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MUTUAL FUND SNAPSHOT

Today's Top 5 Stock Picks: Dividends on the Cheap

The Poplar Forest Partners fund beats 96% of its peers by finding value where others don't.

By CRYSTAL KIM

Computers can easily generate a basket of statistically cheap stocks, and they may even produce a better outcome than a poorly managed mutual fund. What they can't do is mimic the decision-making prowess of a veteran investor who can consider why a stock is cheap.

J. Dale Harvey, manager of the $622 million Poplar Forest Partners fund (ticker: PFPFX), likens his value bent to the time he bought a used LeBaron convertible from a Chrysler salesman in the dead of a Boston winter. "Everyone wants robo-advisors, ETFs, and factor-based portfolios," says Harvey. "We do it the old-fashioned way, making judgments and looking where people aren't."

Harvey, 51, spent over 15 years at Capital Group managing some $20 billion in assets, but decided to leave in 2007 to open up his own shop. Harvey, who is based in Pasadena, Calif., looks for investment-grade balance sheets and companies that pay a dividend. Normalized earnings and free cash flow looking out three to four years help ensure he's buying value. Top holdings include HP spinoff Hewlett Packard Enterprise (HPE), information services provider Dun & Bradstreet (DNB), and steel distributor Reliance Steel & Aluminum (RS), as well as life insurers Lincoln National (LNC) and MetLife (MET).

He continues to find good ideas. About six to eight months ago, Harvey found cheap stocks in the energy sector; before that, it was financials. Lately, he's been eyeing potential ideas in consumer cyclicals. The market seems to be dinging these stocks because of a mindset that the economy is fragile. Harvey thinks otherwise, but he assumes a 2018 recession to model bear cases for companies he is interested in.

"If things go poorly, it'll be dead money and we get the dividend," he explains. "We want a 15% annual hurdle rate for the base case, and the best case is that the stock will double."

That strategy has worked wonders, despite the fact that the post-financial crisis bull run has been a headwind for value investors – and despite the fund's steep 1.25% annual cost. Over the past five years, the fund has returned 15% annually, net of fees, beating the Standard & Poor's 500 index and 96% of its large-value fund peers.

Barrons.com asked Harvey to make the case for his top five picks.

Hewlett Packard Enterprise: The tech giant split its enterprise business from its PCs and printing business in late 2015, a part of CEO Meg Whitman's ongoing plan to unlock value. Harvey says the market put too high a valuation on HP (HPQ), so he sold those shares and put it into Hewlett Packard Enterprise. That business is in the middle of two important transactions, spinning off its technology-services unit to merge with Computer Sciences (CSC) and its software business to merge with U.K. company Micro Focus International (MCRO.UK). Minus the spinoffs and the company's sizable pro forma cash position, shares at a recent $22 trade between five and six times 2016 earnings, based on Harvey's estimates, which he says is "still far too cheap." The stock yields 1%.

Dun & Bradstreet: The information services company has a database of private companies' credit records. It pulls in $1.6 billion in sales annually, and much of it tends to be recurring. The New Jersey-based data provider initially struggled to keep up with industry changes, but in 2013 it revamped its management team. Its model benefits from high upfront fixed costs and low incremental costs, says Harvey – meaning that it gets cheaper for Dun & Bradstreet to serve their customers the longer D&B gets to know them. The company expects 70% incremental margins on new business,

(over please)

half of which it will likely reinvest. Harvey expects sales growth to be in the mid-single digits, which should lead to double-digit earnings gains. Its stock, at $127, trades at 17 times current-year earnings per share, by Harvey's estimates, lower than peers, which trade at more than 20 times. Shares yield 1.5%.

Reliance Steel & Aluminum: The Los Angeles-based company is more a distributor than a manufacturer. Reliance buys steel in bulk at wholesale, breaks it up into smaller lots, or fabricates them before selling them to customers. "It's the Berkshire Hathaway of the steel-service business," says Harvey. "When [Reliance] buys companies, they run them conservatively and make them more profitable." At a recent $69, shares trade at 14.5 times this year's earnings, based on Harvey's estimates. The stock doesn't look cheap based on its history, but the fund manager says it misrepresents the quality of earnings. Not to mention low steel spot prices have depressed margins. If infrastructure spending amps up, Reliance will be a prime beneficiary, says Harvey. The stock yields 2.5%.

Lincoln National: The domestic life-insurance company is a pure play on the variable annuity business. At a recent $49, shares trade at roughly 70% of Harvey's estimates of book value. "The market is pricing them like they're destroying value," says Harvey. That's because most people expect interest rates to stay low for longer. He disagrees. "We're headed in the opposite direction," he says. "The real question is about magnitude and timing." Even if rates stay low, the fund manager says Lincoln will deliver earnings growth at least in line with the broader market, and if interest rates move higher, it will do even better. Shares yield 2%.

MetLife: Larger and more diverse than Lincoln, the New York-based insurer has a big international presence. The company is spinning off its U.S. business, which will be called Brighthouse Financial. The new business will likely trade in line with Lincoln at about seven or eight times earnings per share, Harvey reckons. He adds that the spinoff will likely make it easier for MetLife to shed its SIFI, or "systemically important financial institution" designation, which comes with higher potential capital requirements and restrictions. Once that happens, it will be freer to ramp up share repurchases. At $47, shares trade at roughly 70% of book value, based on Harvey's estimates, and yield 3.4%.

THE FUND'S INVESTMENT 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 CAREFULLY BEFORE INVESTING.

Mutual fund investing involves risk. Principal loss is possible. The fund 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 fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. 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.

Performance as of 6/30/17

	2Q 2017	1 Year	3 Years	5 Years	Since Inception
Poplar Forest Partners Fund					**(12/31/09)**
I Shares	-2.15%	17.77%	5.12%	15.71%	12.38%
A Shares No Load	-2.21%	17.46%	4.85%	15.41%	12.10%
A Shares With Load	-7.11%	11.58%	3.07%	14.23%	11.33%
S&P 500® Index	3.09%	17.90%	9.61%	14.63%	13.28%

	Class A	Class I
Gross Expense Ratio	1.29%	1.04%
Net Expense Ratio^	1.25%	1.00%

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 626-304-6045. Investment performance reflects fee waivers. In the absence of such waivers, total returns would be reduced.

Performance data shown for Class A with Maximum Sales Charge reflects the Class A maximum sales charge of 5.00%. Performance data shown for Class A without Sales Charge does not reflect the deduction of the sales load. If reflected, the load would reduce the performance.

*Annualized

^The Adviser has contractually agreed to waive a portion or all of its management fees and/or pay Fund expenses (excluding AFFE interest, taxes and extraordinary 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 April 6, 2018.
Fund holdings and sector allocations are subject to change at any time and should not be considered recommendations to buy or sell any security.

As of June 30, 2017, the Poplar Forest Partners Fund's 10 largest holdings accounted for 45.88% of total fund assets. The Fund's 10 largest holdings at June 30, 2017:

ZIMMER BIOMET HOLDINGS	5.32%
ABBOTT LABORATORIES	5.16%
CITIGROUP	4.98%
METLIFE	4.73%
LINCOLN NATIONAL	4.64%
SIGNET JEWELERS	4.30%
AMERICAN INTERNATIONAL GROUP	4.25%
BANK OF AMERICA	4.24%
MSC INDUSTRIAL DIRECT	4.20%
TE CONNECTIVITY	4.07%

Book value is the net asset value of a company, calculated by total assets minus intangible assets (patents, goodwill) and liabilities.

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.

S&P 500® Index is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500® is a market value weighted index - each stock's weight is proportionate to its market value.

It is not possible to invest directly in an index.

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