# Poplar Forest Funds Quarterly Report



*June 30, 2016*

Poplar Forest Capital

## 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 June 30, 2016 | | | | | |
|---|---|---|---|---|---|
| | | | | | SINCE INCEPTION |
| **CONTRARIAN VALUE FUNDS** | **QTD** | **1 YR** | **3 YR** | **5 YR** | **12/31/2009** |
| Partners Fund | | | | | |
| I Shares | 2.62% | -3.78% | 8.30% | 10.56% | 11.57% |
| A Shares No Load | 2.58% | -4.01% | 8.03% | 10.28% | 11.29% |
| A Shares With Load | -2.54% | -8.81% | 6.20% | 9.16% | 10.42% |
| S&P 500® Index | 2.46% | 3.99% | 11.66% | 12.10% | 12.58% |
| Russell 1000® Value Index | 4.58% | 2.86% | 9.87% | 11.35% | 12.05% |
| Cornerstone Fund | | | | | **12/31/2014** |
| I Shares | 3.04% | 1.11% | - | - | 1.46% |
| A Shares No Load | 2.96% | 0.83% | - | - | 1.20% |
| A Shares With Load | -2.17% | -4.21% | - | - | -2.22% |
| 60/40 S&P 500®/Barclays Aggregate | 2.37% | 5.04% | - | - | 3.89% |
| **CONTRARIAN MID CAP FUND** | | | | | |
| Outliers Fund | **QTD** | **1 YR** | **3YR** | **5 YR** | **12/31/2011** |
| I Shares | 2.00% | -9.23% | 3.76% | - | 13.46% |
| Russell Midcap® Index | 3.18% | 0.56% | 10.80% | - | 14.54% |
| | | | | | **12/31/2014** |
| A Shares No Load | 1.96% | -9.45% | - | - | -7.07% |
| A Shares With Load | -3.14% | -13.97% | - | - | -10.21% |
| Russell Midcap® Index | 3.18% | 0.56% | - | - | 1.95% |

*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. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns.*

*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,

There's an old Adirondack chair on the porch at my house. It's a quiet place to sit and read and think. There is a lovely peacefulness in looking at the grass and flowers. It's particularly nice in the late afternoon when the breeze gently blows the leaves on the trees. Being away from the noise of the market can be very productive. Over the last few weeks, I spent a fair bit of time in that spot reflecting on my two decades of work as a portfolio manager.

Upon receiving my first portfolio responsibility in the American Balanced Fund 20 years ago, I set a goal: beat the S&P 500 by at least 3% per year for at least 30 years. Legendary investor John Neff and his team at the Windsor Fund had accomplished that and I aimed to do better. While an extra 3% a year may not sound like much, few professional investors have achieved this level of success and it has powerful implications for clients. If, for example, the S&P 500 were to produce a compound annual total return of 7% over 30 years, then someone who initially invested $100,000 would have roughly $760,000 at the end of the period. In contrast, a portfolio that generated 10% a year - 3% per year more than the S&P - would be worth $1.75 million after 30 years. It is quite rewarding to know that a successful investment process, as exemplified above, could result in clients having more than twice the money they would have had if they had put their money in an index fund.

Achieving the magnitude of returns I have long targeted isn't easy. Most mutual funds fail to beat the market, and that certainly explains the current popularity of passive investment strategies. If I didn't believe I could beat the market, then I would have chosen a different line of work, and I certainly would not have started Poplar Forest in the fall of 2007. As I look back on the last 20 years, I am very pleased with what's been accomplished, and I am optimistic that what I've learned will make the next 20 years even better. I've tried to use this letter as a vehicle to share the key takeaways from my experience in the hopes of making our investment process even more fruitful.

None of this happened in a vacuum; I've been blessed to work with incredibly talented people at both the Capital Group/American Funds and at Poplar Forest. Colleagues make a huge difference in the quality of our work life and I've been fortunate to work with many like-minded people who share a commitment to putting clients first.

### *The Last Twenty Years*

My first few years as a portfolio manager (1996-1999) were difficult. In early December, 1996, Alan Greenspan first raised the prospect of "irrational exuberance" in the stock market. As it turned out, Greenspan was a bit early with his worry. Stocks, as measured by the S&P 500, more than doubled in a little more than three years after Greenspan coined the now-famous phrase. Investors were enamored with growth. Traditional valuation measures were discarded in favor of new approaches based on potential customers. Who cares about the proverbial bird in hand when there might not be just two, but a dozen in the bush? Those of us who believed in "value" and "buy and hold" investing were deemed to be dinosaurs who just didn't get it. I remember a neighbor regaling me with tales of tremendous stock market gains. He had little idea what he was buying, but he was getting rich while my thoughtfully constructed portfolios went nowhere.

*Then the tech bubble burst…*

The next eight years (2000-2007) was a Revenge of the Nerds period when value investors were rewarded handsomely while former market darlings crashed. My heretofore brilliant neighbor suffered losses that wiped out all his profits and more. We stopped talking about the market; how about those Dodgers? It was a fertile time for acolytes of Graham and Dodd. Warren Buffett's reputation for brilliance was restored. Value stocks, as measured by the Russell 1000 Value Index, generated almost 10% a year more than the stocks in Russell's Growth Index. It seemed the best of both worlds: value stocks declined far less than the market when the tech bubble burst and they returned more in subsequent years.

*Then the housing bubble burst…*

Value stocks, the darlings of the previous eight years, didn't shield investors from losses in the 2008-09 bear market as they had in 2000-2002 – nor did they recover as strongly. The last cycle's winners became the next cycle's losers. Economic growth was mediocre despite Herculean efforts by central bankers around the world who tried to use monetary policy to jump-start growth. After having lived through two major bear markets in a decade, investors became scarred and risk averse. As a result, current investor favorites are a bit of an odd couple - growth stocks and companies with high dividend yields. As a result, companies like Amazon and Netflix trade at over 100x earnings, and leading electric utilities like Duke, Southern Company and AEP trade at 18x. When I started in the business, utilities were valued at 11x (a substantial discount to the market) because they were perceived to be slow growing; now they trade at a premium because they are perceived to be safe and because they offer above average dividend yields.

The post-financial crisis investment environment has been dominated by macroeconomic factors and unprecedented central bank intervention in markets. As investors try to guess the direction of the economy and central bank policy, their actions appear to be that of a metronome ticking back and forth between "risk on" to "risk off," with the result being undue volatility in markets. In the last eight years, there have been fifteen market declines of 5% or more (see Appendix). Each time, an event has created worry of downside in stocks that leads fearful investors to sell. Brexit is the latest such episode and there will likely be more such scares in the future.

***Takeaways: Many investors look backward, not forward. Markets are cyclical and cycles can last longer than expected. The winners in one cycle often become losers in the next cycle. While value investing may win in the long run, it doesn't beat the market every year. The pendulum swinging between fear and greed can result in dramatic changes in valuation that can overshadow earnings growth in the short term.***

***Volatility and Lumpy Results***

When I was in business school, we were taught that companies with more volatile results are more risky and thus deserving of lower valuation multiples. While there is merit to the argument, especially for investors with a short time horizon, I think the concept has been overly emphasized. **While the current zeitgeist could be summarized as volatility equals risk and risk is bad, I think volatility can be good for long-term investors in that it provides opportunities to buy low and sell high – provided one can confidently assess the intrinsic value of the securities being bought and sold**.

Over my career, shifting sentiment has created investment opportunities when then current market worries pushed the value of certain stocks down to prices that were too good to pass up. In some cases, pursuing those bargains led to periods of weak results for our strategies, for example in 2011 when financial stocks went on sale and in 2015 when worries about impending doom in China led to discounts on energy and commodity companies. Investing in banks and insurance companies in 2011 ultimately proved very rewarding, though we had to live through over a year of weak results relative to the broad market. Buying energy stocks a year ago also produced handsome returns. In the last week, Britons voting to leave the European Union have led to yet another bout of volatility and stock price declines. I believe that when we look back in a couple of years, the bargains we currently see will have also produced market-beating returns.

The biggest problem with buying stocks that are "on sale" is there is no way of knowing in advance how long the sale will last, or how big the discounts will become. Being a contrarian requires patience; out of favor stocks can stay out of favor for a long time. I think it is important to stick with our process even when it's out of sync in the short term. For example, the "old economy" stocks that I found to be attractively valued in 1997 stayed in the market's dog house for a couple years. As the bubble inflated, commentators seemed to be constantly extolling the virtues of the stocks that were in favor while heaping scorn on those in the dog house. Investing contrarily involves minimizing the noise that is driving the behaviors of others and focusing on the business fundamentals that drive long term value. When the tech bubble burst, those that had been last were suddenly first.

Many professional investors are afraid of long stretches of underperformance as it creates challenges for the marketing department. Prospective clients may have a hard time determining whether weak short-term results are either (1) the result of a bad process, or (2) an outcome of an investment approach that is out of sync with the current fashions of the broad market. In my experience, there is a tendency to assume the worst. As a result, even managers with great long term track records often have to live with client redemptions at precisely the time they see the greatest number of bargains and, conversely, have to deal with an influx of new client funds AFTER their performance has recovered. People say they want to buy low and sell high, but in practice, they often do just the opposite.

In the BUSINESS of managing other people's funds, lumpy returns can create a problem. In the PROFESSION of stewarding clients' hard earned money, lumpy results are often a byproduct of a disciplined investment process. From my vantage point, too many practitioners are more focused on the business, and too few on the profession. As a result, I am not surprised by the popularity of index funds that charge low fees in exchange for "average" results. I'm also not surprised by the creeping practice of "closet indexing" pursued by many so-called active managers. I think John Maynard Keynes was talking about this challenge when he said:

> *"It is the long-term investor, he who most promotes the public interest, who will in practice come in for the most criticism, wherever investment funds are managed by committees or boards or banks. For it is in the essence of his behavior that he should be eccentric, unconventional and rash in the eye of average opinion. If he is successful, that will only confirm the general belief in his rashness; and if in the short run he is unsuccessful, which is very likely, he will not receive much mercy. Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."*

In this context, I'd prefer to be deemed *"rash in the eye of average opinion"* while being successful, than wise and not beating the market. When I founded Poplar Forest in the fall of 2007, I intended to build a professional investment management firm focused on generating market-beating, long-term results for a select group of clients. The contrarian investment process we follow seems to me to be a great way to grow wealth dramatically in the long term, but it can produce uneven results in the short term. I'd rather make a lumpy 10% compounded annual return than a smooth 7% a year. But not everyone feels the same way, and the pattern of our results simply may not appeal to certain prospective clients. I wish that weren't the case, but our goal isn't to be everything to everyone; we simply strive to deliver market-beating, long-term results for those who agree that a contrarian approach to investing makes sense and who can weather the ups and downs of this approach.

***Takeaways: Volatility can create opportunity, yet the "noise" accompanying it can at times be deafening. I need quiet space to think, to chew on potential ideas. I need to constantly find ways -- like that Adirondack chair on my porch -- to escape the noise of email and blinking prices on my computer monitor. Stocks that are cheap usually aren't popular. I'm willing to accept short-term volatility and discomfort in exchange for potentially great long-term returns. Lumpy results can be a challenge for the marketing team, but they seem to be an unavoidable characteristic of long-term, contrarian investing.***

### *Bad Timing versus Bad Outcomes versus Mistakes*

As I said previously, one cannot know in advance how long a sale will last or how deep the discounts will go. Our process of investing in "scoops" of 1/3 of our target position at a time (as opposed to buying a full position all at once) has generally helped our results - especially in 2008 - but perhaps we can do better. As I think about the future, I will be paying a little more attention to the timing of initial investments with a goal of improving our returns. In particular, I think there may be room for me to go a little more slowly when acquiring shares of particularly beaten down stocks.

In contrast to bad timing, bad outcomes are something that I don't know how to avoid - every investment, with the exception of cash, has some risk of capital loss. We do detailed and thoughtful analysis to identify those investments where we believe the probability of success is decidedly skewed in our favor, but even situations offering 80/20 odds will not work out one time in five.

In my experience, most stocks are fairly valued most of the time. If all stocks were fairly valued all of the time, as some academics suggest, then investing would be akin to betting on the flip of a coin - the odds of "winning" would be 50/50. The purveyors of index funds would have you believe that all investing is similar to betting on coin flips and that your best bet is to simply buy a little of every coin in the hopes of simply achieving an average outcome.

My apologies to those of you with bad memories of statistics class in high school or college, but statistics offers a helpful alternate explanation: the normal distribution. The concept of a normal distribution suggests that roughly two-thirds of the time an investment will generate a return roughly in line with the average, i.e. you might as well have flipped a coin. However, one third of the time, the outcome will be statistically different than normal with 1 out of 6 being appreciably better than average and 1 out of 6 being worse than average. If one were to take a universe of 500 stocks, like the S&P 500, then statistics would teach us that at least 80 stocks (500 / 6 = 83) would be better than average in any given time period.

Our investment process at Poplar Forest is focused on identifying those stocks whose future returns will hopefully be on the right hand side of the normal distribution curve while seeking to avoid those offering the dreadful and often negative returns of the left side. We generally own just 25-35 stocks at a time since we are focused on investing in companies which, in our opinion, reflect the best risk/reward ratios in the market. I distinguish bad outcomes from mistakes because while we may be correct in assessing the risk/reward ratio of a given investment, it still may not work out in our favor in the same way that even Stephen Curry doesn't make a basket every time he shoots the ball. Given how good a shooter he is, his coaches want him to shoot as often as he can because his odds of launching a successful shot are demonstrably above average. But as we’ve seen, even a league MVP on a team with the best record in history can go home without a championship ring when too many shots fail to go in the basket. Losing a game or a series doesn’t necessarily mean a team has a bad process; sometimes the ball just bounces the wrong way.

As I look back over twenty years, there have been times when it was a mistake for me to shoot. My worst shot (i.e., biggest mistake) was in believing the housing down cycle in 2007-2009 would not be as severe as it turned out to be. I could see evidence that houses were over-valued by 20% in 2007, yet my evaluation of the downside risk in Fannie Mae, Freddie Mac, etc., assumed home prices would decline by no more than 5%. I believed that as long as people had jobs, they would pay their mortgages. As long as loan payments were made, mortgage finance companies would be okay. This was just plain wrong.

This error was compounded by leverage. I failed to appreciate the financial leverage employed by the leading mortgage finance companies. When your assets are levered 30-to-1, a 4% decline in asset value completely wipes out the equity account - next stop: bankruptcy. Fortunately, our process of investing in scoops helped limit the damage of my analytical mistakes with these stocks. Still, we would have been much better off if we had avoided them entirely.

One lesson of this experience might be: avoid leverage of all types. Looking at some of the bad outcomes produced by our investment process would suggest this as an advisable process change, but it would come at a cost. In fact, some of my best investments have been businesses with significant financial or operating leverage. Furthermore, no investment program can eliminate mistakes; the challenge is to minimize their impact. While I will be more sensitive to leverage in the future, I'm not going to make a "no leverage" pledge. Instead, I will be a little more sensitive to the margin of safety in investments involving companies with high operating or financial leverage. I will also pay a little more attention to the underlying quality of the businesses in which we invest.

I suppose time horizon impacts one's judgement as to whether a decision was a mistake versus bad timing. For several years now, I've expected interest rates to increase as I did not believe investors would be willing to accept negative real interest rates. So far, that conclusion has been wrong, but does that mean it was a mistake? I don't think so. Importantly, our investments in businesses that would benefit from higher interest rates involve companies with very strong capital positions that can survive if interest rates stay at historically low levels. As a result, I believe our downside is limited, but that the upside will be more than worth the risk when the interest rate cycle turns.

***Takeaways: Seek companies with staying power in case our assessment of conditions proves to be poorly timed. Consider "normalizing" balance sheet leverage when determining intrinsic value – this would isolate the impact of financial engineering from business fundamentals.***

### *What's Worked? - Price Relative to Normal Earnings*

I love my job, in particular the thrill of discovering a greatly underappreciated company with tons of upside and a long runway of potential outperformance. It doesn't happen often. Finding such an opportunity - a stock I can imagine being invested in for a decade - brings me great joy. It can feel like being a kid at Christmas.

Investments that evoke those feelings of elation often involve companies whose margins are depressed relative to their own history and to the margins of their competitors. I love to find businesses that have under-levered balance sheets and that generate excess cash despite having depressed margins. It's even better if they participate in a growing, yet fragmented industry where there is an opportunity to take market share and to grow a bit faster than the economy for the foreseeable future. The combination of revenue growth, margin expansion and the deployment of free cash flow can drive tremendous growth in earnings per share. In a perfect world, I would be able to buy the stock for a market multiple or less. When everything goes well, an investment like this can double or triple in price over a few years and a potential reward of this magnitude seems worthy of patience even if things don't go well in the early innings.

At times, this creates confusion for those looking at our portfolio. In the short run, a company like I've described above may not look particularly "cheap" on a current P/E basis. Given that we're contrarian value investors, observers sometimes wonder why the aggregate valuation metrics of our portfolios don't look lower. Given the choice between a company with historically high margins trading at 12x earnings or a business with depressed margins trading at 15x, I'll more than likely choose the second stock despite it appearing more expensive. I focus on normalized earnings far more than current earnings. When the company with depressed margins gets back to normal, its earnings might be 50% higher with the result being a normal P/E ratio of 10x as opposed to the 15x multiple on current earnings.

For me, "value" is far more dependent on future earnings than on current results. As I mentioned earlier, I think most stocks are fairly valued most of the time. In short, market participants generally do a REALLY good job of assessing CURRENT fundamentals. While most professional investors are smart and hardworking, keeping up with all the current news can anchor them to the present in a way that seems to preclude imaginings about the future. Their pondering of the future is far too often driven by "management guidance." In situations where management hasn't shared targets for future results, then analysts seem to most often extrapolate the past without thinking about how things might be different in the future. Frankly, **<u>I think the fear of being wrong creates a huge impediment to independent thought</u>**. If an investment analyst relies on management's statements in assessing a potential investment, then they can blame the company if things don't work out. **<u>This creates a huge opportunity for those of us who take pride in thinking for ourselves</u>.**

Life isn't lived in a straight line. We recognize this in our analysis and consider a range of outcomes when evaluating an investment. We're most interested in those companies where we believe the downside risk is low, where the base case projected return exceeds our 15% annual return hurdle, and where a best case outcome is even better. Building a portfolio of investments with this profile seems like a prudent way to manage portfolios for the long term.

***Takeaways: Our process of buying stocks at discounted valuations based on future earnings often works because many market participants fear being wrong in the short term. Successful investing requires skating to where the puck is going, not to where it is now.***

### *Conclusion – What a Wonderful Life*

I'm an incredibly fortunate man. I have a loving wife, amazing kids and lots of good friends. I've been blessed with great parents, teachers, and mentors who have helped me make my dreams come true. I was the rare child who discovered his vocation at an early age and who was encouraged to pursue his dreams. I spent a dozen years preparing for a job I first learned about in high school, and I will be forever grateful to Bob O'Donnell and the other senior people at Capital who gave me an opportunity to manage money for clients in the American Balanced Fund back in the summer of 1996. For 20 years, I've done my best in the hopes of delivering market-beating returns for the clients whose money I manage. I feel good about what I've been able to do for them and I'm excited to continue doing it.

A great deal of thought went into the investment process I established all those years ago. I was convinced that it was a money making strategy and I have remained true to it. There have been some minor tweaks along the way and I hope to use the lessons of my experience to further refine and improve the process with a goal of generating even better results for all of our current and future client partners. The profession of managing investment portfolios is challenging, especially when markets are volatile and when one's style is out of sync with current fashion. It is incredibly helpful to have client partners who understand what we do and who give us time to do it. Thank you for your patience and for entrusting us with the stewardship of a piece of your investment portfolio. We'll manage your money the same way we manage our own with a continued goal of market-beating returns.

To my family, friends, teachers, mentors, and clients, I want to express my gratitude for all of your support and encouragement. I'd like to offer special thanks to my associates at Poplar Forest. Over the last eight and a half years, we have accomplished a lot. It would not be possible without their hard work and commitment to our cause.

It's been an incredible journey and I look forward to many more years of shared success.

Thank you,

J. Dale Harvey
July 1, 2016

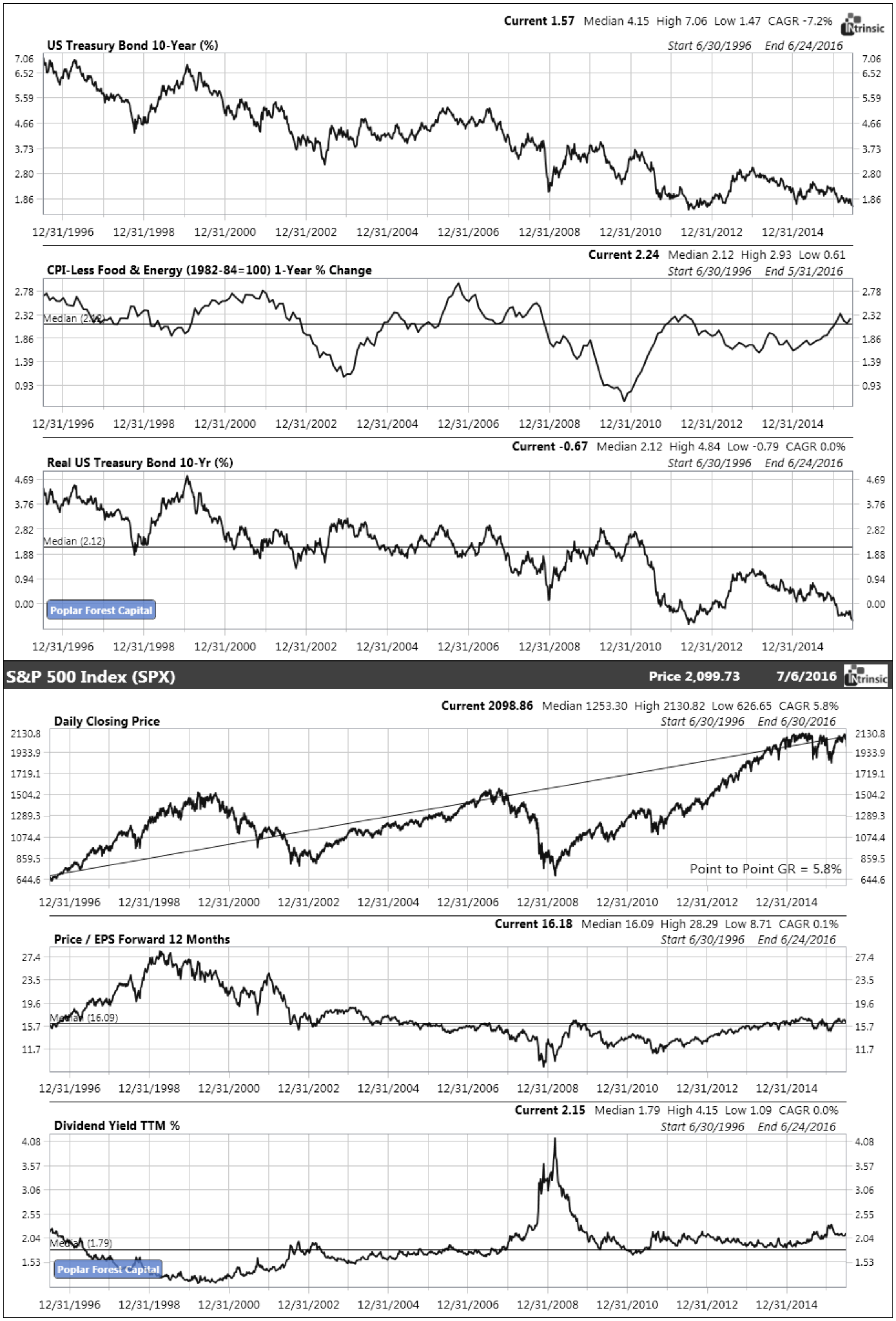
***Appendix - Historic Perspective***

As you'll see on the next page, stocks endured a 20-year rollercoaster ride. The S&P 500 grew at a 5.8% rate over that period – basically in line with earnings. The P/E ratio and the dividend yield ended the period roughly where they started which suggests stocks are neither cheap nor expensive relative to the last 20 years. Bonds are a different story: yields have declined dramatically over the last two decades despite relatively stable inflation. This suggests the drop in yields has been a function of investor willingness to accept a lower real return. Said another way, the price of perceived safety is at a multi-decade high.

For long-term investors, it was a challenging but productive period. The S&P 500 opened at 670.63 on July 1, 1996 - the day I first assumed responsibility for a diversified portfolio of client funds. Twenty years later, the S&P closed at 2098.86 for compound annual price appreciation of 5.8% and a total return of 7.8% per year including dividends. Along the way, the market has endured numerous market corrections and two bear markets in 2000-02 and 2007-09. Stocks haven't historically followed a straight line pattern and I don't expect them to do so in the future. For the patient, long-term investor, this volatility can be a blessing in potentially providing opportunities to buy low and sell high.

In the more than seven years since its early 2009 bottom, the S&P 500 has advanced from a closing low price of 677 to a high of 2131 – a gain of 215%. Along the way, the market has had a correction of 5% or more 15 times and three of those corrections have exceeded 10%. In each case, the market recovered from the decline and moved on to make a new high:

| Date of High | Date of Low | S&P 500 Closing High Price | S&P 500 Closing Low Price | % Change |
|---|---|---|---|---|
| 3/26/09 | 3/30/09 | 832.86 | 787.53 | -5.4% |
| 5/8/09 | 5/15/09 | 929.23 | 882.88 | -5.0% |
| 6/12/09 | 7/10/09 | 946.21 | 879.13 | -7.1% |
| 10/19/09 | 10/30/09 | 1097.91 | 1036.19 | -5.6% |
| 1/19/10 | 2/8/10 | 1150.23 | 1056.74 | -8.1% |
| 4/23/10 | 7/2/10 | 1217.28 | 1022.58 | -16.0% |
| 2/18/11 | 3/16/11 | 1343.01 | 1256.88 | -6.4% |
| 4/29/11 | 10/3/11 | 1363.61 | 1099.23 | -19.4% |
| 4/2/12 | 6/1/12 | 1419.04 | 1278.04 | -9.9% |
| 9/14/12 | 11/15/12 | 1465.77 | 1353.33 | -7.7% |
| 5/21/13 | 6/24/13 | 1669.16 | 1573.09 | -5.8% |
| 12/31/13 | 2/3/14 | 1848.36 | 1741.89 | -5.8% |
| 9/18/14 | 10/15/14 | 2011.36 | 1862.49 | -7.4% |
| 12/5/14 | 12/16/14 | 2075.37 | 1972.74 | -5.0% |
| 5/21/15 | 2/11/16* | 2130.82 | 1829.08* | -14.2%* |
| Note: * Low as of 6/30/2016. | | | | |


Current 1.57 Median 4.15 High 7.06 Low 1.47 CAGR -7.2%
INtrinsic
US Treasury Bond 10-Year (%)
Start 6/30/1996 End 6/24/2016
Current 2.24 Median 2.12 High 2.93 Low 0.61
CPI-Less Food & Energy (1982-84=100) 1-Year % Change
Start 6/30/1996 End 5/31/2016
Median (2.12)
Current -0.67 Median 2.12 High 4.84 Low -0.79 CAGR 0.0%
Real US Treasury Bond 10-Yr (%)
Start 6/30/1996 End 6/24/2016
Median (2.12)
Poplar Forest Capital
S&P 500 Index (SPX)
Price 2,099.73
7/6/2016
Current 2098.86 Median 1253.30 High 2130.82 Low 626.65 CAGR 5.8%
Daily Closing Price
Start 6/30/1996 End 6/30/2016
Point to Point GR = 5.8%
Current 16.18 Median 16.09 High 28.29 Low 8.71 CAGR 0.1%
Price / EPS Forward 12 Months
Start 6/30/1996 End 6/24/2016
Median (16.09)
Current 2.15 Median 1.79 High 4.15 Low 1.09 CAGR 0.0%
Dividend Yield TTM %
Start 6/30/1996 End 6/24/2016
Median (1.79)
Poplar Forest Capital
12/31/1996 12/31/1998 12/31/2000 12/31/2002 12/31/2004 12/31/2006 12/31/2008 12/31/2010 12/31/2012 12/31/2014

## PARTNERS FUND REVIEW

### Portfolio Manager: J. Dale Harvey

The second quarter started as a continuation of the recovery from the first quarter low in February. By the 8th of June, the S&P 500 had gained 3% since 3/31/16 and the market had been led by Energy, Healthcare and Financial Service companies. When British voters collectively decided that the UK should leave the European Union, investors responded to the uncertainty by selling stocks that appeared economically sensitive and declines of 6-7% were common for many industries.

The emerging consensus opinion appears to be that a major financial crisis (like 2007-08) will be averted. Central bankers are expected to yet again offset investor uncertainty with even looser monetary policy. Interest rates are expected to remain low for the foreseeable future and the 10 year U.S. Treasury bond ended the quarter at a yield of 1.49%. Given ever-declining rates on Treasury bonds, it should come as no surprise that Telecom, Utility and Consumer Staples stocks were the best sectors in the quarter ended 6/30/16.

| | 3/31/16 Closing Price | 6/8/16 Closing Price | **% Change** | 6/27/16 Closing Price | **% Change From June 8** | 6/30/16 Closing Price | % Change From June 27 |
|---|---|---|---|---|---|---|---|
| S&P 500 | 2060 | 2119 | **+3%** | 2001 | **-6%** | 2099 | +5% |
| | | | | | | | |
| **Brexit Winners:** | | | | | | | |
| Telecom (IYZ) | 30.73 | 31.68 | **+3%** | 31.23 | **-1%** | 33.30 | +7% |
| Utilities (XLU) | 49.62 | 50.27 | **+1%** | 51.03 | **+2%** | 52.47 | +3% |
| Staples (XLP) | 53.06 | 53.88 | **+2%** | 52.99 | **-2%** | 55.15 | +4% |
| | | | | | | | |
| **Brexit Losers:** | | | | | | | |
| Energy (XLE) | 61.89 | 69.55 | **+12%** | 64.64 | **-7%** | 68.24 | +6% |
| Healthcare (XLV) | 67.78 | 72.48 | **+7%** | 68.38 | **-6%** | 71.71 | +5% |
| Financials (XLF) | 22.50 | 23.62 | **+5%** | 21.45 | **-9%** | 22.86 | +7% |
| | | | | | | | |
| Industrial (XLI) | 55.47 | 57.15 | **+3%** | 53.10 | **-7%** | 56.01 | +6% |
| Cons. Cyclical (XLY) | 79.10 | 79.50 | **+1%** | 74.77 | **-6%** | 78.06 | +4% |
| Technology (XLK) | 44.36 | 44.29 | **-0%** | 41.43 | **-6%** | 43.37 | +5% |

The quarter started out quite well for the Partners Fund given our exposure to Energy, Healthcare and Financials, but the Brexit vote put a damper on those gains and the Fund ended the quarter only slightly better than the S&P 500 with a gain of 2.62% versus the S&P's 2.46%.

The top positive contributors to the Fund's results were spread across industries: Dun & Bradstreet (information services), Quest Diagnostics (healthcare services), Reliance Steel & Aluminum (materials), Chevron (energy) and Devon Energy (energy). The biggest detractors were also broadly spread: Microsoft (technology), TE Connectivity (technology), MSC Industrial Direct (industrial), MetLife (insurance), and Avon Products (Consumer).  I don't think there was any particular theme to either our biggest winners or our biggest losers.

I continue to be excited about the value I see in the portfolio today. We ended the quarter with roughly 4% in cash and our research efforts continued to identify what appear to be very attractive new investment opportunities. While the Brexit decision produced a headwind that temporarily dampened the Fund's results, it also produced a fresh crop of potential investments for us to review. 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 when seeking 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 last three months, Cornerstone generated a positive 3.04% return. The first quarter's positive results may be compared with the S&P 500 Index's 2.46% gain and the Barclays Aggregate Bond Index's 2.21% return. A blend of these indices, weighted like the fund at 65% equity and 35% bonds and cash, would have produced a total return of 2.37%. Given our investment posture (10% cash, 25% short-duration bonds, minimal exposure to defensive equities), we're particularly pleased by our results in the recent "risk off," falling interest rate environment. In the short-term, the Cornerstone Fund is continuing to do just what we hoped it would do.

The biggest headwinds during the quarter were a diverse group of companies: Las Vegas Sands (consumer), Mattel (consumer), MetLife (insurance), and MSC Industrial Direct (industrial). Our best investments likewise represent diverse industries: Devon Energy (energy), Dun & Bradstreet (information services), Haliburton (energy), and Zimmer Biomet Holdings (healthcare).

The portfolio's asset allocation is currently 65% equities, 25% fixed income and 10% cash and equivalents. This is unchanged from the prior quarter. The bond portfolio continues to hold high-quality low-duration securities with the intention of limiting risk from rising interest rates. In contrast, if the Brexit decision continues to put downward pressure on interest rates, the fund may lag its benchmarks in the short term. 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. Our stock and bond selection continues to emphasize capital preservation. The overwhelming majority of our equity investments are investment grade rated and dividend paying. The fixed income holdings are highly rated credits with short duration to dampen the impact of rising interest rates.

**CONTRARIAN MID-CAP COMMENTARY**

Dear Partner,

My son recently turned two and has been making the fabled transition from walking to running. Learning to run is one of my favorite milestones to observe as a father and most kids seem to naturally smile when they run. Each of my three children mastered running on different timescales and have developed distinct strides. My oldest daughter, Charlotte, began running before her second birthday and quickly found great joy in her new found speed and independence. Charlotte's quick transition from walking to running also led to lots of falls and a few scars, none of which seemed to faze her. Her younger sister, Emma, was more deliberate in her pursuit of the art of running. Around age two, Emma had developed what I'll call a "wog", which is short for half walk, half jog. Emma didn't like falling and as a result took longer than Charlotte to fully extend her stride and reach her top speed. Emma seemed to prioritize balance over haste. It's still early days for my son, Hudson, and, in an interesting developmental twist, he seems determined to learn to ride a scooter at the same time he is learning to run. Just as there is a unique cadence to the way a child develops the strength and balance needed to transition from walking speed to running speed, so too are there unique developmental milestones and speeds for economic and market cycles.

After seven years of tepid economic growth, the universe of midcap companies that we track appears to be generating sales growth at a walking speed and earnings per share growth at a "wogging" speed. Record low interest rates, relatively high profit margins, and consistent share repurchases are enabling many businesses to produce earnings per share growth in excess of sales growth. Consequently, the valuations of many midcap companies are above their ten-year historical averages and embed an expectation that current growth trends will persist for at least the next few years. The relationship between business fundamentals and market prices looks about right for most companies we study and, as I noted in last quarter's letter, I have a neutral view on the outlook for midcap stocks as a category. When a category of investments looks properly priced, focus and selectivity becomes an important advantage. For context, the Russell Midcap Index® is comprised of over 800 stocks[1]. If, like many investment managers, we were forced to own a significant number of these 800+ stocks, our odds of long-term outperformance would decline. Thankfully, our portfolio is currently comprised of only 31 stocks, which means we can avoid 95% of the companies in the Index. By limiting the investment portfolio to only 25-35 of our very best ideas, I am still able to find attractive investment opportunities and continue to be excited about the long-term performance potential of our strategy. More recently, **my goal with the portfolio has been to balance resilience to weak economic growth with optionality around the potential for certain businesses to transition from walking speed to running speed.**

A resilient company can be thought of as having a value proposition tied to secular trends or customer needs that are unlikely to change over the next ten years. Companies with resilience often generate consistent growth in earnings per share and favorable returns on capital. A business with optionality can be thought of as having strategies or products with uncertain probabilities of success but, when successful, result in a high magnitude increase in the company's profits. The key challenge for an investor is, of course, to invest in resilience and optionality when it is misperceived by the market and undervalued. Within today's investing landscape, obvious resilience is priced at a premium as evidenced by above average valuations for industries with high earnings consistency such as Consumer Staples, Utilities, and Real Estate Investment Trusts (REITs). It's difficult to generalize about optionality since it tends to be specific to each industry and company. I would observe, however, that many companies whose earnings power would be positively impacted by increases in interest rates, commodity prices, and/or emerging markets growth trends are being valued at prices which assume such increases are unlikely.

As I noted in last quarter's letter, I continue to find value in the Healthcare sector where a number of companies with resilience to tepid economic growth are being priced at a discount to the broader market. AmerisourceBergen (ABC) was added to the portfolio this quarter and represents a good example of a business with long-term resilience that looks cheap relative to the broader market. ABC is one of the three leading domestic drug wholesalers which together distribute approximately 90% of the prescription drugs consumed in the U.S.[2] This highly concentrated industry structure results in what I believe is a rational oligopoly capable of maintaining favorable long-term economics. In the short-run, however, there has been a sharp sell-off in ABC's stock price due to concerns about drug price inflation and drug price reform, which are popular presidential campaign topics. While distributor earnings are temporarily under pressure due to generic drug price declines, I believe that demographics and innovation will, over the long run, cause drug spending to grow faster than the broader economy. A consistently growing end market increases the resilience of the distributors and, as has been true historically, I believe ABC can successfully navigate the near-term pressures on its business and ultimately get back to generating above average earnings growth. Longer-term, if there is drug price reform, it is most likely to target high cost specialty drugs which account for most of the growth in drug spending. The best way to slow the growth of specialty drug costs is by facilitating access to generic or biosimilar versions of these drugs. ABC would be a net winner in such a scenario given their ability to quickly shift market share to the lowest cost products and negotiate favorable discounts for their customers.

I also added a new investment with favorable optionality during the quarter. SVB Financial Group (SIVB) is the holding company for Silicon Valley Bank, which has a unique franchise catering to the technology, life science, venture capital, and private equity industries. SIVB also distinguishes itself from other banks by having above average sensitivity to rising interest rates. In each of the last three periods of rising rates, SIVB enjoyed consistent and significant increases in its net interest margin, which is the difference between interest earned from loans / investments and interest paid to depositors. SIVB's customer base tends to be cash-rich and values the SIVB relationship over maximizing basis points from their deposits. Accordingly, SIVB has one of the highest levels of non-interest bearing deposits in the industry. SIVB uses these deposits to fund loans and investments that, relative to other banks, can be quickly repriced or reinvested to benefit from rising interest rates. Should interest rates rise, SIVB can meaningfully increase its earnings power as the yields on its loans rise faster than the costs of its deposits. With domestic interest rates near all-time lows, this optionality can be valuable for a long-term investor. SIVB's stock price has recently declined due to concerns about an imminent slowdown in venture capital activity and because of skepticism about potential increases in interest rates. While a down cycle in venture capital activity is likely to soon be underway, our research suggests SIVB has successfully diversified its business away from the riskiest parts of the venture capital value chain. We believe SIVB is much better positioned now than it has been historically to weather cyclical declines in credit, deal flow, or valuations. I view a down cycle in venture capital activity akin to a sprained ankle for SIVB, which will likely cause the business to temporarily move with a limp but won't impair SIVB's long-term ability to generate earnings growth at running speed (especially if interest rates were to rise). SIVB has built a unique banking franchise that needs to exist and which I believe has a favorable long-term outlook. While I don't profess any great ability to make macroeconomic predictions around changes in interest rates and economic growth (which are interrelated), I do see value in making investments that provide high magnitude optionality around such changes when the risks of a permanent loss of capital are low.

Much like a young child will momentarily overreact to the pain of a bad fall, so too can investors and stock prices overreact when a business stumbles or confronts a cyclical slowdown. **As a contrarian, I like to focus on investments where there has been some disappointment or controversy that temporarily causes stock prices to disconnect from a company's long-term earnings potential**. The market is pricing many of our investments as if they're suffering from broken bones whereas I see the potential for these businesses to not only heal but to transition from walking speed to running speed. The portfolio continues to trade at a significant discount to my estimates of normalized earnings power and is diversified among cyclical and non-cyclical businesses. Should economic growth accelerate from here, we have a number of cyclical businesses that would significantly benefit and which are being valued as if the opposite is about to happen. Should economic growth weaken, we have a healthy mix of non-cyclical investments, such as those in Healthcare sector, with above average growth potential that are trading at below average valuations. In summary, the portfolio isn't dependent on accelerating economic growth for success and by maintaining a 10%-20% cash balance we have the flexibility to opportunistically buy companies of interest in the face of share price declines.

Thank you for your interest and continued support!

Cordially,

Stephen A. Burlingame, CFA

July 1, 2016

## OUTLIERS FUND REVIEW

### Portfolio Manager: Stephen Burlingame

Following a very volatile 1Q'16, the Russell Midcap Index® generated decent gains in 2Q'16 despite a dramatic decline and reversal at quarter end as the market digested an evolving narrative around the implications for global economic growth of Great Britain voting to leave the European Union. While there may be a pause in corporate investment in Europe due to uncertainty from the vote, it isn't clear to me that this vote materially changes the long-term prospects for economic growth in Great Britain and Europe. Significant stock price declines on the day after the vote created an opportunity for me to invest some of the fund's cash reserves. During the quarter, the fund's Institutional Class shares generated a return of 2.00% which was lower than the Russell Midcap Index® return of 3.18%. 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 13.46% which compares to a 14.54% return for the Russell Midcap Index®.

Relative to the Russell Midcap Index®, the fund's quarterly performance was hurt by both sector allocation decisions and stock selection. Investments in the Industrials and Healthcare sectors contributed the most to the fund's relative returns whereas investments in the Information Technology and Financials sectors detracted the most. Within Industrials, Dun & Bradstreet was a primary driver of quarterly returns and the company affirmed its full year earnings growth targets. Recent stock price performance suggests investors are now beginning to better appreciate Dun & Bradstreet's competitive advantage as a provider of unique data on the riskiness and creditworthiness of various companies and supply chains. Quarterly gains in the Healthcare sector were fairly broad based and, as noted earlier in this letter, I continue to find significant value in the sector. The Healthcare sector is presently the only sector comprising greater than 20% of the fund's invested assets. The primary driver of weak performance in the Information Technology sector was Motorola Solutions which suffered from investor concerns over tepid 1Q'16 results and confusing comments from regulators regarding the approval of a recent acquisition with significant sales in Great Britain. I continue to have high conviction in the long-term outlook for Motorola Solutions and believe investors under appreciate the opportunity for earnings growth as the U.S. and many other countries make multi-billion dollar investments to upgrade their public safety and first responder communications networks. Progressive Corp, a leading low-cost provider of auto insurance, was the primary driver of weak performance in the Financials sector and I view the quarterly performance as short-term noise following favorable relative performance in the prior 12 months. 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 AmerisourceBergen (ABC), SVB Financial Group (SIVB), St. Jude Medical (STJ), and Western Digital (WDC) and I exited investments in Leucadia National (LUK), Veeco Instruments (VECO), Armstrong Flooring (AFI), and Sandisk (SNDK). The sales of LUK and VECO both resulted from the emergence of thesis disconfirming fact patterns and we opted to harvest losses in both positions. The fund received shares in AFI after it was spun off from Armstrong World Industries (AWI) and we opted to sell our shares in the new company following strong stock price performance which correlated to our estimate of intrinsic value. The sale of SNDK followed favorable share price performance in response to the acquisition of SNDK by WDC. The fund has retained a small position in WDC that was received in exchange for some of our SNDK shares. The fund continues to look quite different from the Russell Midcap Index® with notably higher allocations to the Healthcare and Energy sectors, notably lower allocations to the Financials sector and Information Technology sectors, 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.**

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

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

As of June 30, 2016, the Poplar Forest Partners Fund's 10 largest holdings accounted for 44.09% of total fund assets. The Fund's 10 largest holdings at June 30, 2016:

**Reliance Steel & Aluminum – 5.13%**
**Dun & Bradstreet – 4.64%**
**Quest Diagnostics – 4.57%**
**Hewlett Packard Enterprise – 4.55%**
**Chevron – 4.48%**
**MSC Industrial Direct – 4.46%**
**AECOM – 4.26%**
**American International Group – 4.10%**
**Citigroup – 3.96%**
**Baker Hughes – 3.94%**

As of June 30, 2016, the Poplar Forest Cornerstone Fund's 10 largest holdings accounted for 26.37% of total fund assets. The Fund's 10 largest holdings at June 30, 2016:

**Dun & Bradstreet – 2.72%**

**Lincoln National– 2.72%**
**MetLife – 2.71%**
**Hewlett Packard Enterprise – 2.70%**
**American International Group – 2.69%**
**International Business Machines – 2.60%**
**St. Jude Medical – 2.59%**
**Zimmer Biomet Holdings – 2.56%**
**Chevron – 2.56%**
**Mattel – 2.50%**

As of June 30, 2016, the Poplar Forest Outliers Fund's 10 largest equity holdings accounted for 44.82% of total fund assets. The Fund's 10 largest equity holdings at June 30, 2016:

**Zimmer Biomet Holdings – 6.23%**
**Aetna– 6.04%**
**Progressive – 5.09%**
**Dun & Bradstreet – 4.63 %**
**Motorola Solutions – 4.48%**
**Reliance Steel & Aluminum – 4.07%**
**St. Jude Medical – 3.95%**
**Checkpoint Software Technologies – 3.48%**
**H&R Block– 3.47%**
**Mattel – 3.38%**

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 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.

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.

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.

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.

Basis point (BPS) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

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 65% stocks and 35% bonds, the portfolio's performance might be best measured against a blended benchmark consisting of 65% in a stock index (e.g. S&P 500 index) and 35% in a bond index (e.g. Barclays Capital U.S. Aggregate Bond Index).

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

The Russell 1000 includes 1,000 or fewer of the largest U.S. firms by market capitalization and represents about 90% of the U.S. market; if an issue disappears because of bankruptcy, merger or other corporate action, it is not replaced until the next index reconstitution. The index is reconstituted on a June 30th annual cycle.

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.

**Earnings growth is the percentage increase in earnings per share from one year to the next.**

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.

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.

[1] See http://www.ftse.com/Analytics/FactSheets/temp/925965f8-6364-4e85-83f1-fe298b36442e.pdf

[2] ®Center for Healthcare Supply Chain Research, *86th Edition HDMA Factbook: The Facts, Figures & Trends in Healthcare (2015–2016).*