

Comments on Conseco Holdings

August 9, 2002

Unfortunately, we have been wrong about our Conseco investment. The economic and regulatory climate has overwhelmed the company's effort to gradually restructure its balance sheet. The company announced today that it is withholding interest payment on several bond issues due August 8 and 9 and invoking the 30-day grace period. The company further stated that it would be in discussions with various debt holders to take aggressive action that will result in a substantial change in the capital structure of the holding company.

The two operating subsidiaries of the company, insurance and finance, are both generating positive cash flows at this time. These business segments represent significant economic value that will be the subject of negotiation between the company and the various constituents in the capital structure. The result of these negotiations will likely impact all segments of the capital structure.

The current value of the debt securities in FPA New Income and FPA Capital fairly represent today's lowered expectations, and imply little, if any, additional value that may result from a successful capital structure re-balancing.

It is very disappointing to have to communicate this type of negative news to shareholders of FPA Capital and FPA New Income. This type of investment failure has been quite infrequent over the years for both Funds. The extreme volatility and revaluation of the Conseco debt securities in FPA New Income are the primary reason for the Fund's negative performance over the past week. FPA New Income continues to have a very high overall credit quality with an average Moody's credit rating of AA2, with 57% of the portfolio invested in government-backed mortgages, government agency and Treasury bonds, and 23% invested in money-market securities.

It is our belief that the situation with Conseco, although extremely difficult, may improve. Should it improve it would potentially benefit both Funds. We appreciate the strong support that all of you have demonstrated over the years by your investment in FPA New Income and FPA Capital Fund. Thank you.

Sincerely,

Robert L. Rodriguez