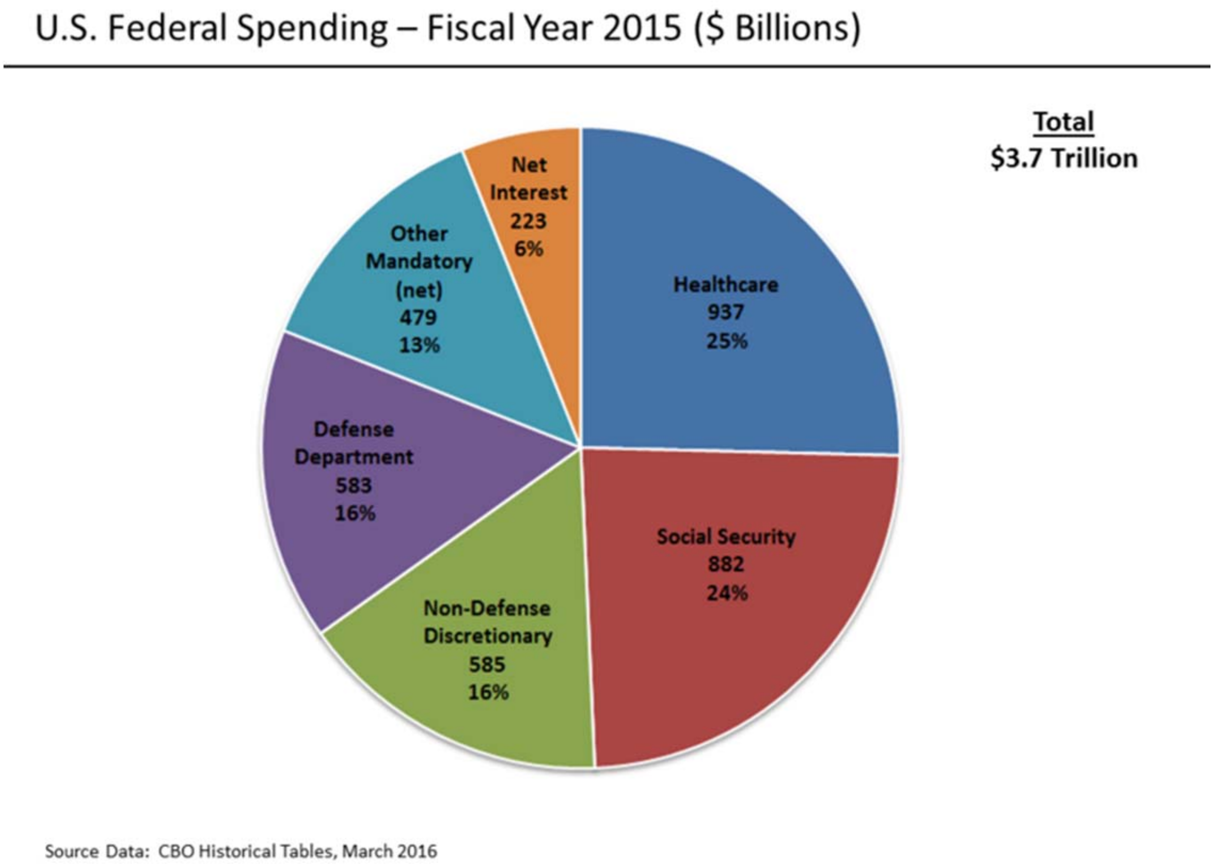
Total Deficits or Surpluses

CBO projects that deficits will exceed 4 percent of GDP by 2022 as mandatory spending and interest payments rise while revenues remain relatively flat.



Source: Congressional Budget Office.

As you can see in the graph above, while the Federal budget deficit improved dramatically in the recovery of recent years, mandatory spending programs and interest payments are projected to drive the excess of spending over revenues to around 5% of GDP over the next decade. I am quite curious to see how a Republican-led Congress responds to the push for lower taxes and more defense and infrastructure spending. Perhaps we'll simply borrow the money to do all these wonderful things and the deficit will grow to an even larger share of GDP. If that's the case, then corporate earnings will likely be much higher than investors currently expect. On the other hand, the bond market could be in for a very difficult period as interest rates might head higher and at a faster rate than many people expect.



One approach to addressing the potential for a growing deficit would be to make cutbacks in other areas, but with non-defense discretionary spending equal to just 16% of outlays, there doesn't seem to be enough room to cut. If Congress says no to a bigger federal budget, then investors may end up being disappointed. Candidate Trump's $1 trillion infrastructure plan used the words "deficit neutral." Perhaps I simply suffer from a lack of imagination with respect to the funding of his plan. As the old saying goes, maybe we'll be able to have our cake and eat it too.

If we assume the powers that be can come up with the money, what impact will all this fiscal stimulus have on an economy that's already doing ok? I worry most about the impact on the labor market given that we're already running below 5% unemployment. There is certainly potential for some workers to re-enter the workforce and for other workers to shift from part-time to full-time, but Candidate Trump made clear he wanted to create more jobs for American workers and I worry that wages may have to rise much more than expected to get everything done. Inflation has not been a concern for years and I think far too many investors have not taken steps to protect their purchasing power if prices start to rise at a faster pace. At Poplar Forest, we have been focused on protecting purchasing power for some time now and I believe our portfolios are well positioned if inflation starts to come in ahead of expectations.

Though it would likely make for a very exciting couple years for stocks, I worry that doing everything Candidate Trump promised as soon as possible - pursuing regulatory reform and cutting taxes while ramping up defense and infrastructure spending - is too much in a short period of time. If it were up to me, I would start planning for a big infrastructure program now so that when the next recession inevitably comes, we'll have "shovel ready" projects that can be funded at a time more appropriate for fiscal stimulus. After eight years of easy money policies, the Federal Reserve has very little monetary dry powder to use in a recession, and I see no reason to also use what little capacity we have for fiscal stimulus at a time when the economy is doing okay. Can't we save our money for a rainy day?

Staying Attentive to Downside Risk

As it turns out, no one in Congress has asked for my opinion on the subject of fiscal stimulus and I suspect that Congress will likely strive to give us everything they think we want whether it is prudent or not in the long term – they want to be reelected after all! As a result, I think the most likely outcome is a very strong equity market for the next couple years with continued minor corrections along the way (please see Appendix). I think all the pieces are in place for the bull market that started in the depths of the financial crisis to reach much higher levels. Unfortunately, the advance I expect is likely to sow the seeds for a future bear market.

For the last eight years, I have believed that U.S. business conditions were better than generally perceived. We saw plenty of bargains in the market and we have held very little cash during the entire period. Despite rampant worry on the part of many investors, stocks, as measured by the S&P 500®, increased in price at a rate of 11.6% per year from their starting level at Dec. 31, 2008. Dividends have added a couple percentage points to stocks' total return and those who have stayed invested in equities over this period must surely have smiles on their faces.

In recent months, we have felt the consensus opinion start to move in our direction. Perhaps the slowly improving economy has enhanced investors' risk tolerance, possibly it's the election, or maybe a review of the return from stocks has raised investor confidence. We are starting to hear reports that investors are beginning to sell bond funds and shift money to stocks. This would reverse multi-year trends and, if it continues, would suggest much more possible upside for stocks.

At some point, perhaps several years from now, the consensus opinion about equities will become too bullish. When we see conditions headed that way, we expect to have a more defensively positioned portfolio that may potentially provide downside protection in the next bear market. While the next bear market seems years away, we've begun to think about what steps we'd need to take. The signposts we'll be watching for include:

- The shape of the yield curve – a flat curve suggests danger
- Valuation – we'll start to worry if stocks start to trade at 20 times forward earnings
- Funds flow – if investors appear to be pouring huge sums into the stock market, watch out!
- Excesses – we'll be on the lookout for excess in the economy that might create problems (like housing in 2007 or tech stocks valuations in 1999)
- Opportunities – if we can't find enough individual equities that meet our 15% return hurdle, we are likely to raise cash

For now, all these indicators look supportive of our positive outlook and we believe that it is too early to worry. That said, and given our three to five year investment time horizon, we are now building a future recession into our base case forecasts for the companies in which we are investing. It seems likely that we'll have to deal with a recession at some point in the next five years, and we want to be as comfortable as possible that the companies in which we invest will do okay in a weak economic environment. We believe that investing in financially strong companies when they are out of favor can produce market-beating returns when times are good while also potentially providing downside protection when recession hits.

Patience – Thank you!

Long-term, contrarian value investing requires patience. Having client partners who share our long-term orientation allows us to buy stocks that sometimes produce weak results in the early stages of the investment. Having confidence that our partners will stick with us in difficult times allows us to pursue an approach to investing that we believe can produce market-beating results in the long run. Relative to the S&P 500®, 2016 is the best year we've had since starting Poplar Forest in 2007. The seeds for this year's strong results were sown in 2014 and 2015, and I'm confident that we are only just starting to enjoy the fruits of our labors in those lean years. Thank you for your confidence in Poplar Forest and for investing alongside us.

I hope you all had a wonderful holiday season and I look forward to reporting to you again after we've seen what our new President and Congress accomplish in the early days of the new administration.

J. Dale Harvey

January 2, 2017

Appendix - Historic Perspective

In the more than seven years since its early 2009 bottom, the S&P 500® has advanced from a closing low price of 677 to a high of 2272 – a gain of 235%. 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%
12/13/16*		2271.72*		
Note: * High as of 12/30/2016.				

Past performance does not guarantee future results.

Contrarian Value - Partners Strategy

Poplar Forest Capital
Contrarian Value - Partners Strategy
Average Annual Total Returns as of December 31, 2016

	QTR	YTD	1YR	3YR	5YR	Annualized Since Inception (11/1/2007)
Composite Gross	10.40%	27.52%	27.52%	10.12%	18.33%	9.11%
Composite Net	10.13%	26.27%	26.27%	9.03%	17.13%	7.93%
S&P 500	3.82%	11.96%	11.96%	8.87%	14.66%	6.40%
Russell 1000 Value	6.68%	17.34%	17.34%	8.59%	14.80%	5.59%

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 Partners Strategy produced a 10.13% return versus the S&P 500®'s 3.82% in the quarter ending 12/31/16. The recent period clearly favored value strategies like those employed by Poplar Forest; the Russell 1000® Value index, for example, produced a gain of 6.68%. Results for the full year followed a similar pattern with the Strategy up 26.27% versus the S&P's 11.96% and Russell's 17.34%.

For the quarter, the Strategy benefitted from investments in financial services, energy and industrial companies in a period in which investors grew more optimistic about accelerating economic growth. Healthcare, a more defensive sector, was a headwind that cut into results a bit. At the company level, our best investments were Lincoln National (+41%), Bank of America (+41%), Baker Hughes (+29%), Citigroup (+26%), and MSC Industrial Direct (+26%). The stocks that hindered the Strategy most were Zimmer Biomet Holdings (-20%), Antero Resources (-12%), Dun & Bradstreet (-11%), Avon Products (-11%) and Ralph Lauren (-10%).

We've continued to find new investments that we believe offer returns that exceed our three-year return expectation. We made new investments in Abbott Labs, Signet Jewelers and Weatherford and eliminated Allstate from the portfolio. As a result of these changes, the Strategy ended the year with 32 investments and less than 2% cash.

Abbott Labs, a leading medical device company, has been in transition in recent years after spinning off its pharmaceutical business (AbbVie) and announcing the acquisition of St. Jude. We invested in St. Jude earlier this year as the arbitrage value of buying their shares provided an opportunity to buy Abbott at a discounted price. With healthcare stocks lagging as investors grew excited about prospects for improved economic growth, we started buying Abbott shares outright. We think the synergy potential of the combination is very attractive. The deal is expected to close on January 4th, 2017, and on a pro forma basis, we will have a full 3% position in Abbott.

Signet Jewelers is the leading jewelry retailer in the country with a decisive market share advantage over its competitors. The stock has struggled in recent months as synergies from the acquisition of Zales have been slow to materialize and as investors grew concerned about the credit exposure inherent in financing customers' purchases. With our investment in Signet, our exposure to consumer companies has grown to more than 11% of the portfolio as opposed to 8% a year ago. We see a lot of value in this sector and have added Coach, Ralph Lauren and Signet to the portfolio this year while eliminating an investment in advertising company Omnicom. While for traditional retailers the challenges posed by the internet are well understood, we see company-specific opportunities in the companies in which we are invested that should overcome this headwind. The one concern we have is the potential for unfavorable tax reform that could penalize companies that import products. If a so-called "border tax adjustment" were part of tax reform passed by Congress, it could mean the cost of foreign produced goods would no longer be tax deductible expenses and this would be a potentially huge burden for retailers generally. We will be watching action in Washington closely to see if this potential negative becomes a reality.

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 December 31, 2016, the Contrarian Value Partners Strategy's 10 largest holdings accounted for 45.72% of total assets. The Strategy's 10 largest holdings at December 31, 2016:

Lincoln National Corporation	**5.0%**
Bank of America Corporation	**4.9%**
MetLife, Inc.	**4.8%**
Citigroup Inc.	**4.7%**
Reliance Steel & Aluminum Co.	**4.5%**
Hewlett Packard Enterprise Company	**4.5%**
MSC Industrial Direct Co., Inc.	**4.4%**
American International Group, Inc.	**4.3%**
Zimmer Biomet Holdings, Inc.	**4.2%**
Baker Hughes Incorporated	**4.2%**

The economic cycle is the natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, levels of employment and consumer spending can help to determine the current stage of the economic 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.

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.

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.

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.

Normalized earnings are adjusted to remove the effects of seasonality, revenue and expenses that are unusual or one-time influences. Normalized earnings help business owners, financial analysts and other stakeholders understand a company's true earnings from its normal operations.

Purchasing power is the value of currency expressed in terms of the amount of goods and services one unit of money can buy. Purchasing power is important, because all else being equal, inflation decreases the amount of goods and services you would be able to purchase. In investment terms, purchasing power is the dollar amount of credit available to a customer to buy additional securities against the existing marginable securities in the brokerage account.

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.

Value investing is an investment strategy where stocks are selected that trade for less than their intrinsic values. Value investors actively seek stocks they believe the market has undervalued.

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®) and has prepared and presented this report in compliance with the GIPS standards. Poplar Forest Capital LLC has been independently verified for the period October 31, 2007, through March 31, 2016. A copy of the verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Contrarian Value – Partners Strategy Composite was created on November 1, 2013, and has an inception date of November 1, 2007.

The S&P 500® Total Return Index focuses on the large cap segment of the market and includes 500 leading companies in leading industries of the U.S. economy, capturing approximately 75% coverage of U.S. equities. The Russell 1000® Value Index is market-cap weighted and measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The benchmark definitions and returns have been taken from published sources.

Composite results are based on fully discretionary accounts under management, including those accounts no longer with the firm. 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%. The annual internal dispersion measure presented is an asset-weighted standard deviation calculation based on accounts in the composite the entire year. External dispersion is not presented prior to December 31, 2010, because 36 monthly composite returns are not available. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Past performance is not indicative of future results and individual account performance may vary. The firm maintains a complete list of composite descriptions, which is available upon request.

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.