



To my partners,

As I said in last quarter’s letter, “While we are pleased with our start to the year, we also know there will be future periods when our results are not so rewarding.” The just completed second quarter was certainly one of those “future periods” about which we warned. We are frustrated to be down 14.3% in the second quarter and 5.6% through June 30. I did not anticipate the Greek crisis and the recessionary fear it sparked. We don’t see a 2011 recession; market action suggests we’re wrong.

Long-term investing often involves taking three steps forward and two back. After the large gains from the 2009 market low, a short-term retracement of a portion of that gain isn’t surprising; what has surprised me is the magnitude of the decline. The silver lining of the correction is an expansion in our opportunity set. We are looking at a number of new investments and we continue to aim for double digit annual returns 2-3% ahead of the S&P 500.

Results and Portfolio Changes – Average Annual Total Returns as of June 30, 2010

	<u>2Q</u> <u>2010</u>	<u>Since</u> <u>Inception</u> (12/31/09)
Poplar Forest Partners Fund:		
Class A shares; with load	-18.62%	-10.33%
Class A shares; without load	-14.34%	- 5.60%
Institutional Class shares	-14.26%	- 5.48%
S&P 500	-11.43%	- 6.65%

Expense Ratio A Shares: 2.76% Gross; 1.25% Net of fee waiver

Expense Ratio Institutional Shares: 2.51% Gross; 1.00% Net of fee waiver

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 does not take into account any sales charges. The Adviser has contractually agreed to waive a portion or all of its management fees and/or pay Fund expenses (excluding acquired fund fees and expenses, interest, taxes and extraordinary expenses) through January 31, 2011.

While roughly half of our investments declined in value by less than the S&P, only one investment made a positive absolute contribution to our results. This positive contribution came from Sunoco (up 17%). The biggest declines in the period were SuperValu (down 35%), Baxter International (down 30%), and Aetna (down 25%).

Sunoco's gains were driven by the Company's recent announcement of a decision to separate its coking coal operations from its legacy refining and marketing assets. This decision highlights the underlying value we saw when we invested in the Company.

On the other side of the ledger, Baxter's decline was driven by news of increased competition in the blood chemistry business. At the time we invested in the Company, we worried about short-term supply/demand issues in this business; unfortunately, those fears proved legitimate. While we remain optimistic about the Company's long-term outlook, the near-term remains cloudy.

The declines in value for SuperValu and Aetna seem more temporary in nature and largely related to a slower than expected turnaround in their respective operations.

During the quarter, we liquidated our investment in Leggett & Platt when the stock got to a price that reflected a great deal of optimism about the future. That optimism may be well placed, but given the pessimism reflected in the values of certain of our other existing investments, we decided to redeploy the funds invested in Leggett & Platt. As a result of the sale, we are now invested in 29 companies.

We are currently digging deeply into three investment opportunities that seem the most compelling out of a shopping list of perhaps two dozen new ideas. Our current backlog of potential investments is as deep as it's been in a year. It's still not the "deep sea fishing" environment of early 2009, but we see lots of beautiful trout in the stream we're currently working. Our low portfolio turnover rate means we can be very selective in adding new companies to the Fund.

Noise – Where Does the TV Go?

In the last couple years, I weaved baseball into my 2Q letters. I'm deviating this year as baseball is currently playing second fiddle to the drama of the World Cup. We've seen controversial calls and French temper tantrums. The Brazilians were sent home earlier than expected and the U.S. team sadly ran out of last minute, game-winning goals. Amid the excitement, **I've been most surprised by the noise.** I realize the vuvuzela has an important role in South African sport, but it has been incredibly distracting. The constant buzzing of this man-made swarm of killer bees has become so frustrating that I now watch the games without sound.

The vuvuzela brings to mind the noise of the investment world. We are constantly bombarded with "important news" and "breaking stories" that often have little or no long-term value. CNBC has to fill 24 hours of programming seven days a week and as a result, no detail is too small to be discussed. Too many brokerage firms add to the din with reports providing short-term traders with excuses to "buy, buy, buy" or "sell, sell, sell." I wish I could hit a mute button to quiet the investment vuvuzelas, but a small

amount of important information is buried in the chatter. **The trick is to distinguish news from noise.**

When we were building out our current office space, someone asked, “Where does the TV go?” To which I replied, “What TV? The one to show CNBC?” There is no such TV at Poplar Forest as I find CNBC about as helpful to the investment process as the vuvuzela is to my enjoyment of the World Cup.

The din of CNBC, et al has been especially frustrating over the last couple months. There is news in the challenges being faced by Greece and her sisters, and BP’s spill is a tragedy. Still, do these issues really mean the companies in our portfolio are worth 14% less than they were at the end of March? We don’t think so. Based on the information we are getting from individual companies, the headlines seem to exaggerate the situation. **Business in Europe appears to be holding up much better than the fear-mongers suggest. We have yet to see anything that has resulted in a material change in our estimates of our portfolio companies’ fair value.**

What if we’re wrong? We are currently spending time assessing the impact of a 2011 recession on our investments. While we don’t expect such an outcome, we want to understand the impact of being wrong. We will likely make changes to the portfolio if additional analysis suggests more downside than we currently expect. We feel well positioned in having roughly 95% of our portfolio invested in companies that generated positive free cash flow in the last 12 months. If the credit markets freeze up in a new recession, we believe our companies are positioned to cross the trough without diluting shareholders and with long-term earnings power intact.

In the short run, the noise of the market will likely drive the performance of our fund. In the long run, the underlying results of our companies should drive the returns we enjoy. **We continue to focus on long-term returns not short-term performance.** When considering long-term value, the real news this quarter was: 1) Sunoco’s decision to split off its coking coal business, 2) the increased competitive pressure in Baxter’s blood chemistry business and 3) the increased costs of implementing healthcare reform.

Regulatory Costs and Taxes – Headwinds to Earnings Growth

In terms of magnitude, one unknown today is the magnitude of the impact of increased regulatory and tax burdens. Advanced economies require taxes and regulation – the current debate is really over magnitude. What is clear is that increased regulation of healthcare and financial services should result in higher costs for the companies in those industries. The energy and communications industries seem to be the next targets. Proponents of increased regulation say these changes are long overdue and absolutely necessary; opponents argue the opposite. All I know is that costs are going up and that generally isn’t good for profit growth.

Taxes also seem headed higher – how much and how soon are still open questions, but the direction seems pretty clear.

What is less clear is whether higher costs and taxes are passed on to consumers or simply result in lower corporate profits (which likely limits employment growth). The reality is probably a blend of the two. All of this is likely to result in slower economic growth and a general lack of margin expansion for most businesses. The net result is probably earnings growth of 6-8% per year for a few years as opposed to the 10-12% per year growth we would normally expect at this stage of the economic cycle.

Lessons from Greece – A Long-term Silver Lining?

While increased regulatory costs and higher taxes may be headwinds to growth for the next couple years, a key long-term issue is the structural level of government spending relative to revenue and the high levels of debt that have been accumulated over the last couple decades. As we saw in Greece, government budget deficits and growing debt can be ignored for years until a tipping point is reached.

Greece is not alone in facing these issues and the problem is larger than Europe. Critical commentators have worried about U.S. deficits and debt for at least two decades, yet their warnings have sounded like false alarms. The United States and Japan appear to be at a critical juncture with respect to government deficit spending.

There are three choices facing us: 1) increase taxes in the hope of covering spending, 2) cut spending to a level consistent with tax receipts or 3) defer the hard work and pray the critics are wrong again. If the situation in Greece is a wakeup call for developed market governments, the short-term pain may yet yield long-term gain. There are limits as to how much debt a society can support and it seems we're near the edge. Comments from the just concluded G-20 meetings suggest government leaders appreciate the need to address this important issue.

If we can slay the debt/deficit dragon, we should benefit from lower interest rates and higher productivity in the long-term. Such a development would be very bullish for stocks as it would support more robust valuations than we see today.

While I'm optimistic that we'll begin to address this important long-term issue, I worry about timing. Today, we have front row seats for an experiment in the efficacy of stimulus versus austerity. The U.S. reacted to financial crisis by pumping stimulus into the economy in the belief that we can grow out of our problems. The Europeans are pushing lower spending and higher taxes as the proper remedy for their crisis. The U.S. tried austerity after the market crash in 1929 and academics suggest that led to the Great Depression. European central bankers surely understand the U.S. experience. Do they have good reason to expect a different outcome?

Disagreement of the Day – Analysts versus Investors

At the end of June, the S&P 500 was trading at around 1030. The general consensus is that the 500 companies selected by S&P will collectively earn the equivalent of at least \$80 per share in 2010. Thus, current expectations suggest the U.S. equity market, as measured by the S&P 500, is trading at a price/earnings ratio of around 13 times. This ratio looks low by historic standards, especially when one considers the valuation of fixed

income securities (bonds and cash). To us, stocks look cheap and bonds look expensive (especially Treasury bonds).

Current valuations suggest investor skepticism about future growth. Perhaps it is the pending increase in regulatory costs and/or taxes. Perhaps it is fear that the economy will roll over into a double-dip recession driven by the crisis in Europe and/or slowing growth in China. Perhaps it is fear of inflation... or deflation. Perhaps it is simply a fear that our best days are behind us.

Whatever the cause, **fear seems to be the predominant emotion of investors today. The current valuation of stocks suggests a belief by the owners of those stocks that earnings growth will be very low or perhaps even negative in 2011.** According to Merrill Lynch, recessions typically result in a 15-20% reduction in earnings. This would suggest earnings of \$65-68 per share in a 2010/2011 recession. At the June 30 closing price of 1030, the S&P is priced at 15-16 times these potential recessionary earnings. To me, this suggests a recession is already reflected in stock prices.

Financial analysts are at the opposite end of the spectrum. While the folks who call on individual companies are notoriously optimistic, their forecasts suggest a much rosier world than investors have reflected when pricing securities. **The individual forecasts for the 500 companies in S&P's index suggest earnings growth of 17-18% in 2011.** Perhaps this will change with the reporting of second quarter earnings over the next six weeks. Analysts will be paying careful attention to management's expectations about the coming six months - early indications seem supportive of analysts' expectations.

Divergence of opinion creates opportunity - investors are pessimistic and analysts are optimistic. We won't know who's right for another 18 months. Given the uncertainty, what are we to do? As I've said before, I believe Warren Buffett had it right when he advised to "be fearful when others are greedy, and be greedy when others are fearful." **We see a lot of attractive opportunities today; I suspect we will see far fewer bargains in a couple years when today's fears have been sorted out.** That said, an abundance of cheap stocks doesn't mean the market can't continue to fall in the short term.

Outlook – We Remain Optimistic

One of Poplar Forest's great advantages is focus. We aren't in the economic forecasting business. We don't need opinions on hundreds of companies. At present, we are invested in 29 companies we know well and our time horizon is measured in years, not months. This approach makes it much easier to screen out the noise of Wall Street.

When I look at our portfolio today, I get very excited by the prospective absolute and relative return potential of the stocks we own. At quarter end, our 29 companies were valued at a better than 40% discount to our assessment of their fair value and at just over 11 times what they are expected to earn in 2010. Our work suggests those earnings have the potential to grow in excess of 10% per year over the next three years driven by modest top line increases, margin expansion and the deployment of free cash flow. Even

if valuation stays depressed, we believe we have the potential to enjoy handsome returns over the next few years.

Beyond the 29 companies in which we are invested, we have a relatively long list of stocks to investigate. You may be interested to know that when we look at these new opportunities, our hurdle rate for new investments is quite high. To make it into our portfolio today, we need to be comfortable that the stock in question can potentially provide a 25% annual return for the next three years. This hurdle rate is a lot higher than I have used historically and demonstrates the magnitude of the opportunity set today. I don't want you to read this as a prediction that our portfolio will return 25% per year over the next few years; I simply want to communicate that the risk/reward potential we see today is about the best I can remember in my 30 years of investing.

U.S. economic recovery, while a bit fragile, appears to be on track despite the challenges of increased regulation and the financial crisis in Europe. That said, I suspect the road ahead will remain bumpy. In addition, the noise of the market will certainly impact our results, sometimes positively and sometimes negatively. With all this uncertainty, all I can promise is that we will continue to work hard and we will continue to invest your money the same way we invest our own.

To our new client partners I say: "Welcome aboard!" And, as always, I want to thank each of you for the trust you've placed in us.

A handwritten signature in cursive script, appearing to read "Dale".

J. Dale Harvey
July 2, 2010

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may 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 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. The fund may invest in medium-sized companies, which involve additional risks such as limited liquidity and greater volatility than larger companies.

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.

Investment Performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced.

The information provided herein represents the opinion of J. Dale Harvey and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

As of June 30, 2010, the Fund's 10 largest holdings accounted for 37.07% of total Fund assets. The Fund's 10 largest holdings at June 30, 2010 (in alphabetical order):

Abbott Labs
Avery Dennison
Bank of America Corporation
Baxter International Inc.
International Business Machines Corp.
Medtronic Inc.
Microsoft
Omnicom Group Inc.
RR Donnelley & Sons Co.
The McGraw-Hill Companies, Inc.

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.

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

Free cash flow is cash from operations less capital spending. It is the discretionary cash that a company has after all expenses and is available for purposes such as dividend payments, acquisitions or share repurchases.

Projected Earnings Per Share (EPS) Growth rates are forecasts; actual EPS Growth rates may differ from projected EPS Growth rates. Actual P/E ratios may differ from projected P/E ratios. The projected P/E ratios of the Fund and index may not have any relation to the performance of the Fund.

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