

POPLAR FOREST QUARTERLY LETTER



Active. Contrarian. Value.



J. Dale Harvey, CEO, CIO

December 31, 2019

Dear Partner,

Since my last letter to you, the market narrative hasn't changed much. On the margin, investors are less worried than they were three months ago as evidenced by the S&P 500's 9% gain in the fourth quarter. But growth stocks have, yet again, outperformed value investments (Russell Growth +11% vs. Russell Value +7%) and companies deemed "safe" continue to trade at historically wide price premiums to low P/E stocks. The environment continues to remind me of the late 1990s – the period that preceded an eight-year run of outperformance for value stocks. How value managers approach stock selection will impact their performance when the value cycle turns. Poplar Forest is not a typical value manager and we believe that our different than average approach will produce far better than average results when investor sentiment shifts in favor of value stocks.

At roughly 11x estimated earnings and with a 3.2% dividend yield, the companies we own continue to be priced at attractive absolute levels and at historically wide discounts to the market despite offering market-like earnings growth prospects. Whether we compare ourselves to broad market indices (S&P at 18x, Russell Value at 15x) or to other value managers (Peer average 15x), we offer differentiated portfolios of what we believe are incredibly compelling investment opportunities.¹

While low P/E stocks are often expected to deliver below average earnings growth, that isn't the case for our portfolios. The consensus opinion of Wall Street analysts is that S&P 500 earnings will grow by 7.3% next year while our companies are expected to grow at a much faster rate of 15.9%. Despite better short-term earnings growth and comparable long-term growth expectations, our investments are valued at an historically high 40% discount to the S&P 500. The catalyst needed to close this yawning gap in valuation could be actual earnings growth that meets or beats expectations. We continue to believe that a massive value cycle marked by such catalysts is coming.

Despite the market reaching new highs, we have continued to find new investments that we believe improve the already attractive risk/reward ratio of our portfolios. We liquidated a couple of investments in

¹ Data sourced from Morningstar as of 9/30/19

the fourth quarter and redeployed those funds into two new investments that are trading at or near record low valuations and that appear to offer compelling long-term appreciation potential. The companies have a track record of returning free cash flow to shareholders and both stocks offered dividend yields of at least 4% at the time of our initial investment. We ended the year with 30 investments and a cash reserve of roughly 5%.

More generally, the investing backdrop looks positive given the Federal Reserve's three interest rate reductions and its massive increase in liquidity in support of money markets. Companies continue to hire workers at rates that exceed the growth of the labor force and the unemployment rate remains at an historic low. Trade war influenced softness in industrial activity seems to be dissipating and overall economic fundamentals look solid.

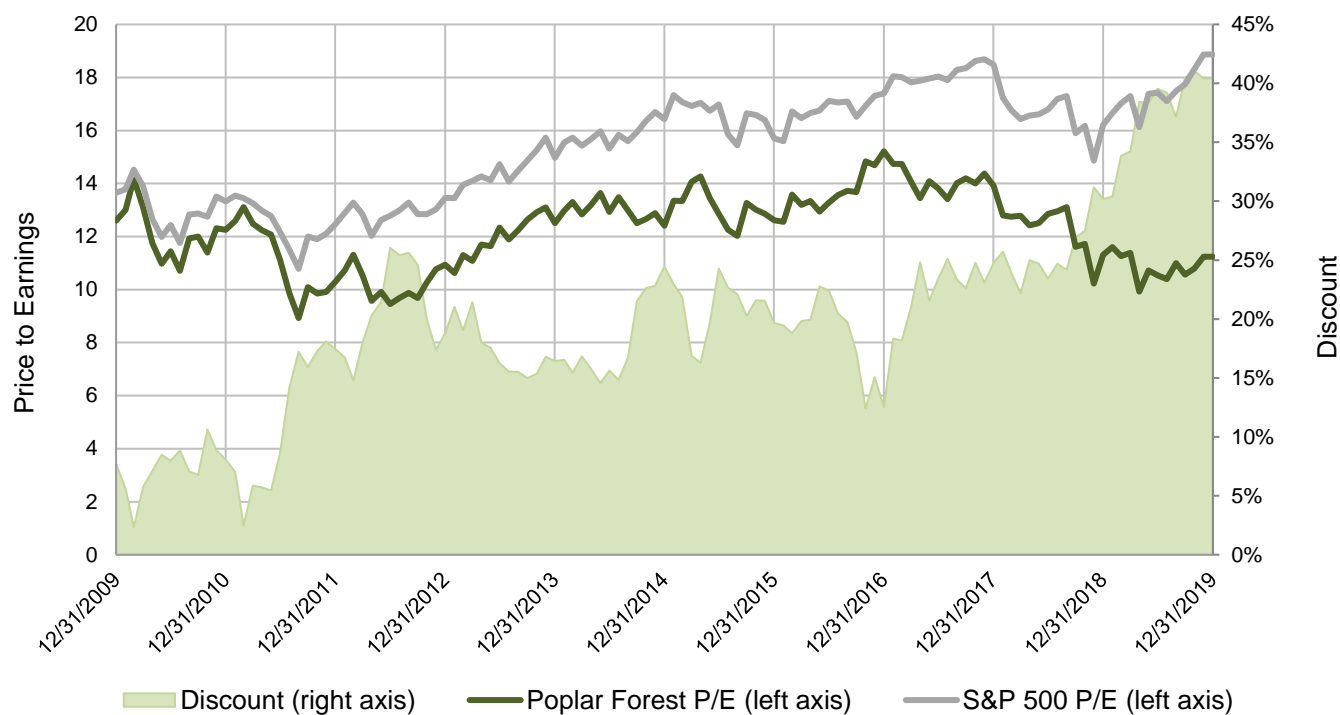
Issues that could threaten this positive outlook are trade policy and politics. While we remain optimistic about the investment environment, we will be carefully monitoring unemployment claims, the Conference Board's Leading Economic Index as well as the poll numbers of the many presidential candidates. That said, we will remain focused on a bottom-up investment process that continues to seek stocks that we believe offer compelling absolute value and attractive ratios of reward as compared to risk.

Absolute Value versus Relative Value

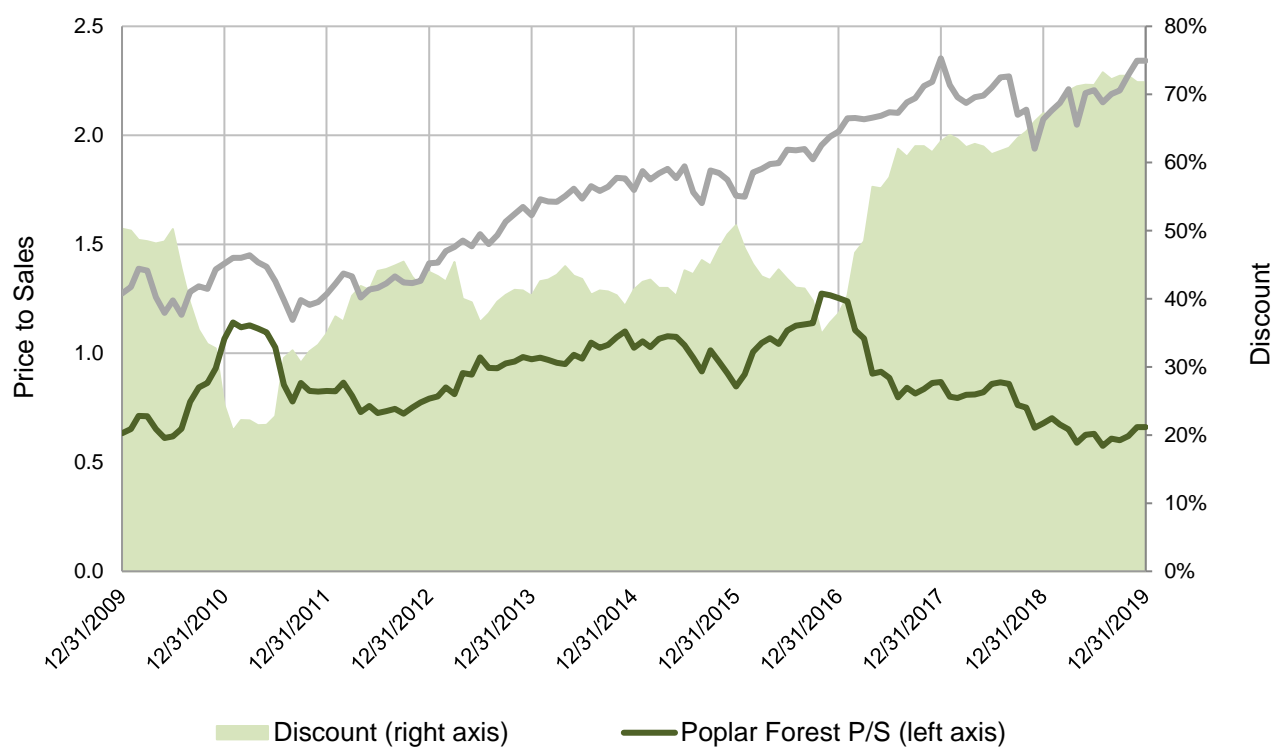
In a world where investors continue to increase their exposure to index tracking strategies, I believe our differentiated approach to value investing will ultimately generate outsized rewards. At its core, our investment process focuses on identifying stocks that we believe have the potential to return at least 50% over three years (15%-a-year compounded). We buy stocks when they appear to be trading at undeservedly low valuations with the idea that we will sell them at fair value based on our assessment of normalized earnings and free cash flow. Not every stock we pick will work out, but I have used this approach for more than 22 years and continue to believe it is a compelling long-term wealth generator.

This investment process helps keep our feet firmly on the ground at times when others may let their emotions get the best of them. The following charts compare the valuations of our flagship Partners portfolio relative to the S&P 500. The historically high discounts offered by our portfolios aren't caused by us doing anything differently; instead, they are driven by a market that has become increasingly expensive over time. Twelve months ago, our stocks traded at or near what were then record discounts to the market; most of those discounts grew even wider as 2019 progressed.

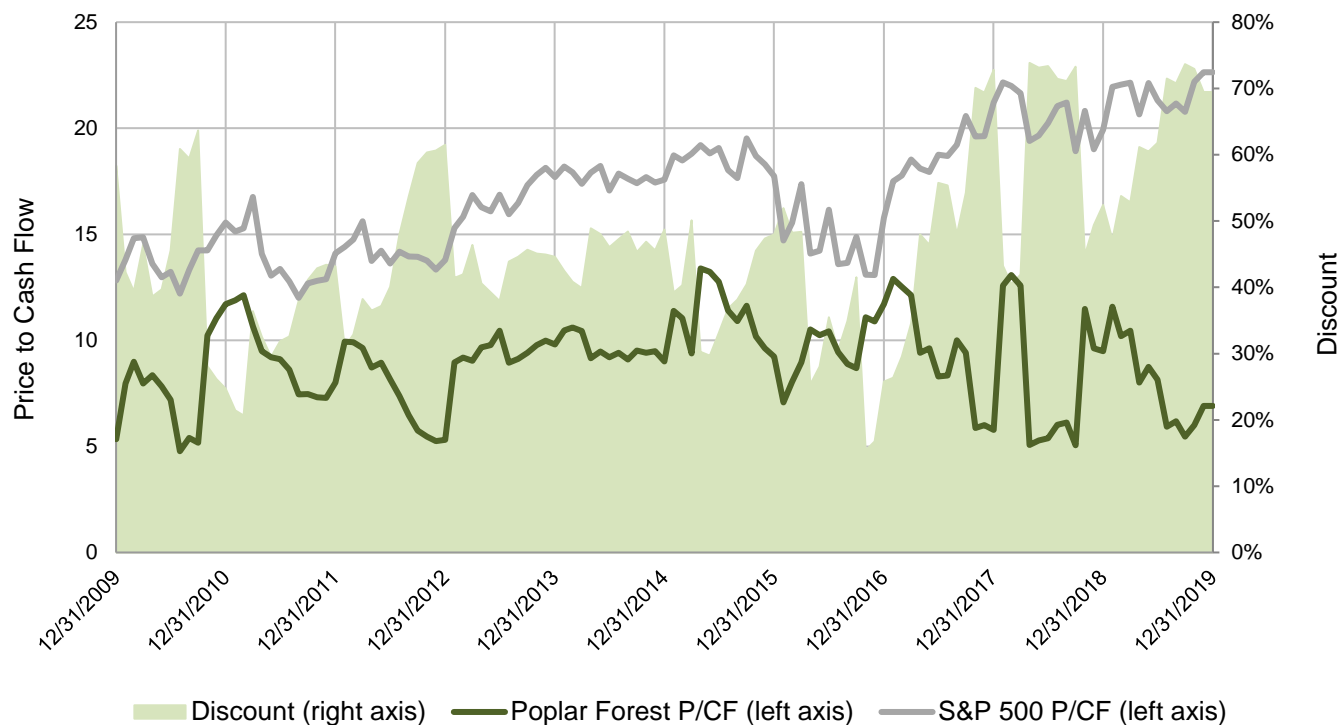
Price-to-Expected Earnings – 30% discount a year ago, 40% discount as of 12/31/19:



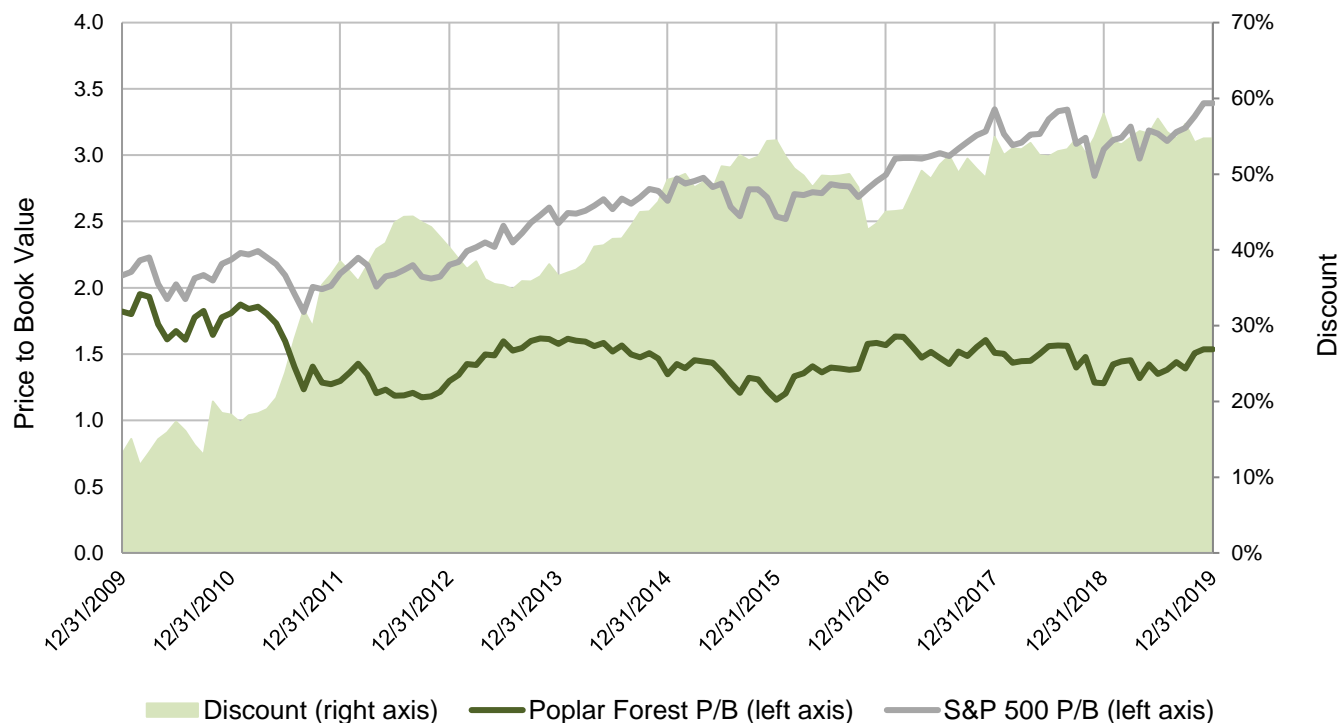
Price-to-Sales Ratio – 67% discount a year ago, 72% discount as of 12/31/19:



Price-to-Cash Flow – 52% discount a year ago, 69% discount as of 12/31/19:



Price-to-Book Value – 58% discount a year ago, 55% discount as of 12/31/19:



We Aren't "Closet Indexers"

While many of our peers' portfolios look quite similar to the Russell 1000 Value benchmark, our focus on absolute returns enables us to deliver a truly differentiated value opportunity. When we look at the constituents of Russell's Value index, we see a lot of stocks that don't look remotely cheap to us. Someone investing in index-linked or the index-like funds may well be exposed to stocks with outsized downside potential when the next bear market hits. Said another way, a relative value approach may help a manager keep his clients on board as investors chase a rising market, but, when conditions change, those very same clients may unhappily suffer the full brunt of a bear market decline. Our investment process seeks to identify stocks with attractive upside potential while at the same time being cognizant of bear market downside risk. We believe the current heavily discounted valuation of our portfolios offers above average upside potential and below average downside risk. We find a comparison of our portfolio to those of our "peers" to be particularly striking – we offer better growth at lower valuations, according to mutual fund research firm Morningstar:

	Poplar Forest Partners (IPFPX)	Large Value Category Average	Russell 1000 Value Index	S&P 500 Index
Price/Earnings*	10.8x	14.9x	15.0x	18.2x
Price/Book*	1.5x	2.2x	1.9x	3.1x
Price/Sales*	0.6x	1.7x	1.5x	2.1x
Price/Cash Flow*	6.3x	8.7x	6.5x	9.4x
Long-term Earnings Growth	8.9%	7.5%	8.2%	9.6%
Sales Growth	6.4%	4.8%	5.3%	7.1%
<i>Source: Morningstar Direct as of September 30, 2019. *Forward figures</i>				

Portfolio Changes

During the fourth quarter, we made two changes to the lineup of companies in our portfolios. First, we sold our position in natural gas producer Antero Resources and we made a new investment in oil production focused Murphy Oil. Second, we liquidated our investment in dialysis provider DaVita and used the proceeds to buy shares of cruise operator Carnival Corp.

Antero proved to be a disappointing investment as U.S. natural gas prices fell to lower levels than we anticipated. From our vantage point, Antero management is running the company well and volumes will continue to grow at attractive rates in the next couple years, but gas prices are beyond their control. Hedges will protect earnings and cash flow in 2020 and into 2021, but as we looked out beyond 2021, we had less confidence in the cash flow outlook. Given the company's balance sheet, we thought it prudent to move to the sidelines.

As a replacement, Murphy Oil seems particularly attractive. Like Antero, the shares are trading at around 2.5x projected cash flow and at a substantial discount to book value (a relevant metric for asset-based businesses like energy producers). Unlike Antero, Murphy is currently generating free cash flow and is returning that free cash to shareholders through dividends that produced a yield of over 4% when we started acquiring the shares. Murphy has a differentiated operating strategy that focuses on offshore energy production and its core area of operation is the Gulf of Mexico, where it is now the fifth largest operator (behind Shell, BP, Chevron and Occidental Petroleum). We believe this differentiated strategy, at a time when many energy producers are focused on shale-based resources, will generate far better results than are reflected in the stock's currently depressed price-to-cash flow valuation. Over the last 20 years, the stock has been valued at over 5.5x trailing cash flow.

When we originally invested in DaVita, we viewed it as an under-earning business. The problem was a collection of physician practices that the company had acquired. That part of the business wasn't making money and we saw potential for improvement. In a somewhat unexpected, but positive development, DaVita decided to sell the under-performing business to United Health at what we considered a very full price. That transaction has closed and the proceeds were used to buy back stock such that the share count today is approximately 40% below where it stood just four years ago. At this point in time, we no longer see DaVita as particularly undervalued and we saw much better potential in Carnival.

Carnival, the world's largest cruise operator, is currently in the midst of a substantial fleet expansion and modernization program which we believe will yield substantial benefits in coming years. Heavy investment in the business has crimped the company's free cash flow in the short term, but we believe the capital spending will deliver returns well above the company's cost of capital. Reduced short-term free cash flow and investor concerns about recession have dampened the stock's valuation. Over the last 20 years, Carnival has been valued at about 15x forward-earnings estimates – today, the shares change hands at around 10x. We believe the company's capital spending program will produce earnings growth comparable to the broad market, and while we wait for that to occur, we are getting paid a handsome 4.3% dividend yield. As investors grow comfortable with the outlook, we believe the stock can regain its historic valuation.

In Conclusion

Fundamentally, 2019 saw a continuation of recent market trends with growth stocks gaining more than value stocks that were burdened by weak global economic growth and trade war-induced softness in industrial activity. Weak global economies also led to a roughly 15% decline in oil and gas prices as compared to 2018. As a result of these headwinds, economically-sensitive value stocks generated earnings growth that lagged behind their growth company peers by about 9-10% -- roughly the magnitude by which growth stocks outperformed value stocks in 2019.

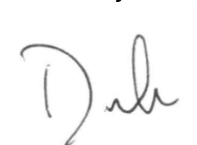
The setup heading into 2020 feels very different. The Federal Reserve has taken an accommodating stance and the President is focused on re-election. While the trade war with China dampened activity in 2019, recent developments suggest the worst of the trade war may be behind us. A president who

measures his success based on the level of the Dow Industrials will likely continue a market-friendly White House narrative, at least through Election Day. The ingredients are in place for improving economic activity.

If investors grow confident in a brightening outlook, they may begin to shift assets out of safe haven investments and into the value stocks that appear primed to benefit. As I noted earlier, the Wall Street consensus sees 15.9% EPS growth for the companies in which we are invested as compared to 7.3% for the S&P 500. If those expectations become reality, then our portfolio, at just 11x earnings, seems poised to close at least some of the value gap with the S&P 500's current forward P/E of 18x. If our stocks were to converge on their 2007-2016 median P/E ratios, we could see 30-40% appreciation on top of a double-digit contribution from earnings growth and dividend yield.

The lagging phase of the value cycle that we've lived through over the last three years feels very similar to the one I witnessed as a new portfolio manager in 1997-1999. There are striking parallels in valuation spreads and in investor attitudes towards value investing. I don't know if 2020 will see a value renaissance on par with what began in early 2000, but the ingredients are all there. I appreciate your patience and support in recent years as our portfolio has become what we believe is an ever more compressed spring primed for a monumental snapback. Best wishes for what will surely be an interesting year!

Sincerely,



J. Dale Harvey
January 1, 2020

Disclosures

Click here for prospectus: <https://poplarforestfunds.com/wp-content/uploads/Poplar-Forest-Prospectus-1.19.pdf>.

Mutual fund investing involves risk. Principal loss is possible. The funds may invest in debt securities which typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. The funds may invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater in emerging markets. Investing in small and medium sized companies may involve greater risk than investing in larger, more established companies because small and medium capitalization companies can be subject to greater share price volatility. The funds may invest in options, which may be subject to greater fluctuations in value than an investment in the underlying securities. When the Cornerstone Fund invests in other funds and ETFs an investor will indirectly bear the principal risks and its share of the fees and expenses of the underlying funds. Investments in asset-backed and mortgage-backed securities involve additional risks such as credit risk, prepayment risk, possible illiquidity and default, and increased susceptibility to adverse economic developments. Diversification does not assure a profit, nor does it protect against a loss in a declining market.

Value stocks typically are less volatile than growth stocks; however, value stocks have a lower expected growth rate in earnings and sales.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice. Fund holdings and sector allocations are subject to change and should not be considered recommendations to buy or sell any security

Poplar Forest funds are distributed by Quasar Distributors, LLC.
The Partners Fund top ten holdings and weightings are as follows:

CVS Health	4.53%
Kroger	4.40%
AmerisourceBergen	4.34%
International Business Machines	4.17%
AT&T	4.04%
Bank of America	4.03%
Advance Auto Parts	3.99%
AXA Equitable	3.85%
American International Group	3.83%
Eli Lilly	3.81%

The Cornerstone Fund top ten equity holdings and weightings are as follows:

CVS Health	3.04%
Kroger	3.04%
AmerisourceBergen	2.91%
Advance Auto Parts	2.88%
American International Group	2.81%
AT&T	2.74%
International Business Machines	2.74%
Lincoln National	2.66%

AXA Equitable	2.62%
Eli Lilly	2.59%

Fund performance can be found here: <https://poplarforestfunds.com/poplar-forest-partners-fund/>.

The most recent quarterly Partners Fund 30 day sec yield (subsidized) is 1.76% for I Shares, 1.51% for Class A Shares (no load) and 1.43% for Class A Shares (with load).

*Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 877-522-8860. Investment performance reflects fee waivers. In the absence of such waivers, total returns would be reduced. Performance data shown for A Shares With Load reflects the Class A maximum sales charge of 5%. Performance data shown for A Shares No Load does not reflect the deduction of the sales load. If reflected, the load would reduce the performance. The Adviser has contractually agreed to waive a portion or all of its management fees and/or pay Fund expenses in order to limit the Net Annual Fund Operating Expenses to 1.25% and 1.00% of average daily net assets of the Fund's Class A shares and Institutional Class shares, respectively until January 27, 2020. *Inception date is 12/31/09 for Poplar Forest Partners Fund IPFPX/PFPFX. **I Shares net expense ratio is 1.00% and is applicable to investors. Minimum account size is \$100,000. ***A Shares net expense ratio is 1.25% and is applicable to investors.*

The Conference Board Leading Economic Index is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables. These variables have historically turned downward before a recession and upward before an expansion.

Dividend yield is a stock's dividend as a percentage of the stock price. $\text{Dividend Yield} = \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$

Earnings growth is the annual rate of growth of earnings typically measured as Earnings Per Share Growth.

Earnings growth is not a measure of the Fund's future performance.

Earnings Per Share (EPS) is the net income of a company divided by the total number of shares it has outstanding.

Free cash flow (cash flow) is equal to the after-tax net income of a company plus depreciation and amortization less capital expenditures.

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.

Price/Book Ratio (P/B) is the weighted average of the price/book ratios of all the stocks in a fund's portfolio.

Price /Cash Flow Ratio is a stock valuation measure calculated by dividing a firm's cash flow per share into the current stock price. Financial analysts often prefer to value stocks using cash flow rather than earnings because the latter is more easily manipulated.

Price / Earnings (P/E) Ratio is a common tool for comparing the prices of different common stocks and is calculated by dividing the earnings per share into the current market price of a stock.

Price/Sales Ratio represents the amount an investor is willing to pay for a dollar generated from a particular company's operations.

Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. The Index is unmanaged, and one cannot invest directly in the Index.

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. It is not possible to invest directly in an Index.

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.

Index performance is not indicative of a fund's performance. Past performance does not guarantee future results.

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