

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Leaning Into Controversy — and Opportunity — in the Health Care Sector



J. DALE HARVEY joined Tocqueville Asset Management as a Portfolio Manager in 2025. Prior to that, Mr. Harvey founded Poplar Forest Capital in 2007. Before starting Poplar Forest Capital, Mr. Harvey spent 16 years with The Capital Group Companies, where, at the time of his resignation, he was a portfolio counselor managing approximately \$20 billion in client assets for several of the American Funds mutual fund sub accounts. During his tenure at American Funds, Mr. Harvey managed, at various times, the value components of the American Balanced Fund, American Mutual Fund, Blue Chip Growth & Income Fund, Investment Company of America, SMALLCAP World Fund, and Washington Mutual Investors Fund. In addition to his leadership of Poplar Forest, Mr.

Harvey serves as portfolio manager for the Partners Strategy and co-portfolio manager for the firm's Large Cap Value, Mid Cap Value, and Balanced Strategies. Mr. Harvey earned a Master of Business Administration with honors from Harvard University in 1991, and a B.S. in Commerce with honors from the University of Virginia in 1987.

SECTOR — GENERAL INVESTING

TWST: Please introduce Poplar Forest — and now you're with Tocqueville. So how has the firm evolved since you founded it?

Mr. Harvey: I started Poplar Forest back in the fall of 2007 after a 16-year tenure at the Capital Group; five years as an analyst, 11 as a portfolio manager. At the time, I was managing about \$20 billion, which would be something like \$60 billion in today's market. And I have a very specific investment process that didn't really scale to that size.

We are focused on high conviction ideas. We tend to invest in 30 companies at any given time. And we like to have the flexibility to go down to the small end of large-cap and into the mid-cap space. So wanting to have that flexibility does create some size constraints. That's why I started Poplar Forest.

We originally had eight outside clients, about \$17.5 million in assets. And today we manage roughly \$1.3 billion for institutions, intermediaries, and individuals who appreciate our contrarian approach to investing. And as you referenced, we joined Tocqueville in April of this year.

It was a transition that allowed me to free up time from running the business and to take that time and spend it doing what I love doing best, which is picking stocks and working with clients.

TWST: So overall, you have a contrarian strategy.

Mr. Harvey: Absolutely.

TWST: Could you exemplify that for us and tell us a little bit about how you choose names for the fund? What's your process there?

Mr. Harvey: We are bottom-up fundamental investors focused on long-term earnings and free cash flow. That's the basis of our valuation

paradigm, looking for risk-adjusted returns over three to five years. As contrarians, we tend to focus our attention on those areas of the market where there's controversy — stocks and industries that may be out of favor.

Right now, we think the area of the market that's one of the most contrarian and controversial would be health care. Health care is an area where we've had good results historically, and so we think we've got a collection of health care businesses that could do really well in the long run.

Currently, investors are concerned about what's going to come out of the Trump administration. How will Medicare and Medicaid get funded? What's going to happen with vaccines, etc., etc.? There's lots of controversy. And we tend to lean in on that controversy because it creates the opportunity for us to generate really attractive long-term returns.

TWST: Beyond health care, what are your largest sector allocations? How often do you rebalance the portfolio?

Mr. Harvey: Over time, our portfolio turnover is about 30% a year. And the allocations evolve over time, more than change dramatically. Again, we're bottom-up investors, not top-down. So we don't move the allocations around a lot unless, like with health care, we see a lot of opportunity. Health care is our largest sector exposure today. Our second largest exposure is financial services.

So on one hand, we've got what's been traditionally a defensive sector, like health care that's out of favor, and financial services which are more cyclical. And those are our two biggest sectors. We're not taking some top-down approach to portfolio management, but we follow the value wherever that search leads us.

TWST: Those two sectors must be largely insulated from tariff troubles and geopolitical risk. Is that true? Or are you feeling any related effects?

Mr. Harvey: I would say those two sectors are relatively immune. Some of the stocks outside of those areas where we've had a lot of success this year are with **IBM** (NYSE:IBM) and **AT&T** (NYSE:T). Those are also businesses that are relatively immune to those issues. But to me, the question is: Do these sorts of upsets create opportunities?

And we've made two new investments in the second quarter. They haven't been disclosed publicly yet, but both are businesses where tariffs have been a concern for investors, and we think they are overly concerned. And so again, as contrarians, that's another opportunity for us to lean in on as we take advantage of short-term concerns that we think are misplaced.

One of the businesses that we've invested in is perceived to be a tariff loser. But if you look at their manufacturing footprint relative to their competitors, they have less exposure to China, more exposure in the U.S. So we think they will become relatively advantaged in this tariff world at the same time that investors think just the opposite. So that kind of opportunity is the kind of thing we like to pursue.

And then in the sort of turnaround arena, companies that we think are better managed than the market thinks, I'm a big fan of Jane Fraser at **Citi** (NYSE:C). She's had a tough job, but we're impressed with the way she's going about things.

And then on the smaller end in technology — and this is the smallest company in our portfolio — **Vishay Intertechnology** (NYSE:VSH). They have a very experienced management team that's been promoted from within. We're very excited about the way they are managing the business and believe that they are putting the company on a much more positive trajectory for the future. And that's all driven by that management team.

TWST: Are these highly rated management teams that you like correlated to your best performing names in each sector? Are there any other names that you would recommend to investors as a good long-term buy?

Mr. Harvey: We don't mess around in short term. That's not our power alley. Our power alley is the next three to five years.

So I do think today, as I mentioned, the area where we see the most opportunity is in health care. And there are some that seem particularly attractive: **CVS** (NYSE:CVS), which has been a very good

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TWST: In your health care sector holdings, are these mostly large caps? Do you ever reach down to the small caps that might be running innovative clinical trials?

Mr. Harvey: We're willing to go down in market cap, but as investors who are very much focused on free cash flow. And some of those developmental stage companies are really tough to value. They are more speculative in nature. And many may be spending a lot of cash and losing money today on the hopes that they develop something tomorrow. And if they do, that can be very successful, but that's not sort of the typical risk profile that we like.

TWST: Have you felt any impacts to names in health care related to RFK's negative statements about vaccines? Has that affected your names, for better or worse?

Mr. Harvey: We have a large investment in **Merck** (NYSE:MRK), which has a big and very successful vaccines business. So I think that has been a pressure on their business. There have been some other factors, but that's the most direct impact that we've seen in the portfolio.

TWST: Have there been any management teams that particularly impress you? And how important is that to you?

Mr. Harvey: It is important to us. I have two thoughts on that: One, we like companies that have done a great job over time, but we are also willing to invest in situations where businesses may not have been as well managed, but where there's opportunity for improvement.

But as I think about management teams that have impressed us in that first bucket, teams that have done a really nice job over a long period of time, in health care, I'd look at a company like **Cencora** (NYSE:COR), which is the old **AmerisourceBergen**. In financial services, I think the team at **Equitable Holdings** (NYSE:EQH) has done a really nice job over time. So we love both of those management teams.

stock for us this year, or **Humana** (NYSE:HUM). Again, we've been sort of leaning into the controversy around managed care.

And then a smaller company, **United Therapeutics** (NASDAQ:UTHR), it's about a \$13 billion market cap. They have some very exciting products in development, one of which could be artificial organs for transplant that could be a huge opportunity. But in their base area focus around lung disease, they have some new opportunities emerging.

So it sort of plays into that developmental stage company you asked about earlier, but they already have a very strong suite of products. They're very profitable, have a cash-heavy balance sheet, so 10 times earnings for something that has tremendous upside optionality. So those are some names within health care that I really like.

TWST: You pointed to CVS as a favorite name in health care. Can you share your investment thesis there?

Mr. Harvey: **CVS** is known for their drugstores, but several years ago, they bought **Aetna**, the health insurance company, managed care company, and they also have a large pharmacy benefit management business. So they're diversified. It's a really interesting collection of businesses.

They had some issues in the Aetna subsidiary a couple years ago, where they had mispriced some business. And that's been a turnaround opportunity.

The management team has changed. We like the new CEO very much and they've really started to put together some solid results. We think they've given conservative guidance for the future and it's a cheap stock at kind of 11 times this year's earnings.

TWST: Would you characterize CVS as an under-the-radar name, in that many investors might not be aware of their Aetna ownership?

Mr. Harvey: I don't know. But I do think they have a very interesting strategy as you think about having the Aetna business and paying for people's health care. And if you put that together with some of the pharmacy assets and try to build sort of a collective treatment model, that could be especially helpful for patients with chronic conditions. If you help them manage their chronic conditions, they will be more healthy. The Aetna business will have lower expenses, and it's a win-win for everybody.

So I think it's a very interesting and differentiated model in what is a very cheap stock.

TWST: Are there any other ways that you mitigate against risk?

Mr. Harvey: Yes. Risk management has been a focus of ours, especially for the last five or six years. There's lots of ways that people talk about risk. One is around permanent losses of capital. So we do spend a lot of time on balance sheet strength. And that's one of the areas that has evolved for me and for the team over time.

We are suspect of highly levered situations. If it's a turnaround and the business has a lot of leverage, that is the kind of thing that we used to do, but had some failures there. We learned lessons from that, and it's become an increased area of attention on that balance sheet strength. And making sure if things don't go as expected that you're not going to get in trouble.

We do think that valuation can provide a margin of safety, that's a clear risk management tool, and understanding business fundamentals, which a lot of people do. We tend to buy into businesses when things aren't going well, that's part of the contrarian approach. And so if things aren't going well, the odds are either they stay bad or they get better. And if you have those sort of odds on your side, it can be very profitable.

And then I would say one last thing about risk, and it's about a change that we have made. When I started Poplar Forest and had left the Capital Group, one of the lessons that I took with me was that dividend payment histories were a way of managing risk. And that was a big part of our process in the early days.

We did a lot of work on our results and how to maximize the idiosyncratic contribution of individual stocks while reducing some of the macro influences. And the work suggested paying attention to long-term volatility — so, think five-plus years — that that was a way to improve our risk-adjusted results. We have changed that approach to position sizing. And if you look over the last five years, our volatility-adjusted returns have improved.

So we think that's another risk management tool and an evolution of our process that's been very positive.

TWST: Give us a profile of the typical client you serve. Do you have mostly baby boomers, millennials? Tell us a little bit about your typical investor profile. And what's your overall view of investor sentiment?

Mr. Harvey: One way we see investor sentiment that's striking to me is it seems almost schizophrenic where we have what I consider a two-tier market.

That's where people are in love with and speculating on companies and securities that they think are going to grow like crazy. They may or may not have earnings, or all the crypto. So there's a lot of behavior that seems very risk-seeking and speculative that we would say is animal spirits and unbridled optimism.

And then on the other hand, you have more prosaic businesses that are totally out of favor and unloved and, again, that creates opportunity for us.

So you really have a bifurcated market. And it's hard to say there is one common theme. But as long as there's a difference of opinion, that creates opportunities for active managers.

In terms of our typical client, we manage money for large institutions who may give us a \$100 million account, and we manage money for individuals who are more in the million-dollar-plus range that we will work with and do their entire plan.

And then the sweet spot for our business is intermediaries — financial advisers who work with their clients. They have the client relationship, we have a relationship with the adviser, and we fill a role as a value manager in their asset allocation.

And one of the reasons that we have a lot of success, if you look at our approach, you see high conviction, concentrated, contrarian, absolute value focus. And we are benchmark agnostic.

And so, we really do the job of value investing for our clients. And when value stocks beat growth stocks, we tend to beat both. You're seeing it this year. You saw it back in 2022 and 2016. Our clients want to get bang for their value buck. And that's what we provide. So it's been very helpful for client allocations over time. And we are always looking for new clients who appreciate our contrarian approach to value investing.

TWST: As you look out into the longer term, is there anything that worries you? Or any tailwinds that you might be positioning to capture? Or is that just something you don't consider?

Mr. Harvey: Well, again, we're bottom-up investors. We're not thematic. So we're not positioned for AI. Do we have companies that we think benefit from AI? Yes, but that's not really why we own them. We don't own them on an AI theme or anything like that.

So, as I said, we spend most of our time working from the bottom-up while being cognizant of macroeconomic or geopolitical risks, and things that could derail an investment thesis that we might have.

Just like everybody else, we're paying a lot of attention to what's going on in the Middle East right now. We're paying a lot of attention to what's going on in Washington. I do worry about the level of government deficits. I'm in the camp that deficits should be smaller.

I recognize that could create some economic pain in the short run. But running budget deficits that are about 6% of GDP consistently will result in ever-mounting piles of debt. And that's the kind of thing that could lead either to inflation, or higher interest rates or a financial crisis. And that's a really important long-term issue to pay attention to. So that's probably top of my list today.

TWST: Thank you. (VSB)

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