



Poplar Forest Funds Quarterly Report

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September 30, 2016



About Poplar Forest

Formed in September 2007, Poplar Forest Capital provides investment management to select individual and institutional investors. We currently manage approximately \$1.3 billion of assets using a focused, disciplined and long-term contrarian approach to investing. We offer access to our expertise through three mutual funds:

Poplar Forest Partners Fund: Established in 2009, our flagship fund is a U.S. focused, contrarian value fund designed to be a core portfolio holding. The Fund seeks long-term growth of capital by investing primarily in equity securities of underappreciated large and medium-sized companies and industries.

Poplar Forest Cornerstone Fund: Established in 2014, our balanced fund of U.S. focused equity and debt securities is designed to be a core portfolio holding. The Fund may be suitable for long-term investors who seek a combination of both capital growth and preservation with less volatility than would generally be inherent in an all equity account.

Poplar Forest Outliers Fund: Established in 2014, Outliers is a U.S. focused, contrarian value fund designed for long-term investors interested in the growth potential of underappreciated medium and small sized companies and industries. The Fund may be suitable for investors who seek capital growth and are comfortable with the increased volatility that can come with these kinds of investments.

Our Mission and Values

Our mission is to achieve superior risk adjusted returns, net of fees and taxes, over full market cycles by investing in underappreciated companies and industries. We strive to be successful and live by these values:

- Stewardship
 - We put our client-partners first, our associates second, and the company third.
 - We believe in remaining small, so that size won't impede investment results.
 - We continually strive to exemplify the highest ethical standards.
- Partnership
 - We personally invest alongside our client-partners.
 - We share the benefits of scale with our stakeholders.
 - We treat our associates equitably.
- Passion with Humility
 - We aim for nothing less than market beating, long-term returns.
 - Even in our convictions, we remember that the other guy may be right.
 - We recognize that mistakes are inherent in investing. We try to admit mistakes early while striving to learn from them.





Average Annual Total Returns as of September 30, 2016					
					SINCE INCEPTION
CONTRARIAN VALUE FUNDS	QTR	1 YR	3 YR	5 YR	12/31/2009
Partners Fund					
I Shares	8.68%	21.35%	9.27%	17.62%	12.49%
A Shares No Load	8.60%	21.05%	9.00%	17.32%	12.21%
A Shares With Load	3.17%	15.00%	7.15%	16.12%	11.36%
S&P 500® Index	3.85%	15.43%	11.16%	16.37%	12.72%
Russell 1000® Value Index	3.48%	16.20%	9.70%	16.15%	12.15%
Cornerstone Fund					
					12/31/2014
I Shares	5.33%	15.95%	-	-	4.31%
A Shares No Load	5.26%	15.62%	-	-	4.03%
A Shares With Load	0.00%	9.83%	-	-	1.01%
60/40 S&P 500/Barclays Aggregate	2.49%	11.43%	-	-	4.78%
CONTRARIAN MID CAP FUND					
Outliers Fund	QTR	1 YR	3YR	5 YR	12/31/2011
I Shares	2.87%	6.68%	3.77%	-	13.37%
Russell Midcap® Index	4.52%	14.25%	9.70%	-	14.78%
					12/31/2014
A Shares No Load	2.79%	6.41%	-	-	-4.59%
A Shares With Load	-2.35%	1.09%	-	-	-7.36%
Russell Midcap® Index	4.52%	14.25%	-	-	4.26%

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. Performance for Class A Shares with load reflects a maximum 5.00% sales charge. Class A shares without load do not take into account any sales charges which would reduce performance. Expense Ratio Net of fee waiver reflects contractual fee waiver in effect through at least 1/27/2017. The Partners Fund expense ratio is 1.26% net and 1.31% gross for the A Shares and 1.01% net and 1.06% gross for the I Shares. The Cornerstone Fund expense ratio is 1.17% net, 3.36% gross for the A Shares and 0.92% net and 3.16% gross for the I Shares. The Outliers Fund expense ratio is 1.37% net, 4.94% gross for the A Shares and 1.12% net, 4.69% gross for the I Shares.

The Outliers performance shown prior to December 31, 2014 is that of the Predecessor Partnership and includes expenses of the Predecessor Partnership. Simultaneous with the commencement of the Fund's investment operations on December 31, 2014, the Predecessor Partnership converted into the Institutional Class of the Fund. The Predecessor Partnership maintained an investment objective and investment policies that were, in all material respects, equivalent to those of the Fund. The performance returns of the Predecessor Partnership are unaudited and are calculated by the Adviser on a total return basis. The Predecessor Partnership was not a registered mutual fund and was not subject to the same investment and tax restrictions as the Fund, which, if applicable, may have adversely affected its performance.





CONTRARIAN VALUE COMMENTARY

Dear Partner,

In the small town where I grew up, having your own car seemed like a path to freedom and happiness. I suppose that's why my father refused to allow me to buy one. As he saw it, a car would lead to girls and drinking and he feared my schoolwork would suffer. I did get to drive my mother's old Pinto station wagon to school and work, but it certainly did not attract girls. There was an upside; my parents promised to buy me a car if I achieved a 3.0 or better in my first year of college.

As we loaded my belongings into my father's pickup truck at the end of freshman year, I noticed new license plates on the dashboard that read "J DALE" - I was getting a car! The details were withheld until we got home. After we unpacked the truck, Dad took me to the machine shop where my reward was being repainted. That 1973 Chevy Caprice Classic convertible was a thing of beauty - fire engine red with a white top. Admittedly, it was 11 years old and got maybe 8 miles to the gallon, but it could also seat 6-7 people comfortably. Needless to say, it was a hit when I rolled into the fraternity parking lot for the start of my second year at school.

My love affair with that car sadly ended when I graduated. I was headed to New York City and having a land yacht in Manhattan just wasn't practical. Besides, I needed the money. So I sold my beloved red convertible. Four years later, the situation had changed - I was approaching the end of graduate school in Boston and would soon be moving to Los Angeles for a job - I was going to need a car.

There were 12 inches of snow on the ground on that late March day when I headed out to find a used red convertible I could afford. The Chrysler salesman could hardly believe his ears. "Sure" he said, "you can take the used La Baron for a spin." It was freezing cold, but I still put the top down for the test drive. The car had been on the lot for months and there weren't many prospective convertible buyers in late winter in Boston. They were so anxious to sell it that they gave me a great price. What's more, they let me put the down payment on my credit card, financed the rest, and agreed to make the first two payments. In the intervening 25 years, I've owned a succession of red convertibles with "J DALE" plates. Though I'm always sensitive to price, I've never gotten as good a deal as I did on that cold winter day.

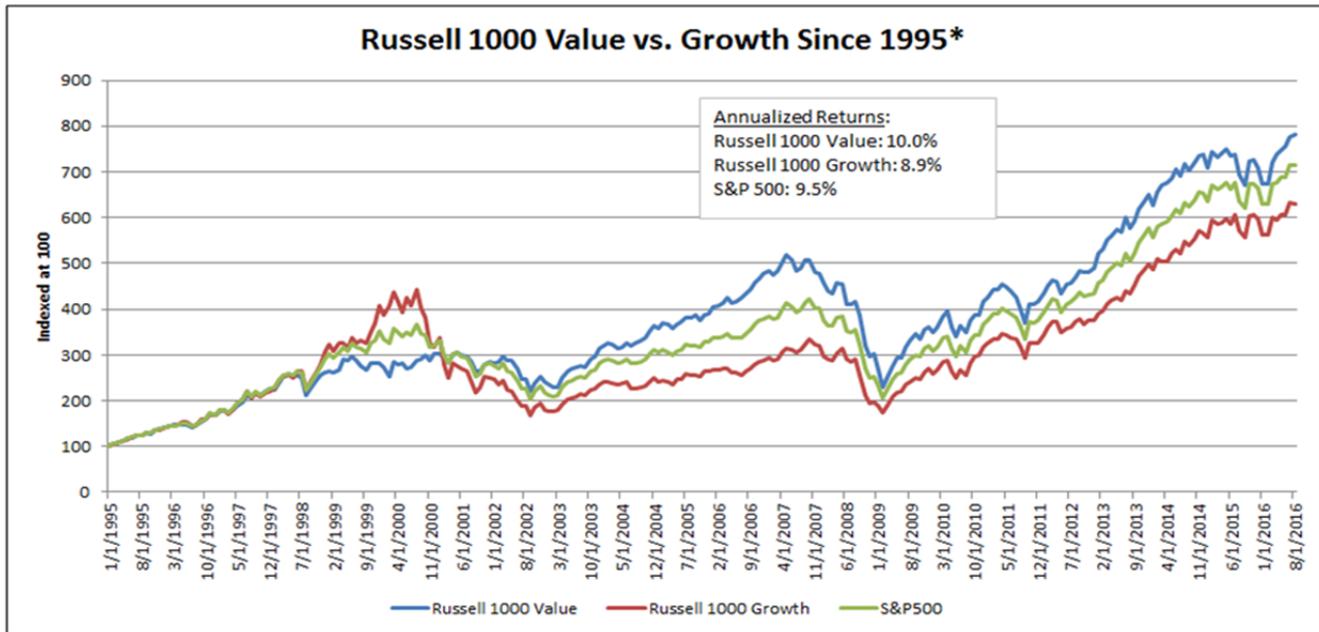
I wouldn't call myself a "car guy", but I love to cruise down the highway on a sunny day with the top down and great tunes playing. I have a hard time imagining myself in one of the driverless vehicles that are getting so much press these days. Automobiles have become ever more sophisticated for decades and I suspect Henry Ford would be amazed at what is packed into today's new vehicles. I really appreciate my car's navigation system and rear view camera, but I'm not ready to give up the wheel. While I acknowledge a computer directed vehicle may be safer than one piloted by a distracted driver, isn't a better solution to eliminate distractions?

Just as new technology has improved the driving experience, innovation has also improved investors' returns. Index funds have now been around for 40 years and they have certainly saved clients' money while avoiding the underperformance that can come with a poorly managed mutual fund. Index funds have given rise to new investment vehicles like ETFs (exchange traded funds) which allow investors to





buy and sell baskets of stocks at any minute of the trading day. Index funds have also grown more sophisticated with "smart beta" and "factor" based portfolios available to those wanting to slice the market different ways. Most of these new investment choices are lower in cost because they don't rely on humans for decision making. Just as a computer directed car may be safer than one steered by a distracted driver, computer orchestrated investing may produce better outcomes than poorly managed mutual funds. For many investors, simply getting an "average" return is an improvement; I've always strived to do far better than average.



Note: Russell 1000 Value and Growth index performance data from FTSE Russell. S&P500 index returns from CapitalIQ. All returns are US based. Chart and annualized returns (gross) are from January 1, 1995 to August 31, 2016. Gross returns assume dividends are reinvested. **Past performance does not guarantee future results.**

Though it doesn't work every year, value investing has demonstrated an ability to deliver market beating results over long periods of time, as you can see above. We believe the current environment offers a particularly compelling opportunity for value stocks. The general premise is simple: statistically cheap stocks reflect low expectations. If the future turns out to be better, which can often happen when expectations are low, then the stock will often move higher. As a contrarian value investor, I've watched with interest the development of factor based ETFs like the iShares Edge MSCI USA Value Factor ETF. That fund's prospectus states that it "seeks to track the investment results of an index composed of U.S. large- and mid-capitalization stocks with value characteristics and relative lower valuations." The supporting documents summarize the stock selection process as "combining the z-scores of the three valuation descriptors, namely Forward Price to Earnings, Enterprise Value/Operating Cash Flows and Price to Book Value." BlackRock, the sponsor of the Value ETF, charges 0.15% per year for a fund that seeks to merely track the performance of an index of value stocks. While "combining z-scores" may sound impressive, I think Poplar Forest's active investment process may produce index-beating returns after expenses.





How We Steer Our Portfolios

We have access to the same type of data used in the creation of the MSCI USA Enhanced Value Index, but we don't just buy a stock because a computer algorithm says to. **Computers may be good at identifying statistically cheap stocks, but many of those stocks are cheap for good reasons.** For example, as of June 30, 2016, General Motors and Ford accounted for 5.4% of the iShares Value ETF. We acknowledge that those stocks look cheap, as they are trading at around 7x earnings, but we worry that their profits may decline from here given U.S. auto sales are at all time high levels.

At Poplar Forest, we're focused on delivering results that can't be replicated by a computer algorithm. We spend our time investigating companies with the goal of distinguishing the "cheap for good reason" from the real bargains (like a red convertible on a cold winter day). We spend a great deal of our time evaluating businesses that have produced disappointing results – the proverbial car with a wheel in the ditch. Sometimes disappointing results signify a broken axle, but occasionally it's just a blown tire that can be repaired. The share price of a good company suffering from weak short-term results may not look statistically cheap, but when the business is fixed and results improve, that out-of-favor purchase may end up looking like a real bargain in hindsight.

During the recent quarter, for example, we invested in Ralph Lauren, whose stock had declined 50% from its high in late 2014. In prior years, management had wanted the business to grow at what turned out to be a higher than prudent rate and, as a result, they introduced too many new products. An impressive new management team was recently hired to clean up the resulting mess. The new team quickly decided to simplify the product line which resulted in reduced sales this year. Profits declined as revenues fell. This company has enjoyed profit margins of 15% or more for years, but the repositioning of the business has resulted in currently depressed margins of just 10%. As this turnaround takes hold, we expect revenues to start growing again and margins to recover to prior levels. If we are right in our assessment of the company's outlook, margin expansion alone seems sufficient to drive a mid-teens earnings growth rate over the next three years. Sales growth and the deployment of free cash flow will hopefully add to that growth rate. With a P/E ratio roughly in line with the S&P 500, the stock doesn't look like a traditional "value" stock. In our view, the current valuation is misleading because earnings are depressed. We are excited that the margin recovery potential could allow us to earn a better than 20% annual return on our investment in the coming few years.

While many observers fret because the 500 stocks in the S&P collectively look a little pricey and their profit margins look high, our investment process has continued to identify individual companies, like the one described above, that appear to offer far different prospects than the stock market as a whole. The bottom up, research-intensive investment process we use can't be replicated by computer. It takes a lot of time and effort by our six person investment team to find, analyze and stay current with our investments, but since we limit ourselves to high conviction portfolios of 25-35 individual stocks, it works. As a practical matter, once we've invested in a company, we tend to own it for about four years. With roughly 30 stocks and an average four year holding period, we need just 7-8 great new ideas a year to keep our funds running on all cylinders. I'm thrilled to work with a great group of patient, talented, and





experienced professionals who believe in what we do and who've all joined me in investing their own hard-earned money in our funds.

I started investing in stocks when I was in high school. In college, I dug into the work of Graham and Dodd (the original proponents of buying statistically cheap stocks) and John Neff, a legendary value investor. I also studied Warren Buffett who built on Graham and Dodd's work by demonstrating that value is more than just buying statistically cheap stocks: a bargain can sometimes involve paying a little more for a good business with above average prospects – provided those prospects are under-appreciated by the market. This foundation combined with first hand exposure to great portfolio managers at the Capital Group/American Funds led me to develop an investment process I've now been using for more than 20 years. My goal: market-beating, long-term investment results.

Judging the success of an investment strategy isn't as easy as you might believe. The biggest challenge is in distinguishing stock picking skill from general market movements. Sanford Bernstein, a Wall Street research and investment firm, recently tried to tackle this challenge in a newly published study entitled "What is Worth Paying For in an Asset Manager." Their work systematically dissects a fund's investment results into "factors" and "idiosyncratic alpha." The "factors" (value, momentum, quality, and low volatility) can be cheaply replicated by a computer directed ETF. The "idiosyncratic" piece can't be explained by an algorithm – it's the piece of the puzzle that truly reflects human inputs. That's what we do at Poplar Forest: we pick stocks based on more than numerical data by employing our own qualitative analysis and judgment.

We asked Bernstein to use their system to evaluate the Poplar Forest Partners Fund. Unsurprisingly, our historic results were highly correlated with the "value factor" – in other words, we are value investors. Beyond that, Bernstein found that, in their study period of March 2011 through June 2016, the fund demonstrated statistically significant "idiosyncratic alpha" (excess return relative to a benchmark) of roughly 3.6% per year (before fees) relative to an equal weighted basket of the four factor ETFs. For over 20 years, I've believed that my investment process would produce market beating returns and now Bernstein has produced statistically significant evidence that it has. For more details on their methodology, please see Bernstein's report: "Fund Management Strategy: Examining Idiosyncratic Returns in the US Market."

The Road Ahead

Bob Kirby, a former Capital Group colleague and an outstanding money manager, was also a passionate race car driver. He often noted that racing and investing are similar in that, as he put it, "You have to finish to win." That mindset has long been a part of my investment process as expressed in self-imposed restrictions to build portfolios with at least 85% dividend paying and at least 85% investment grade rated companies. Focusing on sustainable free cash flow and on the price paid relative to the perceived value received are also factors that I believe help ensure we "finish the race."





At this point in the economic cycle, and with the stock market near all-time high levels, protecting against downside risk is a growing factor in our investment process. As a first step, and as a measure of increased conservatism, we are building a 2018 recession into our base case financial forecasts. We don't currently see the preconditions for a recession, but we want to make sure that we have our eyes open to the potential downside risks in the portfolio in case a recession develops unexpectedly. If the economy continues to grow as we expect, the results generated by the companies we invest in could be even better than forecast. In addition, we recently started a series of internal meetings focused solely on a systematic review of variables that could be early indicators of recession.

Our operating premise is that recessions occur when a sector (or sectors) of the economy is operating at an over safe speed. This was the case with housing in 2005-2007 and technology in 1997-1999. At this point in time, the auto business seems to be running a little hot, but a slowdown there wouldn't seem sufficient to bring on a recession. More generally, we expect the economy to largely continue on its current path of moderate growth, slowly rising inflation and rolling corrections within particular industries (like energy and industrials recently) that keep the U.S. economic engine from over-heating. Provided the engine doesn't get too hot, we are likely a long way from needing a recessionary pit stop.

We've also considered an environment in which the economy grows at such a slow speed that interest rates stay "lower for longer." With financial services companies making up a large part of our portfolios, we sometimes get questions about how we'd fare in such an environment. Given the valuations on our core financial service investments, I think we are being more than adequately compensated for the risk of such an outcome. These stocks are valued at around 7-8x earnings and 70-80% of book value. If interest rates remain low, earnings growth will be low, but deployment of free cash flow should allow us to earn a roughly 10% rate of return. If interest rates move back to historic premiums relative to inflation, as we expect, we believe we'll enjoy far better returns from these investments - in short, the risk/reward ratio seems skewed in our favor.

While we are spending a little more time looking for recessionary road signs, our focus remains on bottom-up stock selection. We continue to be drawn to prospective investments that hinge on "self-help" factors like those involved in the turnaround of Ralph Lauren that I discussed earlier. At a time when many advisors and investors seem understandably nervous about the market as a whole, we have a decidedly different outlook due to our selectivity; we don't own 500 stocks, or 150 – we build portfolios of 25-35 stocks that we've carefully chosen. Our knowledge of the circumstances of company specific factors makes us enthused about the prospects for our portfolio. We've enjoyed strong results through the first nine months of this year, and we hope to generate more strong gains in the years to come.

The total return of an investment can be broken down into two key components: fundamentals and valuation changes. We break fundamentals down into organic sales growth, profitability and deployment of free cash flow. When looking at our portfolio relative to the broad market, we believe improved profitability will be the key driver of our results in coming years. We expect profitability improvements to contribute roughly 7% a year to the weighted average EPS growth of companies in the Partners portfolio in 2017-2020. On top of that, we assume revenue growth consistent with a slow growing economy and a modest contribution from the deployment of free cash flow. If we are correct in our assessment, the





companies in our portfolio could produce double digit annual earnings growth in the next three years. This growth, combined with a reasonable dividend yield and a discounted valuation relative to the broad market, may be a recipe for market-beating results.

We appreciate the patience of our client partners who understand that even great investment processes don't beat the market every year. So far, 2016 has been a year in which your patience has been rewarded. Of course, we've got many miles to go, but in my opinion, the outlook is bright. It's a beautiful sunny day. The tank is full of gas and Waze (another technological marvel on which I rely) says traffic is light. I've got the top down and Tom Petty's *Runnin' Down a Dream* is playing at top volume. There is plenty of room in the car so I hope you'll settle in and enjoy the ride. I look forward to sharing a long and successful road trip with all of you.

Thank you for your continued confidence in Poplar Forest.

A handwritten signature in black ink that reads "J. Dale Harvey".

J. Dale Harvey

October 3, 2016





PARTNERS FUND REVIEW

Portfolio Manager: J. Dale Harvey

In my last few letters, I've shared with readers our belief that we were on the verge of a multi-year period when value strategies, like that followed by Poplar Forest, would produce market beating returns. So far this year, that has been the case as evidenced by the Russell 1000® Value Index producing a superior return relative to the S&P 500® Index. While the S&P has produced a respectable gain of 7.84% in the nine months ending September 30, 2016, the Value index generated an even better 10.00% return. In comparison, the Partners Fund institutional class delivered a 14.69% return.

These results are all the more satisfying given that financial service companies, our largest sector exposure, were a headwind to our results over the last nine months. We continue to feel that the risk/reward tradeoff for this group is highly compelling as the stocks seem to embed expectations for interest rates to stay at a very low level for the foreseeable future. If the U.S. Federal Reserve continues to hold rates steady, we still believe given their valuations, the finance stocks we own will produce results at least in line with the market. If, however, the Fed starts to normalize monetary policy by raising rates, these stocks may be big winners.

At the individual stock level, the biggest detractors were: American International Group (financial), Citigroup (financial), Lincoln National (financial), MetLife (financial), and WPX Energy (energy). Early this year, we sold WPX and reinvested the proceeds into Devon Energy as we believed that Devon offered comparable upside with much less downside relative to WPX. That trade allowed us to capture a tax loss while also improving, in our opinion, the risk/reward ratio of the portfolio.

The top positive contributors to the Fund's results were spread across industries: Hewlett Packard Enterprises (technology), MSC Industrial Direct (industrial), Reliance Steel & Aluminum (materials), Freeport-McMoRan (materials), and Dun & Bradstreet (industrials). As discussed in the Contrarian Value Commentary, we are focused on building portfolios of carefully chosen stocks whose future results may be driven more by company specific factors than by macroeconomic variables.

I continue to be excited about the value I see in the portfolio today. We ended the quarter with 6% in cash and our research efforts continued to identify what appear to be very attractive new investment opportunities. 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.





CORNERSTONE FUND REVIEW

Portfolio Managers: J. Dale Harvey and Derek Derman

We launched the Cornerstone Fund in 2014 to provide investors with a less volatile version of our flagship Partners Fund. It is our belief that investors can enjoy solid long-term returns with an approach that balances the volatile growth of equities with the stability of bonds and cash. Our balanced strategy focuses on growing our client partners' long-term purchasing power while avoiding permanent losses of capital. We believe compounding returns can be a powerful wealth producer. By building on the firm's flagship strategy, Cornerstone uses fixed income and cash to lower volatility and emphasize capital preservation. Equities will always be at least half of the Fund's assets, but a mandate to invest in fixed income allows us to tactically adjust the Fund's profile based on market conditions and perceived risk.

In the quarter ending 9/30/16, the Cornerstone Fund institutional class generated a 5.33% return, well ahead of benchmarks. While we are pleased with recent results, we prefer to focus on longer periods of time. Through the first nine months of 2016, the Cornerstone Fund generated a 12.38% return. These results compared positively with the year-to-date gains of 7.84% for S&P 500® Index and the 5.80% for the Barclays Aggregate Bond Index. A blend of these indices, weighted at 60% equity and 40% bonds and cash, would have produced a total return of 7.13%. As was the case with the Partners Fund, we are particularly pleased with our results given the headwinds from our investments in financial service companies - a sector that has lagged the broad market this year and our largest industry exposure.

At the individual stock level, the biggest headwinds this year were all financial service companies: American International Group, Bank of America, Citigroup, Lincoln National and MetLife. We continue to feel that the risk/reward tradeoff for this group is highly compelling as the stocks seem to embed expectations for interest rates to stay at a very low level for the foreseeable future. If the U.S. Federal Reserve continues to hold rates steady, we believe the finance stocks we own may produce results at least in line with the market given their valuations. If, however, the Fed starts to normalize monetary policy by raising rates, these stocks may be big winners.

Our best investments demonstrate our focus on bottom-up stock selection as they come from a diverse collection of industries: Dun & Bradstreet (information services), Freeport-McMoRan (materials), Hewlett-Packard Enterprises (technology), MSC Industrial Direct (industrial), and Zimmer Biomet Holdings (healthcare).

The portfolio's asset allocation is currently 63% equities, 27% fixed income and 10% cash and equivalents – broadly in line with our weightings in recent quarters. The bond portfolio continues to hold high-quality low-duration securities with the intention of limiting risk from rising interest rates. Having a healthy balance of cash and equivalents may provide stability in turbulent markets while giving us flexibility to deploy assets as opportunities emerge.

As we look ahead, we believe our portfolio is well positioned to generate solid inflation-adjusted returns. The Fund remains focused on high quality companies that are trading at what we believe are discounted valuations while our bond selections continues to emphasize capital preservation.





CONTRARIAN MID-CAP COMMENTARY

Dear Partner,

After having now coached multiple soccer teams for multiple seasons, it seems that the cultural norms around praise have changed since I was a kid. While I'm all for positivity and optimism, giving every child a trophy and hearing parents praise each good move on the field rings hollow and stands in stark contrast to the positive but much less congratulatory experiences I enjoyed as a young athlete. I recently discovered some interesting research by Carol Dweck, a Professor of Psychology at Stanford, highlighting the potential pitfalls of excessively praising young children. Dweck is best known for developing the concepts of a "fixed mindset" and a "growth mindset." According to Dweck, a child's theories on achievement and skill profoundly influence their motivation. For instance, children with a fixed mindset believe their athletic talent or intelligence is a static trait, and consequently can become consumed with measuring the scope of their abilities. The challenge for kids with this mindset is that they tend to give up or withdraw when they get negative feedback. A fixed mindset can develop in response to parents, teachers, or coaches praising a child's talent, intelligence, or looks as opposed to their hard work and resilience. A child with a fixed mindset often has little appetite for trying new activities and lacks grit in the face of hardship. On the other hand, children with a growth mindset believe that their abilities are malleable and that mastery and achievement involve challenges and require consistent effort. These kids are resilient to setbacks because their theories on success incorporate obstacles as opportunities to develop strength, not signals of inherent weakness. Unsurprisingly, Dweck's research found that children of comparable intelligence, but with a growth mindset, outperform children with a fixed mindset, especially during the emotionally challenging middle school years¹. As a father and occasional coach, my biggest takeaway from Dweck's work is that praise should be focused on effort and attitude, not on short-term outcomes or innate ability.

Dweck's work also has applications in the world of investing, which tends to overweight recent trends and extrapolate them into the future. For instance, after 6-12 months of worse than expected earnings reports, the stock market will often adopt a pessimistic view of a company's long-term earnings potential even when the weak near-term results may be attributable to cyclical noise. Sentiment becomes even gloomier when cyclical weakness strikes a historically mismanaged company. **As a contrarian, I tend to perk up when signs emerge that a fixed and negative mindset has developed about a company's long-term prospects.** Occasionally, these pessimistic views will persist even after a new CEO outlines a multi-year plan to dramatically improve the company's earnings power. SPX Flow (FLOW) embodies this fact pattern and is a recent addition to the portfolio.

SPX Flow is a leading manufacturer of pumps, valves, and filters used to regulate the "flow" of various fluids and gases. The business in its current form was created through a variety of acquisitions. Prior to Marc Michael taking over as CEO at the beginning of 2016, SPX Flow had been run as part of a holding company by a CEO who thought he could acquire his way to a higher stock price but ended up destroying, not creating, shareholder value. CEO Michael, with a background in operations, is now optimizing the company's asset base, and he believes there are significant opportunities to increase SPX Flow's profit margins and long-term earnings power. More specifically, a plan for approximately \$3 in





earnings and \$5 in free cash flow has been outlined for 2018 and assumes no increases in sales². However, with SPX Flow's stock still trading at a significant valuation discount to the market, investors appear to be disregarding the new management team's plan. This skepticism likely stems from the combination of the company's poor long-term track record and the fact that key end markets, such as oil, gas, and dairy processing, are enduring noteworthy cyclical declines. From the standpoint of Dweck's framework, the market has adopted a pessimistic and fixed mindset about SPX Flow's earnings power despite the new CEO fostering a growth mindset within the company. Our research suggests the risk vs. reward profile is compelling and, from the current stock price, I believe investors have three ways to win: (1) the CEO succeeds with his restructuring plan, (2) key-end markets cyclically recover, and/or (3) the business gets acquired by a larger and more efficient competitor. The primary way to lose in the short run would be if there were a recession, but I think this downside risk is mitigated by the fact that many of SPX Flow's end markets have already endured recessionary levels of sales and order declines.

In today's market environment, I believe investment opportunities like SPX Flow are more the exception than the rule. Markets are highly efficient and, as I've noted in prior letters, the relationship between business fundamentals and market prices looks about right for most of the companies I study. While I currently have a neutral view on the outlook for midcap stocks as a category, our investment process continues to yield attractive opportunities as evidenced by our new purchases this quarter. Limiting our portfolio to only the very best 25-35 investment ideas is an important advantage and one that I believe will differentiate the strategy in years to come. After all, as the actor and race car driver Paul Newman once quipped, "Why fool around with hamburger when you have steak at home?"

The portfolio remains quite different from the Russell Midcap Index® and has no exposure to companies in the Utilities, Consumer Staples, or Telecom Services sectors and minimal exposure to the Real Estate sector. Companies in these sectors are often viewed as "safe" investments that have offered dividend yields higher than what is being offered in the bond market and may be thought of as bond-proxies. For long-term investors, price paid and valuation are critical variables in defining the risk of loss for any asset. **In my opinion, many of the companies that are viewed to have safe cash flows and dividend streams are actually quite risky because of their valuations.** Conversely, I believe many companies in the Healthcare sector offer investors growing streams of non-cyclical earnings that are being valued at a discount to the broader market due to concerns about increased regulation. The current jawboning by politicians for additional healthcare reform during a presidential election year appears exaggerated and seems unlikely to adversely impact the long-term earnings power of our healthcare investments. In fact, some of our investments would actually stand to benefit from additional reforms should they be implemented. At an approximate 25% weighting, Healthcare represents the largest sector in the fund. The portfolio continues to trade at a significant discount to my estimates of normalized earnings power while offering a healthy balance between cyclical and non-cyclical businesses. Accordingly, we believe the portfolio isn't dependent on accelerating economic growth for success. Additionally, the fund's cash balance enables me to opportunistically take advantage of share price declines in companies that meet our highly selective investment standards. While recent performance trends are frustrating, I am optimistic about the fund's long-term prospects and I remain firmly committed to achieving outperformance over full market cycles.





Thank you for your interest and continued support!

Cordially,

Stephen A. Burlingame, CFA

October 1, 2016





OUTLIERS FUND REVIEW

Portfolio Manager: Stephen Burlingame

The Russell Midcap Index® generated decent gains in 3Q'16 as the U.S. Federal Reserve indicated a slow and measured pace to future interest rate increases and as other central banks, such as in Japan, appear willing to overshoot their stated inflation goals. During the quarter, the fund's Institutional Class shares generated a return of 2.87% which was lower than the Russell Midcap Index® return of 4.52%. Our goal is not to outperform every quarter or even every year but rather to generate market-beating annualized returns over a full market cycle. Since inception on December 31, 2011, the fund has generated an annualized return of 13.37% which compares to a 14.78% return for the Russell Midcap Index®.

Relative to the Russell Midcap Index®, the fund's quarterly performance was hurt by stock selection. Investments in the Industrials and Consumer Discretionary sectors contributed the most to the fund's relative returns whereas investments in the Healthcare and Energy sectors detracted the most. Within Industrials, NN Corp was a primary driver of quarterly returns as investor sentiment improved for the company's multi-year plan to increase margins and pay down debt. Quarterly gains in the Consumer Discretionary sector were driven by Party City following favorable quarterly results which showed improving same store sales growth and rising profit margins. The primary drivers of weak performance in the Healthcare sector were Aetna and Humana, two health insurance companies whose planned merger is being challenged by the Department of Justice. I continue to believe a favorable agreement with regulators to approve the merger can be struck, which would be positive catalyst for both companies. If the merger fails, I believe both companies still offer a reasonable, although diminished, long-term return profile. The fund's investments in the Energy sector were negatively impacted by oil prices falling under \$50 per barrel. The fund continues to have no exposure to Utilities or Real Estate Investment Trusts (REITs). Many of these companies pay investors high dividend yields and are often viewed as fixed income equivalents. Over the next three to five years, investors may become less interested in Utilities and REITs if interest rates on competing fixed income assets rise.

Quarterly Changes:

During the quarter, I initiated investments in SPX Flow (FLOW), Keysight (KEYS), Lincoln National (LNC), and Freeport-McMoran (FCX) and exited the fund's investments in Quest Diagnostics (DGX), CIT Group (CIT), Core Labs (CLB) and Aecom (ACM). The four purchases in the quarter all represent investments where we believe profit margins can materially improve due to the combination of self-help initiatives and/or mean reversion in macroeconomic variables such as interest rates or various commodity prices. The sale of Quest Diagnostics followed the realization of our target price while the three other sales reflect reduced conviction in these businesses long-term return potential relative to current prices. The fund continues to look quite different from the Russell Midcap Index® with notably higher allocations to the Healthcare sector and cash, notably lower allocations to the Financials sector, and no exposure to the Utilities, Consumer Staples, and Telecom sectors.





Disclosures

The Funds' objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information and can be obtained by calling (626) 304-6000 or by visiting www.poplarforestfunds.com. Read it carefully before investing.

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 Growth 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.

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

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

References to other mutual funds should not be considered an offer of those securities.

Poplar Forest Capital LLC is the advisor to the Poplar Forest Partners Fund which is distributed by Quasar Distributors, LLC.

As of September 30, 2016, the Poplar Forest Partners Fund's 10 largest holdings accounted for 43.68% of total fund assets. The Fund's 10 largest holdings at September 30, 2016:

Hewlett Packard Enterprise – 4.92%

Dun & Bradstreet – 4.59%

Reliance Steel & Aluminum – 4.44%

Lincoln National – 4.44%

MetLife – 4.38%

MSC Industrial Direct – 4.35%

Bank of America – 4.32%

American International Group – 4.18%

Citigroup – 4.08%

Ralph Lauren – 3.97%





As of September 30, 2016, the Poplar Forest Cornerstone Fund's 10 largest holdings accounted for 25.96% of total fund assets. The Fund's 10 largest holdings at September 30, 2016:

Hewlett Packard Enterprise – 2.86%
Lincoln National– 2.79%
Zimmer Biomet Holdings– 2.75%
MetLife – 2.62%
Dun & Bradstreet – 2.59%
St. Jude Medical – 2.56%
American International Group – 2.56%
MSC Industrial Direct – 2.52%
United States Treasury Bond TIPS 1/15/2022 – 2.37%
United States Treasury Inflation Indexed Bond 7/15/2024– 2.33%

As of September 30, 2016, the Poplar Forest Outliers Fund's 10 largest equity holdings accounted for 43.80% of total fund assets. The Fund's 10 largest equity holdings at September 30, 2016:

Zimmer Biomet Holdings – 6.56%
Aetna– 5.57%
Motorola Solutions – 5.04%
Progressive – 4.66 %
Dun & Bradstreet – 3.98%
St. Jude Medical – 3.93%
Reliance Steel & Aluminum – 3.72%
Amerisourcebergen – 3.71%
H&R Block– 3.40%
SVB Financial – 3.22%

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

Definitions

The Barclays Aggregate Bond Index, which used to be called the “Lehman Aggregate Bond Index,” is a broad base index, maintained by Barclays Capital, which took over the index business of the now defunct Lehman Brothers, and is often used to represent investment grade bonds being traded in the United States.

A blended index (also known as a blended benchmark) is a combination of two or more indices in varying percentages. To take a simple example, if an investor's assets are allocated to 60% stocks and 40% bonds, the portfolio's performance might be best measured against a blended benchmark consisting of 60% in a stock index (e.g. S&P 500 index) and 40% in a bond index (e.g. Barclays Capital U.S. Aggregate Bond Index).





Downside risk is the financial risk associated with losses. That is, it is the risk of the actual return being below the expected return, or the uncertainty about the magnitude of that difference.

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.

An ETF, or exchange traded fund, is a marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold. An index fund is a type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500). Tax features, liquidity and fees may differ between ETF and mutual fund products.

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.

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.

The MSCI USA Enhanced Value Index captures large and mid-cap representation across the US equity markets exhibiting overall value style characteristics. The index is designed to represent the performance of securities that exhibit higher value characteristics relative to their peers within the corresponding GICS® sector. The value investment style characteristics for index construction are defined using three variables: Price-to-Book Value, Price-to-Forward Earnings and Enterprise Value-to-Cash flow from Operations.





Margin is the difference between a product or service's selling price and its cost of production or to the ratio between a company's revenues and expenses.

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.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies. It is not possible to invest directly in an index.

The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price/book ratios and higher forecasted growth values. You cannot 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.

Smart beta defines a set of investment strategies that emphasize the use of alternative index construction rules to traditional market capitalization based indices. Smart beta emphasizes capturing investment factors or market inefficiencies in a rules-based and transparent way.

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.

A Z-score is a numerical measurement of a value's relationship to the mean in a group of values. If a Z-score is 0, it represents the score is identical to the mean score. Z-scores may also be positive or negative, with a positive value indicating the score is above the mean and a negative score indicating it is below the mean. Positive and negative scores also reveal the number of standard deviations the score is either above or below the mean.

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

¹ Lisa S. Blackwell, Kali H. Trzesniewski, Carol Sorich Dweck, "Implicit Theories of Intelligence Predict Achievement Across an Adolescent Transition: A Longitudinal Study and an Intervention," *Child Development* 78, no. 1 (January/February 2007): 246 – 263.

² SPX FLOW Inc., Second Quarter 2016 Results, August 3, 2016, p. 25, from SPX Flow company website. <http://www.spxflow.com/en/investor-relations/webcasts-and-presentations/webcasts-and-presentations/>

