



Value: Has the Outperformance Only Just Begun?

Evidence shows this is likely to be a multi-year cycle

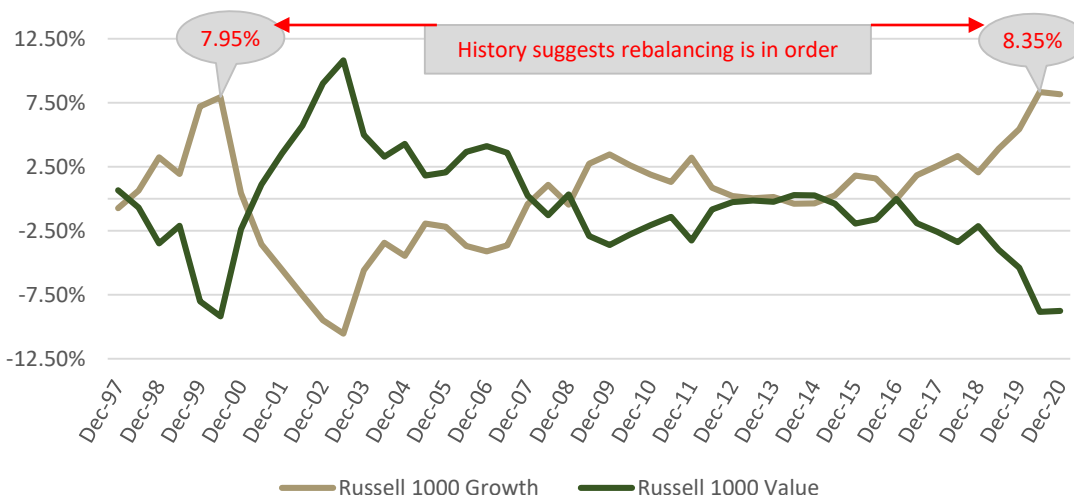
1 “Are we six months into a multi-year value outperformance cycle, or have we already seen the extent of the value rebound?”

That is one of the most frequent questions we hear from clients and advisors today. The past four years have been challenging for value investors. While returns have shifted in favor of value stocks over the last six months, many portfolios are still heavily tilted in favor of growth stocks. We believe the multi-year risk vs. reward profile for value strategies has meaningfully improved. Given that value has been out of favor for so many years, the odds of disappointing relative returns in the coming years compared to growth strategies may be low. Conversely, if history is any guide, there are reasons for optimism that value strategies like the Poplar Forest Partners Fund could be in the early innings of a multi-year rebound. As investors, we favor opportunities where the downside risks seem limited and the potential for outperformance is high. A good argument could be made that many value investing strategies benefit from this type of scenario.

2 This seems to be a particularly opportune time for clients to rebalance portfolios.

Continued good news regarding Covid-19 vaccinations and “pedal-to-the-metal” fiscal and monetary stimulus are providing support for a strong economic recovery. With value stocks tending to be more economically sensitive, they may be prime beneficiaries of a multi-year rebound in economic growth.

**3-Year Rolling Annualized Excess Returns
Russell 1000 Growth v. Russell 1000 Value**



Return data is as of 12/31/2020; past performance does not guarantee future results.

As the previous chart shows, the relative performance gap between growth and value stocks peaked in late 2020 at a level higher than its previous peak in early 2000, at the height of the Tech Bubble. During that early-2000's period, the process of reverting to the mean involved a bungee cord-like bounce back for value stocks followed by a protracted, multi-year period of relative outperformance by the Russell 1000 Value Index. Recently, the valuation gap bungee cord seemed to reach its bottom in mid-October of 2020; value stock relative results have remained strong ever since.

3 Will this value cycle last as long as the 2000 – 2006 cycle?

As Mark Twain is reputed to have said, "History doesn't repeat itself, but it often rhymes." No one can say, with any degree of certainty, how long the current value outperformance cycle will last. Based on the historical data in Chart 1, reversion to the mean of the performance gap, by itself, is a compelling story line favoring value stocks in this current environment. Yet, there is more to today's scenario.

A key difference between the two performance gap peaks in early 2000 and late 2020 is the prevailing macroeconomic environment in each period. The economy in 2000 was in late-growth mode with inflation at 3.36% and the Fed Funds Rate starting the year at 6.25%. Today, we find ourselves in recovery mode from the sharp, steep recession of February - April 2020 with the White House, the Treasury, and the Federal Reserve pumping as much stimulus into the economy as possible. We believe a combination of a greatly stretched performance gap bungee cord and highly accommodative fiscal and monetary policy (mentioned earlier) creates a favorable backdrop for an extended period of value outperformance.

4 In Conclusion

Is the majority of the value rebound behind us? While the Russell 1000 Value Index has erased a portion of the performance gap from mid-October 2020 through the end of the first quarter of 2021, the strength and duration of any prolonged resurgence in relative performance won't be known until after it has happened. As we all know, the elusive crystal ball does not exist. What we do know is that many predictions of the demise of value investing have consistently proven to be premature.

We remain optimistic that value strategies like Poplar Forest Partners Fund could be in the early stages of a multi-year rebound. We believe that, given the current environment, now is a favorable time in which to rebalance portfolios towards value strategies.

Let's Discuss

We'd love to continue the conversation. Please contact Patty Shields (ps Shields@poplarforestllc.com) or (626) 304-6045 if you're interested in scheduling a call to discuss this or any other topic of interest.

Past performance does not guarantee future results. Mutual fund investing involves risk. Principal loss is possible.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus contain this and other important information and can be obtained by calling 1-877-522- 8860 or by visiting www.poplarforestfunds.com. Read it carefully before investing.

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice. The S&P 500 Index is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. 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. The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. One cannot invest directly in an index. Poplar Forest Capital, LLC (the "Adviser") is the Investment Adviser to the Fund. Poplar Forest Funds are distributed by Quasar Distributors, LLC.